HONKARAKENNE OYJ

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

1 JANUARY TO 31 DECEMBER 2012

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DIRECTORS' REPORT, 1 JANUARY TO 31 DECEMBER 2012

The Honkarakenne Group's net sales amounted to EUR 46.2 million (EUR 55.0 million in the previous year, EUR 58.1 million in 2010). The Group posted an operating profit of EUR -4.3 million (EUR 1.9 million; EUR 1.3 million). Profit before taxes was in the red at EUR -4.4 million (EUR 1.1 million; EUR 0.4 million) and earnings per share were EUR -0.90 (EUR 0.17; EUR 0.23). The Board of Directors will propose to the General Meeting that no dividends be paid for the financial year now ended. In addition, the Board will propose to the General Meeting that a capital repayment of EUR 0.08 per share be paid from the fund for invested unrestricted equity.

Net sales and market overview

The Group's net sales were down 16% on 2011. The order book was very weak at the beginning of 2012, 25% smaller than in the previous year. The weak order book had a direct impact on net sales in the first half of the year. At the end of the first six months, net sales had decreased by 27% year-on-year. During the first half of the year, the company revamped its design lines, redesigned its Internet sites and carried out sales training. These outlays boosted net sales in the latter half of the year. Net sales in the second half were 31% higher than in the first. At the end of 2012, the Group's order book was 17% larger than in the previous year.

On the whole, the trend in net sales was not satisfactory in 2012. Net sales grew only in Russia & CIS; in other market areas, the trend in net sales was negative.

In **Finland & Baltics**, the company focused particularly on modern urban homes. In addition, marketing showcased Finnish designers in order to give a new look to the Finnish house collections. Honkarakenne also overhauled its approach to its entire collection concept by launching the new design lines Aava, Syke, Elo and Iki.

In **Russia & CIS**, the company sought to increase its net sales, particularly by bolstering its distribution network in Russia's neighbouring countries. In addition, further products were introduced in the second quarter to round out the Jewels collection, which was launched in 2011. These new products were additional buildings suitable for Jewels single-family homes, such as guardhouses, garages and guesthouses.

In **Global Markets**, the company launched a new house collection in Japan in the second quarter. The marketing highlighted Finnish and Japanese designers and architects. In addition, the company engaged in negotiations on several foreign projects in the Global Markets area. The company expects to recognise these projects in net sales in 2013.

At the end of December, the Group's order book amounted to EUR 15.9 million, up 17% on the corresponding period of the previous year, when it was EUR 13.6 million. The order book includes 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 loss for 2012 was EUR -4.3 million (EUR 1.9 million) and the loss before taxes was EUR -4.4 million (EUR 1.1 million). Exclusive of non-recurring items, the operating loss was EUR -0.8 million (EUR 1.6 million). Non-recurring expenses recognised in the 2012 financial year totalled EUR 3.5 million, of which write-offs of property, plant and equipment and intangible assets and a restructuring provision for the maintenance of a closed business location accounted for EUR 1.9 million and a provision for redundancies for EUR 1.6 million.

Non-recurring items in 2011 included 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.

The Group's key figures are presented in Note 29.

Investments and financing

The financial position of the Group remained good during the report period. The equity ratio stood at 47% (53%) and net financial liabilities amounted to EUR 1.5 million (EUR 6.1 million). EUR 2.0 million (0.8) of the company's financial liabilities included a covenant condition with a 30% loan to equity ratio. Group cash and cash equivalents totalled EUR 4.8 million (EUR 2.6 million). The Group also has a EUR 8.0 million (10.0) bank overdraft facility, EUR 0.0 million of which had been drawn on at the end of the report period (EUR 0.8 million). Gearing stood at 11% (35%).

The Group's investments in property, plant and equipment and intangible assets amounted to EUR 0.9 million (EUR 1.0 million), while depreciation and amortisations amounted to EUR 4.8 million (EUR 3.3 million), including EUR 1.8 million (0.0) in non-recurring write-offs of property, plant and equipment and intangible assets.

Products, research and development

In the third quarter, Honkarakenne was granted PEFC certification, which indicates that the company employs a PEFC-approved mechanism for tracking the origin of timber.

The Group's R&D expenditure in January-December totalled EUR 0.4 million (EUR 0.5 million), representing 0.9% of net sales (1.0%). The Group did not capitalise any development costs during the financial year.

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 major dealer that generates a substantial share of the Group's net sales and earnings.

The Group has one significant concentration of credit risk in trade receivables, concerning the open trade receivables of one dealer. No provision for doubtful debt has been made for this. Payment has been received for new sales to this dealer and it has adhered to its payment plan.

For additional information on risks, see Note 26.

The 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. In the third quarter of 2012, Honkarakenne was granted PEFC certification, which indicates that the company employs a PEFC-approved mechanism for tracking the origin of timber.

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.

The Alajärvi factory produces the thermal energy required for heating the property in a heating plant that was completed in 2008 and which produces 3.0 MW. The Alajärvi factory is self-sufficient as regards thermal energy. The requirements for extra dry cutter chips have been taken into consideration in the burning technique, and the factory meets the current emission regulations well. The associated company Puulaakson Energia Oy produces all the thermal energy needed by the Karstula factory's drying plants. It also supplies thermal energy to the Karstula municipality heating system. The energy plant uses the Karstula factory's by-products – such as bark, sawdust and dry chips – as fuel. Honkarakenne's stake in the company is 41%.

Personnel

At the end of the financial year, the Group had 248 employees (261; 266) and the average number of employees during 2012 was 257 (265; 291). In terms of person-years, the Group had a total of 198 (220) employees in 2012, a year-on-year decrease of 22.

At the end of the financial year, the parent company employed 232 (248; 251) people. On average, the company had 241 (251; 273) employees in 2012.

The Group personnel were distributed as follows: 50% (51%) at the Karstula factory, 32% (33%) at the Alajärvi factory, and 18% (16%) at the head office in Tuusula. The proportion of clerical and management personnel was 47% (43%). The proportion of female employees was 18% (17%). At the end of the year 2012, there were six part-time employees, representing 2.5% (2.4%) of the personnel. The proportion of temporary personnel was 0.9% (1.6%). A total of 0.4% (0.3%) of the personnel were aged under 25, and 40% (39%) were aged 50 or over. The average employee age was 47 (45) years. The average number of years of service in the parent company was 16.6 (14.6) years.

Temporary layoffs were implemented throughout the workforce during the year 2012. Production had a total of 13,175 (9,079) temporary layoff days. Absences due to illness or accidents at work totalled 931 (1,474) days in total. Other absences amounted to 180 days. Among clerical and management personnel, there were 667 (1,397) layoff days, around 385 (304) days of sick leave, and 162 (62) days of other absences.

During the financial year 2012 the Group had expenses from wages and salaries totalling EUR 9.8 million. Previous year the wages and salaries were EUR 9.0 million and in 2010 they were EUR 9.8 million.

Personnel training and development

Honkarakenne continued a personnel training programme, begun in previous year for the purpose of improving cooperation between different functions. The focus of the training programme 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.

Management and organisational changes

Esa Rautalinko resigned from his position as the company's President and CEO on 27 January 2012. On 2 February 2012, the company's Board of Directors appointed CFO Mikko Jaskari as temporary CEO, and on 7 May 2012 appointed Mikko Kilpeläinen as the new CEO. Mikko Kilpeläinen started out in his new position on 1 August 2012.

During the fourth quarter, Honkarakenne streamlined its operating model. In the future, the company will focus more on its selected main market areas and customer segments. New appointments were made in the company's management and the organisation structure was overhauled. The Executive Group comprises the following people: Mikko Kilpeläinen, President and CEO, Mikko Jaskari, CFO, Sami Leinonen, Finland & Baltics, Pekka Elo, Global Markets, Sanna Wester, Marketing, Planning and R&D, and Reijo Virtanen, Operations. In addition, Petr Morinov was appointed to head up Russia & CIS in January 2013.

The overhauled operating model has a strong focus on three business areas, which are responsible for their own sales, customer relations and business development. Marketing, design and development functions will be combined to boost process efficiency and bolster customer focus. The company believes that these measures will support growth and long-term profitability.

Corporate structure

The parent company of the Honkarakenne Group is Honkarakenne Oyj, domiciled in Tuusula. The other operating companies in the Group, as of 31 December 2012, were Honka Japan, Inc. (Japan), Honka Blockhaus GmbH (Germany) and Honkarakenne S.a.r.l. (France), and the associated company Puulaakson Energia Oy (41% share). Honka Management Oy, which is owned by the senior management of Honkarakenne Oyj, is included in the consolidated financial statements due to the terms and conditions of the shareholder agreement concluded between the two companies.

Directed share issues and management incentive scheme

On 31 May 2010, the Board of Directors of Honkarakenne Oyj decided on an Executive Group incentive scheme with the aim of enabling significant long-term management shareholdings in the company. In connection with this scheme, a total of 286,250 Honkarakenne Oyj B shares were granted to Honka Management Oy in 2010-2011.

More information on the Executive Group incentive scheme and management shareholdings is presented in Note 30. Information on the loan granted to Honka Management Oy, which is owned by the Executive Group, is provided in Note 28.

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 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 cost of the shares was recognised in the consolidated financial statements, as a deduction from 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 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 total share capital was EUR 9,897,936.00.

If a series A share is transferred to a non-shareholder otherwise than by inheritance, testament or matrimonial right, the Board of Directors must be informed of the transfer in writing. The Board has the right to redeem the series A shares within 30 days of receiving said notification at the book value of the share in the previous financial statements by using the reserve fund or other assets exceeding the share capital. If the A shares are not redeemed for the company, the Board of Directors must inform the other series A shareholders of this without delay. Series A shareholders have the right of redemption with the same terms as described above within another 30 days. If more than one shareholder wishes to exercise his/her right of redemption, the redeemable series A shares shall be split among them in proportion to their prior holdings of series A shares in the company. If this is not possible, lots will be drawn. Series B shares are not subject to redemption rights and there are no restrictions on their transfer.

Information on share classes and amounts is presented in Notes 20 and 30. For information on shareholders, the breakdown of ownership and the shareholder agreement, see Note 30.

Authorisations of the Board

The General Meeting of 30 March 2012 granted the Board of Directors 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 2013. The Board of Directors did not exercise these authorisations in 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 2012 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 60.

In the financial year 2012, the Board of Honkarakenne Oyj consisted of Lasse Kurkilahti (Chairman), Mauri Saarelainen (Deputy Chairman), Anders Adlercreutz, Mauri Niemi, Teijo Pankko, Pirjo Ruuska and Marko Saarelainen.

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

Future outlook

Honkarakenne expects its net sales in 2013 to be at same level than in previous year and the result before non-recurring items and taxes to be close to zero.

The market situation remains uncertain. General economic uncertainties, such as the personnel redundancies carried out by companies in numerous market areas, are reflected in customers' willingness to make decisions on large construction projects.

At the end of December, the Group's order book amounted to EUR 15.9 million, up 17% on the corresponding period of the previous year, when it was EUR 13.6 million. The order book includes orders whose delivery date is within the next 24 months. Some orders may include conditions related to building permits or financing.

Events after the financial year

Honkarakenne started negotiations under the act on co-operation in the fourth quarter of 2012. These negotiations were concluded in January 2013 and resulted in decisions to consolidate production in Karstula. Due to the restructuring of operations, the company made 68 employees redundant. In addition, the company agreed on fixed-term layoffs of a maximum of 90 days concerning all employees in Finland. These layoffs can be made until the end of September 2013.

A total of EUR 3.5 million in non-recurring expenses for redundancies and restructuring were recognised in the 2012 financial year, of which write-offs of property, plant and equipment and a restructuring provision for the maintenance of a closed business location accounted for EUR 1.9 million and a provision for redundancies for EUR 1.6 million.

Honkarakenne Oyj's Board of Directors appointed Petr Morinov as the company's sales manager and a member of the Executive Group on 30 January 2013. He is responsible for Russia & CIS.

Board's proposal for the allocation of profits

On 31 December 2012, the parent company's unrestricted equity stood at EUR 3.7 million, of which distributable funds totalled EUR 2.9 million. No distributable profits exist. The parent company posted a EUR -3.9 million loss for the financial year.

The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the financial year ended 31 December 2012. In addition, the Board proposes the repayment of capital totalling EUR 0.08 per share from the fund for invested unrestricted equity.

Tuusula, 14 February 2013

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 Statement of Comprehensive Income

EUR thousand	Note	1.1.–31.12.2012	1.1.–31.12.2011
Net sales	1,2	46 230	55 002
Other operating income	3	767	1 125
Change in inventories of finished and unfinished goods		–216	–2 047
Production for own use		34	26
Materials and services		–25 235	–28 893
Employee benefit expenses	4	–12 360	–11 122
Depreciation, amortisation and impairment	6	–4 831	–3 307
Other operating expenses	7	–8 679	–8 931
Operating profit/loss		**–4 290**	**1 852**
Financial income	8	612	226
Financial expenses	8	–728	–929
Share of result of associated companies		–4	–56
Profit/loss before taxes		**–4 409**	**1 095**
Income taxes	9	82	–270
Profit / loss for the year		**–4 328**	**825**
Other comprehensive income:			
Translation differences		–238	141
Total comprehensive income for the year		–4 566	967
Comprehensive income attributable to:			
Equity holders of the parent		–4 567	965
Non-controlling interest		1	2
		–4 566	967
Earnings/share (EPS) calculated on the profit attributable to equity holders of the parent:	10		
Basic, EUR		–0,90	0,17
Diluted, EUR		–0,90	0,17

Consolidated Balance Sheet

EUR THOUSAND

Assets	Note	31.12.2012	31.12.2011
Non-current assets			
Property, plant and equipment	11	14 565	19 006
Goodwill	12	72	72
Other intangible assets	12	593	714
Investments in associated companies	13	319	323
Available-for-sale financial assets	14	70	187
Receivables	15	272	301
Deferred tax assets	16	1 150	1 137
		17 042	**21 739**
Current assets			
Inventories	17	6 455	7 069
Trade and other receivables	18	5 896	7 663
Cash and cash equivalents	19	4 833	2 565
		17 184	**17 297**
Total assets		**34 226**	**39 036**

EUR THOUSAND

Equity and liabilities	Note	31.12.2012	31.12.2011
Equity attributable to the equity holders of the parent company			
Share capital	20	9 898	9 898
Share premium account	20	520	520
Reserve fund	20	0	5 316
Fund for invested unrestricted equity	20	6 829	1 896
Translation differences	20	224	462
Retained earnings		-4 562	-231
		12 909	17 861
Non-controlling interests		209	242
Total equity		**13 117**	**18 103**
Non-current liabilities			
Deferred tax liabilities	16	43	173
Provisions	22	525	265
Financial liabilities	21	3 860	5 116
Other liabilities		0	38
		4 428	5 592
Current liabilities			
Trade and other payables	23	12 643	11 530
Current tax liabilities	23	41	90
Provisions	22	1 596	
Current financial liabilities	21	2 402	3 720
		16 681	15 340
Total liabilities		**21 109**	**20 932**
Total equity and liabilities		**34 226**	**39 036**

HONKARAKENNE GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS

EUR THOUSAND	Note	1.1.-31.12.2012	1.1.-31.12.2011
Cash flow from operating activities			
Profit / loss for the year		-4 328	825
Adjustments for:			
Non-cash items	24	6 897	3 033
Financial income and expenses	8	116	702
Other adjustments		4	150
Taxes	9	-82	270
Working capital changes:			
Change in trade and other receivables		1 792	667
Change in inventories		614	2 867
Change in trade payables and other liabilities		1 112	-1 875
Change in provisions		0	-92
Interest paid		-494	-525
Interest received		1	59
Other financial expenses		-120	-99
Income taxes paid		-48	0
Net cash flows from operating activities		**5 465**	**5 982**
Cash flow from investing activities			
Proceeds from sale of associated companies		0	1 159
Purchase of property, plant and equipment		-445	-740
Purchase of intangible assets		-178	-174
Proceeds from repayments of non-current loan receivables		0	165
Proceeds from sale of tangible assets		497	526
Net cash used in investing activities		**-126**	**936**

EUR THOUSAND	Note	1.1.-31.12.2012	1.1.-31.12.2011
Cash flows from financing activities:			
Acquisition of non-controlling interests		-35	0
Proceeds from sale of own shares		0	40
Proceeds from non-current borrowings		2 100	841
Repayment of non-current borrowings		-4 566	-6 477
Payment of finance lease liabilities		-212	-222
Dividends paid		0	-450
Repayment of capital	20	-384	0
Net cash used in financing activities		**-3 097**	**-6 268**
Net change in cash and cash equivalents		**2 242**	**650**
Cash and cash equivalents at the beginning of the year	**19**	**2 565**	**1 915**
Cash and cash equivalents at the close of the year	**19**	**4 806**	**2 565**

Consolidated Statement of Changes in Equity, 31 Dec 2012 (IFRS)

EUR THOUSAND	Share capital	Share premium account	Reserve fund	Fund for invested unrestricted equity	Own shares	Translation differences	Retained earnings	Total	Non-controlling interests	Total equity
	Equity attributable to the equity holders of the parent company									
Total equity 1 Jan 2011	9 898	520	5 316	1 896	-1 382	319	771	**17 338**	200	**17 538**
Comprehensive income										
Profit / loss for the year							825	**825**	2	**827**
Other comprehensive income										
Translation differences						141		**141**		**141**
Total comprehensive income for the year						141	825	**966**	2	**968**
Transactions with the equity holders of the parent company										
Dividends paid							-445	**-445**		**-445**
Proceeds from sale of own shares								**0**	40	**40**
Transactions with the equity holders of the parent company	0	0	0	0	0	0	-445	**-445**	40	**-405**
Total equity 31 Dec 2011	9 898	520	5 316	1 896	-1 382	462	1151	**17 861**	242	**18 103**
Equity 1 Jan 2012	9 898	520	5 316	1 896	-1 382	462	1151	**17 861**	242	**18 103**
Comprehensive income										
Profit / loss for the year							-4 329	**-4 329**	1	**-4 328**
Other comprehensive income										
Translation differences						-238		**-238**		**-238**
Total comprehensive income for the year						-238	-4 329	**-4 567**	1	**-4 566**
Transactions with the equity holders of the parent company										
Repayment of the capital				-384				**-384**		**-384**
Purchase of non-controlling interests									-35	**-35**
Transactions with the equity holders of the parent company	0	0	0	-384	0	0	0	**-384**	-35	**-419**
Reclassification			-5 316	5 316				**0**		**0**
Total equity 31 Dec 2012	9 898	520	0	6 828	-1 382	224	-3 178	**12 909**	209	**13 117**

ACCOUNTING POLICIES USED IN THE CONSOLIDATED FINANCIAL STATEMENTS

Basic information on the Group

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 14 February 2013. According to the Finnish Limited Liability 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.

Basis of preparation

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 2012. 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 consolidated financial statements are also in compliance with Finnish accounting principles and corporate legislation.

The figures in the consolidated financial statements are based on original historical costs unless otherwise stated, 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. Judgements are 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 for the incentive plan of the members of the Executive Group, Honka Management Oy, is presented in the consolidated financial statements according to SIC-12. 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 consolidated equity. This elimination is disclosed under own shares. The investments of the owners of Honka Management Oy in the company are presented in the consolidated balance sheet as non-controlling interest.

Mutual ownership has been eliminated according to the acquisition 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. Judgements are 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 the most estimates and assumptions:

- determining the useful lives and total depreciation/amortisation periods for non-current intangible and property, plant and equipment;
- recoverable amounts for intangible and property, plant and equipment (Notes 11-15);
- probability of future taxable profits against which tax deductible temporary differences can be utilised;
- net realisable value of inventories (Note 17);
- valuation of trade receivables (Note 18);
- amount of provisions (Note 22);
- presentation of contingent assets and liabilities.

Foreign currency translation

Figures on the financial performance and position of Group companies are recorded 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 euro amounts at the exchange rate valid on the balance sheet 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 are presented in financial income and expenses in the statement of comprehensive income.

The statements of comprehensive income of Group companies that do not use the euro as their functional currency 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. The result for the financial year is translated with different exchange rates in the statement of comprehensive income and the balance sheet, resulting in translation differences that are recognised in equity in the balance sheet. Changes in translation differences are disclosed in other comprehensive income.

Translation differences from the elimination of the cost and post-acquisition equity accumulated after the acquisition of subsidiaries that do not use the euro as their functional currency are recognised in the statement of comprehensive income. When such a subsidiary is divested, accumulated translation differences are recognised in the statement of comprehensive income, as part of the gain or loss on sale.

Net sales and revenue recognition 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 and sales discounts. 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. Net sales are itemised in Note 2.

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 statement of comprehensive income in the period to which they relate.

Operating profit

Operating profit is the net sum calculated from net sales and other operating income, deducting or adding the change in inventories of finished and unfinished goods, adding production for own use, deducting materials and services, employee benefit expenses, depreciation and amorsation and impairment as well as other operating 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 consolidated statement of comprehensive income.

Deferred tax assets and liabilities are recognised using the liability method for 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 intangible assets and property, plant and equipment 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 opening IFRS-compliant balance sheet.

Goodwill is recognised at 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 historical cost less any impairment after the acquisition. Note 12.

Research and development costs

Research costs are expressed 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.

Other intangible assets

Patents, trademarks, licences and other intangible assets with finite useful lives 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 amortisation, but are tested for any impairment annually or more often as required. The Group does not currently possess any intangible assets with indefinite useful lives.

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.

Periods of amortisation used for intangible assets:

Software	3-5 years
Other intangible rights	5-10 years

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

Gains or losses resulting from the divestment of intangible assets are recognised as other operating income or expenses.

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.

Property, plant and equipment

Property, plant and equipment consist mainly of land, buildings, machinery, tools and equipment. They are valued in the balance sheet at historical cost less accumulated depreciation and any impairment losses. The acquisition cost of self-constructed assets includes materials, direct labour and the other direct costs of completing the asset for its intended purpose. When an asset includes several components with different useful lives, the components are accounted for as separate items.

Expenditure incurred to replace a separately-recognised component in a an item of property, plant and equipment 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 expensed through profit or loss.

Depreciation is recognised on a straight-line basis over the expected useful lives of property, plant and equipment. Land is not depreciated.

The estimated useful lives of property, plant 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 in tangible assets and property, plant and equipment are recognised in the statement of comprehensive income in other operating income or in other operating expences.

Government grants

Government grants received as compensation for incurred expenses are recognised through profit or loss in the period during which the right to the grant arises. Such grants are disclosed in other operating income. A government grant for the acquisition of intangible assets or property, plant and equipment is recognised as a deduction to the carrying amounts of assets when there is reasonable certainty that the Group meets the terms and conditions of the grant and will receive it. Such grants are recognised as smaller depreciations over the useful life of the asset.

Impairment

The carrying amounts of assets are assessed 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 expensed through profit or loss.

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 amounts of other assets in the unit on a pro rata basis.

For intangible assets and property, plant and equipment, 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 weighted average cost of capital (pre-tax) rate of the cash-generating unit, adjusted for risks specified for 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.

More information on impairment testing is provided in Note 12.

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 on trade receivables is recognised when there is objective evidence that the Group will be unable to collect the receivable in full. Default of payments and/or payment delays are indications of impairment on trade receivables. Impairment losses on trade receivables that are over 90 days overdue are recognised on a case-by-case basis. 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 property, plant and equipment and the associated obligations are recognised in interest-bearing liabilities. Lease payments under finance leases are divided into financial expenses and a reduction of the liability. Rents paid or received under operating leases are recognised through profit or loss in equal instalments.

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 on the basis of their useful life and any impairment losses are recognised. The assets are depreciated according to the schedule specified for property, plant and equipment, however not exceeding the lease period.

Inventories

Inventories are valued at the lower of 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 value of inventories 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 is established for obsolete items.

Financial assets and liabilities

The Group's financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and 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.

Financial assets at fair value through profit or loss

Financial assets held for sale have mainly been acquired to gain profit from short-term changes in market prices. Assets held for sale as well as financial assets expiring within 12 months are presented in current assets. The items in this category 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.

Currency derivatives are used to hedge foreign currency cash flows from sales. They do not meet the requirements of hedge accounting defined in IAS 39. Hedge accounting is not applied to them, but the related changes in fair value are recognised through profit or loss.

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 in consolidated financial statements.

Fair value hierarchy levels

In fair value hierarchy level 1, values are based on the prices of fully equivalent assets or the quoted prices of debt in active markets.

In fair value hierarchy level 2, values are largely based on input data other than the quoted prices included in hierarchy level 1.

In fair value hierarchy level 3, fair values are based on input data that are not derived from verifiable market information, but largely from management estimates and generally accepted valuation models for the use of such estimates.

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

Loans and receivables

Loans and receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market and not held for sale. This category 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 category also includes trade receivables. Trade receivables due within a year are recognised at their original value, while trade receivables falling due after over a year are discounted to their present value. An impairment loss on trade receivables is recognised when there is objective evidence that the Group will be unable to collect the 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 classified in this category or that have not been classified in any other category. 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.

Changes in the fair value of available-for-sale financial assets are presented as other comprehensive income and are recognised in the fair value reserve under equity, net of tax. 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 that have a low risk of changing in value and which can be easily converted to a known amount of cash. 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 offset, as 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. 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.

Warranty provisions are recognised when a product under warranty is sold. The amount of the warranty provision is set on the basis of experience of actual warranty costs. A provision is recognised for an onerous contract when the expenditure required to fulfil the obligations exceeds the benefits that may be derived from it. 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.

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.

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.

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 costs to sell. Once classified as held for sale, these assets are no longer amotised. The Group did not have any such assets on the balance sheet.

Adoption of new and amended IFRS standards and IFRIC interpretations

Honkarakenne Group has applied as from 1 January 2012 the following amended standards that have come into effect. These had no significant impact on the consolidated financial statements for the financial year 2012.

- Amendments to IFRS 7 Financial Instruments: Disclosures (effective for financial years beginning on or after 1 July 2011): The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial instruments and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendments will impact the notes to the consolidated financial statements.

IASB have issued the following standards and interpretations, but they are not yet effective and the Group has not applied these requirements. The Group will adopt each standard and interpretantion as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

- Amendments to IAS 1 Presentation of Financial Statements (effective for financial years beginning on or after 1 July 2012): The major change is the requirement to group items of other comprehensive income as to whether or not they will be reclassified subsequently to profit or loss when specific conditions are met. The amendments only have an impact on the presentation of Honkarakenne Group's other comprehensive income.
- Amendment to IAS 19 Employee Benefits (effective for financial years beginning on or after 1 January 2013): The major changes are as follows: in future all actuarial gains and losses are immediately recognized in other comprehensive income, i.e. the corridor approach is eliminated, and finance costs are calculated on a net funding basis The amendments are not assessed to have a significant impact on Honkarakenne's consolidated financial statements..
- IFRS 13 Fair Value Measurement (effective for financial years beginning on or after 1 January 2013): IFRS 13 establishes a single source for all fair value measurements and disclosure requirements for use across IFRSs. The new standard also provides a precise definition of fair value. IFRS 13 does not extend the use of fair value accounting, but it provides guidance on how to measure fair value under IFRSs when fair value is required or permitted. IFRS 13 will expand the disclosures

to be provided for non-financial assets measured at fair value. The new standard is not assessed to have a material impact on Honkarakenne's consolidated financial statements.

- Annual Improvements to IFRSs 2009-2011 (May 2012) (effective for financial years beginning on or after 1 January 2013): The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments cover in total five standards. Their impacts vary standard by standard but are not significant. Theseimprovvements are not yet endorsed for use by the European Union
- Amendments to IFRS 7 Financial Instruments: Disclosures (effective for financial years beginning on or after 1 January 2013): The amendments clarify disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The disclosures required by those amendments are to be provided retrospectively. The amendments are not assessed to have a significant impact on Honkarakenne's consolidated financial statements.
- IFRS 10 Consolidated Financial Statements and subsequent amendments (in the EU effective for financial years beginning on or after 1 January 2014): IFRS 10 builds on existing principles by identifying the concept of control as the determining factor when deciding whether an entity should be incorporated within the consolidated financial statements. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The new standard is not assessed to have a material impact on Honkarakenne's consolidated financial statements.
- IFRS 11 Joint Arrangements and subsequent amendments (in the EU effective for financial years beginning on or after 1 January 2014): In the accounting of joint arrangements IFRS 11 focuses on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. In future jointly controlled entities are to be accounted for using only one method, equity method, and the other alternative, proportional consolidation is no longer allowed. The new standard is not assessed to have a material impact on Honkarakenne's consolidated financial statements.
- IFRS 12 Disclosures of Interests in Other Entities and subsequent amendments (in the EU effective for financial years beginning on or after 1 January 2014): IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including associates, joint arrangements, structured entities and other off-balance sheet vehicles. The new standard will expand the notes the Group provides for its interests in other entities. The new standard is not assessed to have a material impact on Honkarakenne's consolidated financial statements.
- IAS 28 Investments in Associates and Joint Ventures (revised 2011) and subsequent amendments (in the EU effective for financial years beginning on or after 1 January 2014): Following the issue of IFRS 11 the revised IAS 28 includes the requirements for joint ventures, as well as associates, to be equity accounted. The revised standard is not assessed to have a significant impact on Honkarakenne's consolidated financial statements.
- Amendments to IAS 32 Financial Instruments: Presentation (effective for financial years beginning on or after 1 January 2014): The amendments provide clarifications on the application of presentation requirements for offsetting financial assets and financial liabilities on the statement of financial position and give more related application guidance. The amended standard is to be applied retrospectively. The amendments are not assessed to have a significant impact on Honkarakenne's consolidated financial statements.
- IFRS 9 Financial Instruments and subsequent amendments (effective for financial years beginning on or after 1 January 2015): IFRS 9 is the first step of the IASB's originally three-phase project to replace the current IAS 39 Financial Instruments: Recognition and Measurement. The amendments resulting from the first phase (published in November 2009) address the classification and measurement of financial assets. Based on measurement, financial assets are classified into two main groups: financial assets at amortised cost and financial assets at fair value. Classification depends on a company's business model and the characteristics of contractual cash flows. The amendments published in October 2010 deal with the classification and measurement of financial liabilities and the standard retains most of the related IAS 39 requirements. The unfinished parts of IFRS 9, i.e. the impairment of financial assets and general hedge accounting phases are still a work in progress. Furthermore, the IASB is also considering limited amendments regarding the classification and measurement of financial assets. The macro hedge accounting phase has been taken apart from the IFRS 9 project as a separate project. As the IFRS 9 project is incomplete, the impacts of the standard on the consolidated financial statements cannot yet be assessed.

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

1. Operating segments

The Honkarakenne Group has one operating segment as defined in IFRS 8 – the manufacture, sale and marketing of log houses.

The internal management reporting is in line with the IFRS accounting principles and for this reason separate reconciliations are not presented. Internal management reporting monitors the development of operations in terms of geographical business areas. This type of reporting facilitates the setting of targets and budget monitoring, and should thus be seen as a management tool, not as a financial accounting measurement method.

Geographically, the Group's sales are divided as follows: Finland & Baltics, Russia & CIS and Global Markets. Reporting practices changed in 2012 and the information for the comparison year has been adjusted to correspond to the new geographic breakdown. Previously, sales were divided as follows: Finland, West, East, Far East, Other Markets and Process Waste Sales for Recycling.

Finland & Baltics includes Finland, Latvia, Lithuania and Estonia. It also includes Process Waste Sales for Recycling, which was previously reported separately; this business accounted for 1 percentage point of the net sales of Finland & Baltics in 2012, and 3 percentage points in 2011, contributing EUR 692 thousand to net sales in 2012 and EUR 1 512 thousand in 2011.

Russia & CIS includes Russia, Azerbaijan, Kazakhstan, Ukraine and other CIS countries.

Global Markets includes all other business countries.

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

The external revenue of the Honkarakenne Group is generated by a wide customer base. In accordance with IFRS 8, revenue from significant individual customers amounted to EUR 12.7 million in 2012 and EUR 11.8 million in 2011.

Geographical distribution:

Distribution of net sales, %	**2012**	**2011**
Finland & Baltics	41 %	45 %
Russia & CIS	32 %	25 %
Global Markets	27 %	30 %
TOTAL	100 %	100 %

Net sales EUR thousand	**2012**	**2011**	**% change**
Finland & Baltics	19 039	24 542	-22 %
Russia & CIS	14 704	13 889	6 %
Global Markets	12 487	16 571	-25 %
TOTAL	**46 230**	**55 002**	**-16 %**

Assets EUR thousand	**2012**	**2011**
Finland & Baltics	15 572	19 704
Russia & CIS		
Global Markets	250	711
TOTAL	**15 823**	**20 415**

Net sales generated in Finland in 2012 was 18 505 EUR thousand and in 2011 it was 24 432 EUR thousand.
Assets located in Finland in 2012 were 15 572 EUR thousand and in 2011 they were 19 704 EUR thousand.

2. Net sales EUR THOUSAND

2. Net sales EUR THOUSAND	2012	2011
Sales of goods	45 899	53 969
Rendering of services	128	150
Income from long-term projects	203	883
Total	**46 230**	**55 002**

On the balance sheet date in 2012, there were no incomplete long-term projects.

3. Other operating income EUR THOUSAND

	2012	2011
Rental income	1	4
Gain on disposal of associated company		340
Gain on disposal of property, plant and equipment	87	56
Gain on sale of investment assets	32	
Received compensation for damages	84	
Received government grants	48	129
Sale of round timber	385	499
Other operating income	131	97
Total	**767**	**1 125**

4. Employee benefit expenses EUR THOUSAND

4. Employee benefit expenses EUR THOUSAND	2012	2011
Wages and salaries	9 770	8 959
Pension expencies, defined contribution plans	1 599	1 403
Other personnel expenses	992	760
Total	**12 360**	**11 122**

Personnel in person-years, average	**2012**	**2011**
Clerical and management personnel	117	117
Workers	81	103
Total	**198**	**220**

Average number of personnel	**2012**	**2011**
Clerical and management personnel	123	123
Workers	134	142
Total	**257**	**265**

5. Research and development expenses EUR THOUSAND

Expensed R&D expenditure totalled 402 EUR thousand in 2012 (538 EUR thousand in 2011).

6. Depreciation, amortisation and impairment EUR THOUSAND

Depreciation and amortisation	**2012**	**2011**
Intangible assets		
Immaterial rights	275	433
Other intangible assets	21	21
Total	**297**	**454**
Property, plant and equipment		
Buildings and structures	941	1 155
Machinery and equipment	1 728	1 541
Other tangible assets	83	78
Total	**2 753**	**2 774**
Impairment		
Immaterial rights	1	
Land and water	222	
Buildings and structures	1 211	75
Machinery and equipment	302	4
Other tangible assets	46	
Total	**1 781**	**79**

1 781 EUR thousand in write-downs of property, plant and equipment at the Alajärvi site, which is due to be closed, were recognised for the 2012 financial year because the Group decided to centralise production in Karstula.

In 2011, write-downs amounted to 79 EUR thousand due to measurements of property, plant and equipment at its recoverable amount, determised at fair value less costs to sell.

Total depreciation, amortisation and impairment	**4 831**	**3 307**

7. Other operating expenses EUR THOUSAND	2012	2011
Non-mandatory employee benefit expensies	552	601
Rents	911	873
Credit loses	633	207
Sales and marketing expenses	1 795	1 651
Paid commissions	1 353	1 992
Professional services	708	557
Costs for premises	623	1 178
IT costs	817	764
Paid compensation for damages	129	
Insuarance contributions	118	130
Other operating expenses	1 039	977
Total	**8 679**	**8 931**

Audit fees	2012	2011
- Audit	44	55
- Statements and certificates	0	3
- Tax consulting	0	1
- Other services	1	0
Total	**45**	**59**

8. Financial income and expenses EUR THOUSAND	2012	2011
Financial income		
Change in value of financial assets at fair value through profit or loss:		
Currency derivatives, not in hedge accounting	499	
Other interest and financial income		74
Total	**499**	**74**
Financial expenses		
Interest expenses on financial liabilities at amortised cost	259	275
Change in value of financial assets at fair value through profit or loss		
Currency derivatives, not in hedge accounting		79
Interest swap, not in hedge accounting	164	156
Impairment on investments	49	
Other financial expenses	81	348
Total	**553**	**858**
Foreign exchange gains and losses recognized in financial items in statement of comprehensive income		
Foreign exchange gains	115	152
Foreign exchange losses	-178	-227
Total	**-63**	**-75**
Total financial income and expenses	**-116**	**-859**

All interest expenses are recognised as expenses in the statement of comprehensive income.

9. Income taxes EUR THOUSAND	2012	2011
Current tax expence	-64	106
Income taxes from previous yearss	-2	-17
Deferred taxes		
Origination and reversal of temporary differences	148	-404
Effect of change in Finnish tax rate		45
Total	**82**	**-270**

Reconciliation of effective tax rate EUR THOUSAND		
Profit/loss before taxes	-4 409	1 095
Tax calculated at parent company tax rate	1 080	-285
Effect of different tax rates in the foreign subsidiaries	26	-26
Income not subject to tax	7	
Expenses not deductible for tax purposes	-82	-3
Temporary differences for which no deferred tax assets was recognised	-877	-5
Share of profit of associated companies deducted by income taxes	1	
Change of deferred taxes - Change in Finnish tax rate	0	45
Income taxes from previous years	-2	-17
Other items	-71	21
Tax charge in the statement of comprehensive income	**82**	**-270**

In 2012 the tax rate for the parent company was 24,5 % and in 2011 it was 26 %.

10. Earnings per share EUR THOUSAND

Basic earnings per share is calculated by diving the profit attributable to owners of the parent company by the weighted average number of outstanding shares.	**2012**	**2011**
Profit / loss for the year	-4 328	825
Attributable to non-controlling interest	1	2
Attributable to equity holders of the parent	-4 329	823
Basic average number of shares (1 000 pcs)	4 805	4 805
Diluted average number of shares (1 000 pcs)	4 805	4 805
Basic earnings per share (EPS), EUR	-0,90	0,17
Diluted earnings per share (EPS), EUR	-0,90	0,17

NOTES TO THE CONSOLIDATED BALANCE SHEET, ASSETS (11–19)

11. Property, plant and equipment EUR THOUSAND

Property, plant and equipment 2012	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Cost 1 Jan	1 255	25 984	36 711	2 598	109	66 657
Translation differences (+/-)		-237	-104			-341
Increase		220	213	27	90	550
Disposals		-2 255	-667			-2 922
Reclassifications			130		-130	0
Cost 31 Dec	1 255	23 712	36 283	2 624	70	63 944
Accumulated depreciation 1 Jan	0	-14 950	-30 396	-2 305	0	-47 651
Translation differences (+/-)		200	104			304
Accumulated depreciation of disposals and reclassifications		1 873	628			2 501
Depreciation for the year		-941	-1 728	-83		-2 753
Impairment	-222	-1 211	-302	-46		-1 780
Accumulated depreciation 31 Dec	-222	-15 029	-31 694	-2 434	0	-49 379
Carrying amount 31 Dec 2012	**1 033**	**8 684**	**4 588**	**191**	**69**	**14 565**

Property, plant and equipment 2011	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Cost 1 Jan	1 439	26 234	36 709	2 546	34	66 963
Translation differences (+/-)	15	186	22			223
Increase		163	538	52	109	861
Disposals	-200	-599	-557		-34	-1 390
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 differences (+/-)		-155	-18			-173
Accumulated depreciation of disposals and reclassifications		387	383			770
Depreciation for the year		-1 230	-1 541	-78		-2 849
Accumulated depreciations 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**

In 2012, impairment losses totalling 1 780 EUR thousand were recognised under Impairment due to the closure of the Alajärvi production plant.
The value of the property, plant and equipment of the Alajärvi production plant amounted to 3 356 EUR thousand before the recognition of the impairment loss and 1 576 EUR thousand after its recognition. The recoverable amount is measured at fair value less costs to sell and it is based on management's estimates.

Finance lease agreements

Property, plant and equipment include assets acquired under finance lease agreements as follows:

	Machinery and equipment
31 Dec 2012	
Cost	754
Accumulated depreciation	-544
Carrying amount	210
31 Dec 2011	
Cost	1 079
Accumulated depreciation	-466
Carrying amount	613

In 2012, the cost of property, plant and equipment includes 104 EUR thousand in assets acquired under finance lease agreements (87 EUR thousand in 2011).

In 2012, decreases in the cost of property, plant and equipment include 429 EUR thousand in assets acquired under finance lease agreements (81 EUR thousand in 2011).

12. Intangible assets EUR THOUSAND

Intangible assets 2012	Goodwill	Intangible rights	Other intangible assets	Advance payments for intangible assets	Total
Cost 1 Jan	72	4 673	2 148	0	6 893
Translation differences (+/-)		-10			-10
Increase		6		172	178
Disposals		-1			-1
Cost 31 Dec	**72**	**4 668**	**2 148**	**172**	**7 060**
Accumulated amortisation 1 Jan	0	-3 980	-2 126	0	-6 107
Translation differences (+/-)		9			9
Accumulated amortisation of disposals					0
Amortisation for the year		-275	-21		-297
Impairment					0
Accumulated amortisation 31 Dec	0	-4 247	-2 148	0	-6 394
Carrying amount 31 Dec 2012	**72**	**421**	**0**	**172**	**666**

Intangible assets 2011	Goodwill	Intangible rights	Other intangible assets	Advance payments for intangible assets	Total
Cost 1 Jan	72	4 494	2 148	4	6 718
Increase		179			179
Disposals				-4	-4
Cost 31 Dec	**72**	**4 673**	**2 148**	**0**	**6 893**
Accumulated amortisation 1 Jan	0	-3 547	-2 105	0	-5 653
Amortisation for the year		-433	-21		-454
Accumulated amortisation 31 Dec	0	-3 980	-2 126	0	-6 107
Carrying amount 31 Dec 2011	**72**	**692**	**21**	**0**	**786**

According to IAS 36, goodwill is not amortised, but is instead tested annually for impairment. Goodwill is allocated to the 10 % holding in Honka Blockhaus GmbH that Honkarakenne Oyj acquired in 2003. No goodwill impairment has been recognised in 2006-2012.

Goodwill impairment testing

EUR THOUSAND	2012	2011
Honka Blockhaus	72	72

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

Projection parameters applied	Honka Blockhaus 2012	Honka Blockhaus 2011
Discount rate (pre tax WACC)	10,1 %	10,1 %
Terminal growth	2 %	2 %
Variable operating expenses, volume-adjusted average annual increase	0 %	0 %
Fixed operating expenses, average annual increase	2 %	2 %

Sensitivity analysis *)	Honka Blockhaus 2012	Honka Blockhaus 2011
Discount rate	13,0 %	8,0 %
Terminal growth	-9,0 %	-7,0 %
Variable operating expenses	66,0 %	67,0 %

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

13. Investments in associated companies

EUR THOUSAND	2012	2011
Cost 1 Jan	323	1 772
Share of result of associated companies	-4	-56
Disposals		-1 393
Cost 31 Dec	**319**	**323**

Associated companies EUR THOUSAND	2012	2011
Puulaakson Energia Oy, Karstula		
Ownership (%)	41,1 %	41,1 %
Assets	2 642	2 320
Liabilities	1 958	1 628
Net sales	1 000	860
Profit / loss	-9	-136
Pielishonka Oy, Lieksa		
Ownership (%)	39,3 %	39,3 %
Assets	92	92
Liabilities	2	2
Net sales	0	0
Profit / loss	0	0

14. Available-for-sale financial assets
EUR THOUSAND

	2012	2011
Cost 1 Jan	187	352
Increases		
Disposals	-68	-166
Impairment	-49	
Carrying amount 31 Dec	**70**	**187**

Available-for-sale financial assets are investments in unquoted shares. Their carrying amounts correspond to the management's view of their fair value. In 2012, an impairment loss of 49 EUR thousand was recognised in financial expenses. The value of the written-off financial assets was 49 EUR thousand prior to the write-off and 0 EUR thousand after the write-off. Disposals in 2012 were accumulated from sales and the related gains from sale amounted to 32 EUR thousand.

15. Non-current receivables
EUR THOUSAND

Non-current receivables 2012	Non-current loan receivables	Other non-current receivables	Total
Cost 1 Jan	247	54	301
Translation differences (+/-)	-29		-29
Increases	153		153
Disposals	-72	-31	-103
Impairment	-50		-50
Carrying amount 31 Dec 2012	**249**	**23**	**272**

The carrying amount equals the management's view of the fair value and is the maximum amount of credit risk without accounting for the fair value of guarantees.

Non-current receivables 2011	Non-current loan receivables	Other non-current receivables	Total
Cost 1 Jan	89	57	147
Translation differences (+/-)	5		5
Increases	157		157
Disposals	-5	-3	-8
Carrying amount 31 Dec 2011	**247**	**54**	**301**

The carrying amount equals the management's view of the fair value and is the maximum amount of credit risk without accounting for the fair value of guarantees.

16. Deferred tax assets and liabilities EUR THOUSAND

Deferred tax assets 2012	1 Jan	Recorded in profit or loss	31 Dec
Tax losses carried forward	1 078	-99	979
Temporary differences	59	112	171
Total	**1 137**	**13**	**1 150**

Deferred tax assets 2011	1 Jan	Recorded in profit or loss	31 Dec
Tax losses carried forward	1 592	-515	1 078
Temporary differences	35	24	59
Total	**1 627**	**-491**	**1 137**

Management carefully reviewed the valuation of the deferred tax assets recognised for tax losses carries forward when preparing the financial statements. The recognised deffered tax assets are based on the management's view of future development.

Deferred tax assets are allocated in	2012	2011
Parent company	683	751
German subsidiary	335	341
Japanese subsidiary	132	45
Total	**1 150**	**1 137**

Temporary differences of 877 EUR thousand due to the closure of the Alajärvi plant have not been recognised in deferred tax assets.

Deferred tax liabilities 2012	1 Jan	Recorded in profit or loss	31 Dec
Depreciation in excess of plan	2	0	2
Temporary differences	171	-130	41
Total	**173**	**-130**	**43**

Deferred tax liabilities 2011	1 Jan	Recorded in profit or loss	31 Dec
Depreciation in excess of plan	151	-149	2
Temporary differences	152	19	171
Total	**303**	**-130**	**173**

No deferred tax liabilities have been recognised for the undistributed profits of subsidiaries because the investment is permanent.

17. Inventory EUR THOUSAND	2012	2011
Materials and supplies	152	328
Unfinished goods	3 513	2 769
Finished goods	1 218	2 093
Other inventories	1 571	1 880
Total	**6 455**	**7 069**

During the reporting period, expenses of 184 EUR thousand were recognised, decreasing the carrying amount of inventories to equal their net realisable value (303 EUR thousand in 2011).
Other inventories primarily comprise plots.

18. Trade and other current receivables EUR THOUSAND	2012	2011
Loan and receivables		
Trade receivables	4 194	5 788
Receivables from associated companies	33	31
Other receivables	780	793
Accrued income and prepayments		
Accrued income and prepayments	889	1 050
Total	**5 896**	**7 663**

Receivables include one significant concentration of credit risk concerning the open balance of one dealer. This credit risk is described in Note 26, The most significant risks and methods of risk management. An impairment loss is recognised for trade receivables when there is objective evidence that the Group will not be able to collect the receivables in full. Default of payments and/or payment delays constitute indications of the impairment of trade receivables. Impairment losses for trade receivables that are overdue more than 90 days are recognized on a case-by-case basis.
The carrying amount represents the management's view of fair value and the maximum amount of credit risk.

Trade receivables by age	2012	Impairment recognised	Net 2012	2011	Impairment recognised	Net 2011
Not due	364	4	360	2 402		2 402
Overdue less than 30 days	1 939		1 939	862		862
Overdue 31 - 60 days	61		61	169		169
Overdue 61 - 120 days	221	6	215	208		208
Overdue 121 - 180 days	121	3	118	74	7	67
Overdue 181 - 365 days	650	414	236	459	237	222
Overdue more than 366 days	1 342	79	1 263	2 367	508	1 859
Total	**4 699**	**505**	**4 194**	**6 540**	**752**	**5 788**

Overdue more than 366 days includes an open balance of one significant dealer and there is no impairment recognised to that. New trades with that dealer has been remittanced as agreed in contract conditions. Deliveries to that dealer have continued and the overdue balance has been amortized as agreed.

Impairment is recognised in Finland, Germany and Japan.

19. Cash and cash equivalents EUR THOUSAND	2012	2011
Cash and cash equivalents	4 806	2 565
Total	**4 806**	**2 565**

NOTES TO THE CONSOLIDATED BALANCE SHEET, EQUITY AND LIABILITIES (20–25)

20. Equity
EUR THOUSAND

	Number of A shares (1000)	Number of B shares (1000)	Total number of shares (1000)	Share capital	Share premium account	Reserve fund	Fund for invested unrestricted equity	Total
31.12.2010	300	4 869	5 169	9 898	520	5 316	1 896	17 630
31.12.2011	300	4 869	5 169	9 898	520	5 316	1 896	17 630
Repayment of capital							-384	-384
Reclassification						-5 316	5 316	0
31.12.2012	300	4 869	5 169	9 898	520	0	6 828	17 246

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 shares have no nominal value. All issued shares have been paid in full.
The parent company had a total of 78 135 treasury B shares on 31 Dec 2012 (78 135 B shares on 31 Dec 2011).
After the closing date, the Board of Directors proposed to the Annual General Meeting that no dividends be paid for the 2012 financial year. No dividends were paid for the 2011 financial year.
After the balance sheet date, the Board of Directors proposed to the Annual General Meeting that EUR 0,08 per share be distributed from the fund for invested unrestricted equity as a capital repayment. In 2011, capital repayments of EUR 0,08 per share were made from the fund for invested unrestricted equity.

Share premium account
Under the old Limited Liability Coampanies Act (734/1978) and during or after the year 2003, monetary payments received for share subscriptions adjusted by any transaction expenses have been recognised in share capital and the Share premium account in accordance with the terms and conditions of the scheme.
Reserve fund
Monetary payments for share subscriptions received while the former Limited Liability Companies Act (29 Sept. 1978/734) was in effect and before the year 2003 have been recognised in share capital and the reserve fund in accordance with the terms and conditions of the scheme, less transaction costs.
By a decision of the General Meeting, all the funds that were in the reserve fund on 31 December 2011 were transferred to the fund for invested unrestricted equity in 2012.
Fund for invested unrestricted equity
The fund for invested unrestricted equity includes all other equity investments and the subscription prices of shares when a separate decision has been made to not recognise them in share capital.
By a decision of the General Meeting, all the funds that were in the reserve fund on 31 December 2011 were transferred to the fund for invested unrestricted equity in 2012.
Translation differences
The translation difference fund includes the translation differences from the translation of the financial statements of foreign units.

21. Financial liabilities EUR THOUSAND

	2012	2011
Non-current		
Loans from financial institutions	3 785	4 973
Finance lease liabilities	75	143
Total	**3 860**	**5 116**
Current		
Loans from financial institutions	2 256	3 533
Finance lease liabilities	146	187
Total	**2 402**	**3 720**
Non-current loans from financial institutions includes bank overdrafts	0	840

The carrying amount represents the management's view of fair value.

The table below presents a contructual maturity analysis based on agreements. The figures are undiscounted and they include both interest payments and capital repayments.

Maturity of financial liabilities, 31 Dec 2012

	Carrying amount	Cash flow *)	2013	2014	2015	2016	2017	2018+
Loans from financial institutions	6 041	6 316	2 387	1 963	1 060	369	359	177
Finance lease liabilities	221	230	152	56	21	1		
Trade and other payables	8 484	8 484	8 484					
Total	**14 746**	**15 030**	**11 023**	**2 019**	**1 081**	**370**	**359**	**177**

Maturity of derivatives, 31 Dec 2012

Interest rate swaps								
Not included in hedge accounting	466	529	111	111	111	111	84	0

*) Contractual cash flow from agreements settled in gross amounts.

Maturity of financial liabilities, 31 Dec 2011

	Carrying amount	Cash flow *)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017+**
Loans from financial institutions	8 506	9 061	4 589	2 186	1 518	708	30	30
Finance lease liabilities	330	344	196	103	36	10	0	0
Trade and other payables	2 592	2 592	2 592					
Total	**11 428**	**11 997**	**7 377**	**2 289**	**1 554**	**718**	**30**	**30**

Maturity of derivatives, 31 Dec2011

Interest rate swaps								
Not included in hedge accounting	389	395	79	79	79	79	79	0

*) Contractual cash flow from agreements settled in gross amounts.

Currency derivatives amounted to JPY 325 000 000 in 2012 and JPY 338 250 000 in 2011.

The sensitivity analysis include financial liabilities in the balance sheet dated 31 December 2012 (31 Dec 2011). It has been assumed that the change in the interest rate level is one percentage point. The interest rate position is assumed to include interest-bearing financial liabilities and receivables as well as interest rate swaps on the balance sheet date, assuming that all contracts would be valid and unchanged during the entire year.

MEUR	**2012 Statement of comprehensive income**	**2011 Statement of comprehensive income**
Change in interest +/- 1 %	+/- 0,1	+/- 0,1

Range of interest expenses for interest-bearing liabilities, 31 Dec 2012

- Loans from financial institutions 2.013-3.900%.
- Maximum interest for interest rate swaps 3.98%.
- Most of the Group's bank loans have variable interest rates. The average interest rate on financial liabilities was 2.68% (2.63% in 2011).
- Finance lease liabilities are discounted using a 5.20% interest rate.
- Risks are defined in the management of financial risks. See Note 26.

Assets and liabilities in foreign currency

Group's functional currency is euro. Significant foreign currency receivables and liabilities are in Japanese yen.

Group's receivables and liabilities in Japanese yen translated into Euros
EUR THOUSAND

	2012	2011
Non-current assets		
Loans and receivables	142	241
Non-current liabilities		
Financial liablilities	36	239
Currrent assets		
Cash and cash equivalents	1 143	1 975
Trade and other receivables	612	717
Current liabilities		
Financial liabilities	838	160
Other liabilities	32	185
Net assets and liabilities in currency	991	2 349
Currency derivates	2 863	3 376
Net currency risk	-1 872	-1 027

In following table is represented strengthening or weakening of euro to Japanese yen when all other factors remain unchanged. The change percentage is assumed to be +/- 10 %. Sensitivity analysis is based on yen-denominated assets and liabilities on balance sheet date and currency derivatives are included, but other future items are left out. Extra yen derivatives are to cover future items. Net investments in foreign subsidiaries are not included in the sensitivity analysis. The change would have been mainly exchange rate change in yen denominated assets and liabilities.

	2012		2011	
Change percentage	+10 %	-10%	+10 %	-10%
Impact on post-tax result	-129	157	-70	86

Calculation and estimations of more or less possible changes are based on assumptions of regular market and business conditions.

Financial risks are defined and more information about them is presented in Note 26.

22. Provisions EUR THOUSAND

	Warranty provisions	Provisions due to disputes	Re-structuring provision	Total
31 Dec 2011	265		0	265
Provisions made during the year		200	1 721	1 921
Provisions used				0
Reversal of unused provisions	-65			-65
31 Dec 2012	200	200	1 721	2 121

	2012	2011
Non-current provisions	525	265
Current provision	1 596	
Total	**2 121**	**265**

Warranty provisions

The Group provides a warranty on its products. During the warranty period, any product defects are repaired at the Group's expense or the customer is provided with an equivalent new product. At the end of 2012, warranty provisions amounted to EUR 200 thousand (EUR 265 thousand on 31 Dec 2011). Warranty provisions are based on experience of defective products in earlier years.

Provisions due to disputes

The Group has one ongoing dispute. A provision of EUR 200 thousand has been recognised for this dispute and it is expected to be realised in the next few years.

Restructuring provision

As a result of the cooperation negotiations that were started in the fourth quarter of 2012 and concluded in January 2013, a decision was taken to centralise production in Karstula and to carry out Finland-wide personnel reductions. The 2012 financial statements include a restructuring provision of EUR 1,721 thousand for these arrangements. It is expected that EUR 1,396 thousand of this provision will be used in 2013 and EUR 325 thousand later. The provision includes EUR 1,359 thousand in redundancy expenses and EUR 37 thousand in property maintenance expenses.

23. Trade and other payables EUR THOUSAND

Current financial liabilities	2012	2011
Trade payables	1 532	2 214
Liabilities to associated companies	97	97
Other liabilities	409	281
Advances received from clients	6 543	4 610
Accruals and deferred income	4 062	3 938
Current financial liabilities at fair value through profit or loss		
Derivatives, not in hedge accounting	466	389
Total	**13 108**	**11 530**

The carrying amount represents the management's view of fair value. The payment terms for trade payables correspond to conventional corporate terms of payment. Essential items in accruals and deferred income include accrued employee-related expenses and interest expenses. The fair value of derivative instruments is determined using the total market value of the interest rate swap. Currency derivatives and interest rate swaps are categorised in Level 2 in the fair value hierarchy.

	2012	2011
Current tax liability EUR THOUSAND	**41**	**90**

24. Adjustments to cash flows from operations EUR THOUSAND	2012	2011
Non-cash items		
Depreciation and amortisation	3 050	3 228
Change in provisions	1 856	0
Impairment	1 781	79
Write-offs	208	0
Foreign exhange differences	-2	10
Gain on sale from disposal of associated company	0	-340
Share of associated companies' result	4	56
Total	**6 897**	**3 033**

25. Contingent liabilities EUR THOUSAND

Collaterals and guarantees for own commitments	2012	2011
Corporate mortgage	5 306	3 288
Property mortgages	20 410	20 410
Guarantees for own commitments	3 387	1 810
Total	**29 103**	**25 508**

Guarantees of EUR 25,716 thousand have been given to financial institutions for loans that will mature in 2013-2018.

Corporate and property mortgages have been pledged as guarantees for loans from financial institutions.
Guarantees for own commitments are guarantees for advance payments.

Collaterals and guarantees for others	2012	2011
Guarantees for others	0	180
Total	**0**	**180**

Liabilities for which mortgages or other collaterals have been given	2012	2011
Loans from financial institutions	6 041	8 131
Total	**6 041**	**8 131**

Finance leases	2012	2011
Finance lease liabilities gross amount – Maturity of minimum lease payments		
Maturing in less that one year	152	198
Maturing in 1-5 years	78	147
Total	**230**	**344**
Financial expenses maturing in future	-9	-15
Present value of finance lease liabilities	**221**	**329**
Maturity of present value of finance lease liabilities		
Maturing in less that one year	146	187
Maturing in 1-5 years	75	143
Total	**221**	**329**

Finance lease agreements have been used to acquire IT, smartphones and trucks.

Operating leases	2012	2011
Operating lease payments maturing in less than one year	120	127
Operating lease payments maturing in 1-5 years	101	142
Total	**221**	**269**

Operating leases are for copy machines, printers and cars.

Financial instruments

The table below presents the nominal and fair values of derivative contracts. Derivatives mature during the next 12 months with the exception of interest rate derivatives, whose maturity dates are presented separately.

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	2012 Pos. fair value	2012 Neg. fair value	2012 Fair value, net	2011 Fair value, net	2012 Nominal values	2011 Nominal values
Interest rate swaps						
Not in hedge-accounting						
Maturing 2012				-16		667
Maturing 2017		-466	-466	-373	2 800	2 800
Total		**-466**	**-466**	**-389**	**2 800**	**3 467**
Forward exchange contracts						
Not in hedge-accounting	303		303	-196	2 863	3 376

Interest rate swaps are not included in hedge accounting, and the change in their fair values, EUR +499 thousand (EUR +578 thousand 2011) is recognised through profit or loss.

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

26. The most significant risks and methods of risk management

The Group's risks are divided into strategic risks, operational risks, financial risks and the risks of damage. Risk assessment takes the probability and possible impact of these risks into consideration.

Strategic risks

Strategic risks are associated with the nature of the business, and include factors such as changes in the operating environment; changes in the market situation and legislation; sourcing of raw materials; the company's business as a whole; the reputation of the company, its brands and raw materials; and large investments. The sustainability of the company's management structure and reporting principles can also be considered to pose strategic risks.

Changes in the operating environment and market situation

Consumer habits and purchasing power are influenced by global economic fluctuations in all of the company's market areas. If the current level of demand drops, this could impact on the company's advance sales and profitability. The company's response to such a situation would include boosting the efficiency of the flow of goods; adjusting the personnel headcount in different positions; boosting marketing efforts; closing down unprofitable business locations; changing prices; and enhancing operational efficiency in general. Although the company is proactively managing its expenditure, failure to manage the above risks could significantly hinder 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 subcontractors' operations. Honkarakenne focuses on understanding customers' needs and meeting these needs by continuously developing products for new customer segments.

Any problems in distribution channels may have an effect on the demand for the company's products. This presents a particularly high risk in the Russian market, where operations rely on the performance of one single importer. Problems may also arise when distribution channels are overhauled and competitors' products enter the same distribution channels used by Honkarakenne. The reasons for problems may also be due to the distribution businesses themselves.

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

As a matter of principle, the company seeks to rely on multiple suppliers in sourcing critical raw materials and subcontracted products in order to ensure smooth operations. Honkarakenne stretches the use of raw wood as far as possible, using every bit of wood as carefully as it can. The company's product development respects the special characteristics of raw wood. Honkarakenne manages the risks associated with competition for raw materials by continually developing its products and maintaining a strong brand and business concept.

Legislative changes

The majority of Honkarakenne wooden houses are sold in Finland, Russia and the CIS countries and the European Union. Should any of these market areas pass new, unfavourable legislation, set unexpected taxes, customs duties or other fees payable on income from those markets, limit imports, or set any other statutory regulations, this could have serious adverse consequences for the business operations, financial position and results of the company.

Future building regulations and norms, particularly new energy and fire safety standards, may affect the profitability of the business.

The company prepares for any risks associated with legislation by means of long-term product development to ensure that Honkarakenne products always comply with all local requirements. In all of its business countries, Honkarakenne acquires all the required approvals for its products. Product development keeps a close eye on developments in energy regulations, thus enabling the company to respond effectively to changes.

Risks associated with the management structure and reporting principles

Strategic risks include the sustainability of the company's management structure and reporting principles. Honkarakenne abides by the Helsinki Stock Exhange Corporate Governance code for organising its management and business control systems. Honkarakenne believes that the Corporate Governance code provide a solid governance system that clearly defines the management system and the responsibilities, rights, accountabilities and reporting relationships of employees and is transparent about the essential characteristics and principles of the system. This serves to foster trust in the Honkarakenne Group and its management.

Operational risks

Financial risks are associated with goodwill, intangible rights, deferred tax assets, the ability to pay dividends, and taxation. Operational risks relate to products, distribution channels, personnel, operations and processes.

Risks associated with goodwill, deferred tax assets and intangible rights

Changes in market conditions may cause risks associated with goodwill and intangible rights. No regular amortisation is recognised for goodwill or other intangible assets with indefinite useful lives; instead, they are annually tested for possible impairment. Thus goodwill is allocated to cash-generating units or, in the case of an associated company, the goodwill is included in the cost of the company in question. According to the consolidated balance sheet of 31 December 2012, the company has about EUR 0.1 million in goodwill remaining, which is not considered significant.

The cash flow projections used for goodwill impairment testing and the assessment of the valuation of deferred tax assets are based on the financial forecasts of the company's management. According to the consolidated balance sheet of 31 December 2012, the company had EUR 1.1 million in deferred tax assets. It is possible that the assumptions behind the cash flow forecasts will not hold true, as a result of which the impairment of goodwill and deferred tax assets could have an unfavourable impact on the company's results and financial position.

Risks associated with the ability to pay dividends

The company's future ability to pay dividends to its shareholders depends on many factors, such as its result, financial position, need for capital and the regulations of the Limited Liability Companies Act on the distribution of profit. The ability to pay dividends may also be affected by the valuation of shares in subsidiaries and receivables recognised by the parent company.

Tax risks

Should any future task inspection discover any discrepancies leading to the amendment of a tax assessment, including potential tax increases or fines, this could substantially affect the result and financial position of the company.

Product liability risks

The company aims to minimise product liability risks by developing products that are as safe as possible to their users. Honkarakenne hedges against product liability risks with Group-level insurance policies. Notwithstanding these measures, there are no guarantees that the materialisation of product liability risks would not harm the Honkarakenne Group's business operations, financial position and/or results.

Operational and process risks

Operational risks at Honkarakenne are associated with the consequences of human factors, failures in internal processes and external events. The company minimises operational risks related to factory operations by means such as systematic development efforts. The introduction of new manufacturing techniques and production lines involves cost and capacity risks. The company protects itself against them with meticulous design work and personnel training. Dependence on key suppliers of goods might increase the Group's material, machinery and spare part costs or have implications for production. Operational problems may also be associated with changes in the distribution channel and logistics systems. Operational risks include risks associated with contracts.

The Group's business operations are based on functional and reliable information systems. Honkarakenne seeks to manage the associated risks by duplicating critical information systems, carefully considering the selection of business partners and standardising workstation models, software and data security procedures. In line with the nature of the Group's business operations, trade receivables and inventories are significant balance sheet items. Honkarakenne manages the credit loss risk of trade receivables through the Group's advance payment procedures and the terms and conditions of letters of credit.

The Group's core competences are focused on its business processes, which include 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 pose a risk. The company continually strives to improve both the core and other significant competencies of its personnel by offering opportunities to learn at work and attend training, as well as recruiting skilled new personnel as and when required. The turnover of key personnel has been at a moderate level.

Risks of damage

The company has two manufacturing plants in Finland, one in Karstula and the other in Alajärvi. These plants produce a significant share of the company's net sales. The company intends to close down the Alajärvi production plant in summer 2013.

The Group manages property, plant and equipment and business interruption insurances in a centralised manner, aiming for comprehensive coverage 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. Damage risks also consist of work health and occupational protection risks, environmental risks and accident risks. As part of overall risk management, the Group regularly assesses its insurance coverage. Honkarakenne uses insurance for all types of risks where it makes sound financial sense or is otherwise the best option.

Financial risks

The Group's business operations expose it to different kinds of financial risks. Risk management aims to minimise any negative impacts of financial market changes on the Group's result. The main financial risks for the Group include currency, interest, credit and liquidity risks. 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 the principles approved by the Board of Directors.

Currency risks

Fluctuations in currency rates can have an unfavourable impact on Honkarakenne's results.

Honkarakenne operates in international markets, which exposes it to transaction and other risks due to foreign exchange positions. These risks arise when investments in subsidiaries made in different currencies are translated into the parent company's functional currency.

The Group hedges 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 2012, the share of the Group's net sales accounted for by yen was 12% (13% in 2011).

Yen-denominated receivables and liabilities as well as sensitivity analysis are presented in Note 21.

In the consolidated financial statements of 31 December 2012, the nominal value of the open forward exchange contracts in yen was EUR 2.9 million (EUR 3.4 million in 2011). Honkarakenne does not apply hedge accounting to its forward exchange contracts.

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

Interest risk

Fluctuations in interest rates may have an unfavourable impact on Honkarakenne's results.

The Honkarakenne Group's income and operational cash flows are mostly independent of market rate fluctuations. The Group is exposed to fair value interest risks, which are mainly associated with the loan portfolio. The Group can take out loans either on fixed or variable interest rates and hedges against the impacts of interest rate fluctuations with interest rate swaps.

A significant increase in the interest rate may have a negative impact on private consumer spending. In addition, an interest rate rise may have a significant unfavourable effect on the price of borrowing and the company's current financing costs. Honkarakenne closely follows the trend in interest rates and seeks to proactively manage its interest risks. Although the company takes active steps to control its exposure, failure to manage these risks could significantly hinder Honkarakenne's business, financial position, results, future prospects and share price.

The nominal value of interest rate derivatives is EUR 2.8 million.

More information on the interest rates and the impact of their fluctuations is presented in Note 21.

Credit risk

The consolidated financial statements of 31 December 2012 include EUR 1.4 million (EUR 2.1 million in 2011 non-current receivables that are more than 180 days overdue.

The Group has one significant concentration of credit risks in trade receivables, concerning the open trade receivables of one dealer. No impairment has been recognised for these receivables. Payment has been received for new sales to this dealer and it has adhered to its payment plan. Deliveries to the dealer have continued, and the risks posed by the open trade receivables have not increased. Trade receivables are presented by age in Note 18.

Credit loss risk is managed with advance payments, bank guarantees and letters of credit for exports. Sales regions are responsible for the credit risks of trade receivables. The maximum amount of credit risk associated with the Group's trade receivables is equal to their carrying amount on 31 December 2012, including the open trade receivables from the abovementioned key importer. Although the company is proactively managing its credit risk, failure to manage these risks could significantly hinder Honkarakenne's business, financial position, results, future prospects and share price.

The company makes derivative contracts only with banks that have a good credit rating. The maximum amount of credit risk associated with financial assets other than trade receivables is equal to their carrying amounts on 31 December 2012.

Liquidity risk

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

In order to be able to execute its strategy, Honkarakenne needs strong cash flow to support the implementation of company-set requirements, maintain its operations, finance its loan payments and secure sources of financing in the future. Increases in cash flow must be built on growth in the sales of current products and Honkarakenne's success in launching profitable new products and establishing distribution channels. If Honkarakenne does not succeed in generating sufficient cash flow to support these operations, or in obtaining sufficient financing under acceptable terms, its business, financial position, results, future prospects and share price could be significantly threatened.

Credit facility arrangement

Honkarakenne has an EUR 8 million overdraft facility for short-term capital requirements. On the balance sheet date, 31 December 2012, EUR 0 of this facility was in use.

Honkarakenne might not obtain financing under competitive terms. The Group seeks to continually assess and monitor the amount of financing required to ensure that it has enough cash and cash equivalents to finance its business operations and repay maturing loans. The company seeks to ensure the availability and flexibility of financing by maintaining cash and cash equivalents, utilising bank credit facilities and relying on several financial institutions to obtain financing.

Although the company is proactively managing its liquidity risk, failure to manage these risks could significantly hinder Honkarakenne's business, financial position, results, future prospects and share price.

The financial liability table in Note 21 shows a maturity analysis. The figures have not been discounted and they include both interest payments and capital repayments.

Covenant risk

The Group's equity ratio is subject to a covenant risk. On 31 December 2012, EUR 2.0 million of the Group's financial liabilities included a covenant condition with a 30% loan to equity ratio. On 31 December 2012, Honkarakenne's equity ratio was 47% (53% in 2010).

Share price risk

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

27. Management of capital

Honkarakenne's capital consists of its own equity and liabilities. Through the management of capital, the company aims to ensure the viability of business operations and increase shareholder value. The company's objective for its capital structure 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 buyback of its own shares. The long-term objective for profit distribution is between 30 and 50% of the full-year result.

Capital structure and key indicators

	2012	2011
MEUR		
Net financial liabilities	1,5	6,1
Total equity	13,1	18,1
Total net financial liabilities and equity	14,3	24,3
Equity ratio (%)	47,7	52,6
Gearing (%)	11,1	34,5

28. Related party transactions

The related parties of the Group consist of subsidiaries, associated companies and key management as well as companies in which the latter hold a controlling interest. Key management comprises the Board of Directors and Executive Group, including the CEO and CFO.

The Group's parent and subsidiary relationships are as follows

Company	Home country	Group ownership and share of voting rights (%)
Parent company Honkarakenne Oyj	Finland	
Honka Blockhaus GmbH	Germany	100
Honka Japan Inc.	Japan	100
Honkarakenne Sarl	France	87
Alajärven Hirsitalot Oy	Finland	100
Honka-Kodit Oy	Finland	100
Honka Management Oy	Finland	controlling power

Honka Management Oy, which is owned by the senior management of Honkarakenne Oyj, is included in the consolidated financial statements due to the terms and conditions of the shareholder agreement concluded between the two companies.

Honka Management Oy's share acquisitions were carried out with equity financing from the company's owners and a EUR 851 023 loan from Honkarakenne Oyj. Honkarakenne Oyj carried out a directed issue of 220 000 B shares in 2010 and a directed issue of 17 250 B shares in 2011. In addition, Honka Management Oy bought 49 000 B shares in Honkarakenne Oyj from its shareholders in 2010. Honka Management Oy owns a total of 286 250 B shares in Honkarakenne Oyj.

Honkarakenne Oyj redeemed Esa Rautalinko's holding in Honka Management Oy on 29 March 2012 as set out in the shareholder agreement.

Associated companies

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

Business transactions with related party and related party receivables and liabilities

EUR THOUSAND	Net sales	Purchases	Receivables	Liabilities
2012				
Associated companies	195	281	33	97
Key management	56	0	0	
Related parties of key management	107	0	864	0
2011				
Associated companies	261	303	31	97
Key management	407	0	73	0
Related parties of key management	138	7	868	0

The pricing of goods and services in transactions with associated companies conforms to market-based pricing.

Receivables include a total of EUR 851 thousand in non-current loans granted in 2010 and 2011 to Honka Management Oy, which is owned by senior management. The loans will mature in 2014 and the interest repayable until the repayment date is 12-month euribor + 1%.

Honkarakenne Oyj redeemed Esa Rautalinko's holding in Honka Management Oy at a price of EUR 35 thousand on 29 March 2012 as set out in the shareholder agreement.

No impairments were recognised in prospect of related parties in 2012 or 2011.

Key management remunerations

EUR THOUSAND	2012	2011
Salaries and other short-term employee benefits	1 215	1 267
Benefits paid upon termination	72	0
Post-employment benefits	203	219
Total	**1 490**	**1 486**

Post-employment benefits include the costs of both statutory and voluntary pension schemes. Pension schemes are defined contribution plans.

Management remuneration EUR THOUSAND

Management remuneration EUR THOUSAND	2012	2011
President and CEO	305	348
Senior vice president	101	118
Board members	373	360
Other Executive Group members	381	383
Total	**1 160**	**1 210**

President and CEO

Rautalinko Esa	94	348
Jaskari Mikko	99	
Kilpeläinen Mikko	113	
Total	**305**	**348**

President and CEO Esa Rautalinko resigned in January 2012. CFO Mikko Jaskari served as acting President and CEO from 2 February to 31 July 2012. Mikko Kilpeläinen took his position as President and CEO on 1 August 2012.

Board members

Kurkilahti Lasse, Chairman	61	63
Adlercreutz Anders	14	11
Laamanen Tomi	0	4
Niemi Mauri	14	14
Pankko Teijo	15	13
Ruuska Pirjo	15	17
Saarelainen Marko	206	199
Saarelainen Mauri	47	39
Total	**373**	**360**

Management's pension commitments and termination benefits

No special agreements apply to the retirement age of the CEO of Honkarakenne Oyj. The basic pension scheme is defined contribution-based. In addition, the CEO and the members of the Executive Group are covered by a defined contribution plan, the cost of which totalled EUR 58.4 thousand in 2012 (EUR 62.7 thousand in 2011).
The CEO of Honkarakenne Oyj has a six-month period of notice, in addition to which the CEO will receive monetary compensation equal to 12 months' pay if his/her employment contract is terminated by the company.

Events after the end of the financial reporting year

No significant events have occurred after the end of the financial reporting year.

29. Key Indicators

Key indicators of financial performance		IFRS 2012	IFRS 2011	IFRS 2010	IFRS 2009	IFRS 2008
Net sales	MEUR	46,23	55,00	58,06	52,31	78,35
Operating profit	MEUR	-4,29	1,90	1,34	-2,98	-0,10
	% of net sales	-9,3	3,4	2,3	-5,7	-0,1
Profit/loss before taxes	MEUR	-4,41	1,09	0,43	-3,72	-1,55
	% of net sales	-9,5	2,0	0,7	-7,1	-2,0
Return on equity	%	-27,7	4,6	7,3	-26,3	-6,6
Return on capital employed	%	-15,5	5,7	5,5	-7,6	0,9
Equity ratio	%	47,4	52,6	42,5	28,8	33,0
Net financial liabilities	MEUR	1,5	6,1	12,8	18,4	19,5
Gearing	%	11,1	34,5	73,1	149,0	121,6
Capital expenditures, gross	MEUR	0,9	1,0	0,5	2,5	5,1
	% of net sales	1,9	1,8	0,8	4,8	6,5
Research and development expenditure	MEUR	0,4	0,5	0,6	0,6	0,9
	% of net sales	0,9	1,0	1,1	1,2	1,2
Order book	MEUR	15,9	13,6	18,0	23,0	23,7
Average number of personnel		257	265	291	351	398

Key figures per share

		2012	2011	2010	2009	2008
Earnings/share (EPS)	EUR	-0,90	0,17	0,23	-1,05	-0,33
Dividend per share *)	EUR	0,0	0,0	0,1	0,0	0,0
Dividend payout ratio, %	%	0,0	0,0	43,0	0,0	0,0
Effective dividend yield	%	0,0	0,0	2,5	0,0	0,0
Equity/share	EUR	2,7	3,7	3,6	3,5	4,5
P/E ratio		neg.	18,5	17,1	neg.	neg.

*) 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, % = $\frac{\text{Profit/loss for the period}}{\text{Total equity, average}} \times 100$

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

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

Net financial liabilities = Financial liabilities – cash and cash equivalents

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

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

		2012	2011	2010	2009	2008
Highest quotation during the year	EUR	3,60	5,86	4,51	3,70	5,32
Lowest quotation during the year	EUR	2,07	3,13	2,70	2,36	2,27
Quotation on the balance sheet date	EUR	2,12	3,16	4,03	2,66	2,3
Market capitalisation *)	EUR million	10,2	15,2	19,4	9,40	8,1
Shares traded	value of trading	1,1	4,5	5,9	1,4	2,3
	trading volume	420	972	1 703	450	563
	percentage of total shares	8,7	20,2	36,5	12,72	15,83
Adjusted number of shares **)						
	on the balance sheet date	4 805	4 805	4 805	3 535	3 540
	average during the year	4 805	4 805	4 737	3 553	3 559

*) 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.

30. Shares, shareholders and ownership breakdown

MAJOR SHAREHOLDERS ON 31 DECEMBER 2012

		By number of shares held		
	Name	HONAS	HONBS	Votes, %
1	SAARELAINEN OY	139 100	682 460	31,9
2	SAARELAINEN SOINTU SINIKKA	29 020	200	5,3
3	LIEKSAARE OY	18 500	142 700	4,7
4	NORVESTIA OYJ		461 889	4,2
5	SAARELAINEN REINO	18 524	2 000	3,4
6	OP-SUOMI PIENYHTIÖT		350 000	3,2
7	HONKA MANAGEMENT OY		286 250	2,6
8	SIJOITUSRAHASTO NORDEA NORDIC SMALL CAP		251 457	2,3
9	VARMA KESKINÄINEN ELÄKEVAKUUTUSYHTIÖ		222 812	2,3
10	SAARELAINEN ERJA	10 456	33 029	2,2
11	SAARELAINEN EERO TAPANI	10 456	32 123	2,2
12	SAARELAINEN MAURI OLAVI	10 456	23 460	2,1
13	KESKINÄINEN TYÖELÄKEVAKUUTUSYHTIÖ VARMA		222 812	2,0
14	RUUSKA PIRJO	5 950	88 482	1,9
15	SAARELAINEN AINO LEENA	6 952	7 134	1,3
16	SAARELAINEN KARI	5 950	22 451	1,3
17	NORDEA PANKKI SUOMI OYJ, nominee-registered		139 049	1,3
18	SAARELAINEN PAULA SINIKKA	3 851	55 725	1,2
19	NIIVA EERO		130 582	1,2
20	SAARELAINEN ANITA	4 952	27 612	1,2
21	SIJOITUSRAHASTO ALFRED BERG SMALL CAP FINLAND		85 961	0,8
22	RUPONEN SONJA HELENA		80 128	0,7
23	HONKARAKENNE OYJ		78 135	0,7
24	SIJOITUSRAHASTO TAALERITEHDAS ARVO MARKKA OSAKE		77 190	0,7
25	SAARELAINEN JUKKA SAKARI	3 853		0,7
26	RUUSKA ANSSI PETTERI	3 740	133	0,7
27	RUUSKA TIINA ELINA	3 740	133	0,7
28	PLACERINGSFONDEN SEB SMALL CAP		59 600	0,5
29	SAARELAINEN ANNA KATARIINA	2 635	66	0,5
30	SAARELAINEN NIINA SOFIA	2 635	66	0,5
30	SAARELAINEN SAMI MATIAS	2 635	66	0,5
30	SAARELAINEN VEERA MARIA	2 635	66	0,5

Nominee-registered shares on 31 Dec 2012

	Number of shares	Votes %	Proportion of of shares
NORDEA PANKKI SUOMI OYJ	139 049	1,3	2,7
NASDAQ OMXBS/SKANDINAVISKA ENSKILDA BANKEN AB	28 233	0,3	0,5
DANSKE BANK OYJ	500	0,0	0,0
EUROCLEAR BANK SA/NV	220	0,0	0,0
NASDAQ OMXBS/DANSKE BANK, HELSINKI BRANCH	201	0,0	0,0
NORDNET BANK AB	20	0,0	0,0

Management shareholding on 31 Dec2012

The Board members and the CEO own 376 906 company shares, representing 7.3% of all shares and 9.5% of votes.

Esa Rautalinko, CEO on 1 Jan. 2012, owned 286 250 Series B shares with the Executive Group through Honka Management Oy. Esa Rautalinko resigned in January 2012 and Honkarakenne Oyj redeemed his holding in Honka Management Oy on 29 March 2012 as set out in the shareholder agreement.

OWNERSHIP BREAKDOWN BY NUMBER OF SHARES HELD ON 31 DEC 2012

	Number of shareholders	% of shareholders	Number of shares	% shares
1–100	440	27,3	25 157	0,5
101–500	649	40,3	178 889	3,5
501–1000	240	14,9	198 442	3,8
1001–5000	208	12,9	483 144	9,3
more than 5000	75	4,7	4 111 042	79,5
Total	1 612	100,0	4 996 674	96,7
Nominee registrations	6		168 223	3,3
On waiting list			600	0,0
On joint account			3 471	0,1
Number of shares on the market			5 168 968	100,0

OWNERSHIP BREAKDOWN BY SECTOR ON 31 DEC 2012

	Number of shareholders	% of shareholders	Number of shares	% shares
Companies	106	6,6	2 142 372	41,4
Financial and insurance institutions	7	0,4	977 370	18,9
Households	1 461	90,6	1 795 058	34,7
Non-profit organisations	8	0,5	52 662	1,0
Foreign registrations	30	1,9	29 212	0,6
Total	1 612	100,0	4 996 674	96,7
Nominee registrations	6		168 223	3,3
On waiting list			600	0,0
On joint account			3 471	0,1
Number of shares on the market			5 168 968	100,0

THE MANAGEMENT INCENTIVE SCHEME AND OWN SHARES

On 31 May 2010, the Board of Directors of Honkarakenne Oyj decided on an Executive Group bonus scheme, with the aim of enabling significant long-term management shareholdings in the company. To this end, Honkarakenne Oyj carried out a directed rights issue of 220 000 shares, and in addition to this the Executive Group purchased 49 000 B shares in 2010. In the second quarter of 2011, the Board of Directors decided to transfer 17 250 of its own B shares to Honka Management Oy, a holding company set up by the management, by means of a directed issue so that the new member of Honkarakenne's Executive Group, Sanna Wester, could join the scheme.

In the directed issue carried out in 2011, Honkarakenne transferred a total of 17 250 of its own shares (HONBS) to Honka Management Oy as part of the Executive Group share ownership scheme. The purchase price of the shares was EUR 5.26 per share to a total of EUR 90 735. After the transaction, Honka Management Oy owned 286 250 B shares in Honkarakenne Oyj.

Esa Rautalinko, CEO on 1 Jan. 2012, resigned in January 2012 and Honkarakenne Oyj redeemed his holding in Honka Management Oy on 29 March 2012 as set out in the shareholder agreement.

At the end of the report year, the Group held 364 385 of its own B shares. The total acquisition cost of these shares was EUR 1 381 750.23 and they represented 7.05% of the company's share capital and 3.35% of all votes. The acquisition cost of the shares has been recognised as a reduction of shareholders' equity in the consolidated financial statements.

AUTHORISATIONS

The company's Board of Directors has an authorisation valid until 25 March 2013 to acquire a maximum of 400 000 Honkarakenne shares with funds from unrestricted equity. These shares can be acquired to develop the company's capital structure, to finance or carry out acquisitions or other corporate arrangements, or otherwise to be conveyed or annulled. The authorisation also covers the option to acquire own shares to execute share-based incentive schemes and to accept the coampany's own B shares as a pledge.

The company's Board of Directors has an authorisation valid until 25 March 2013 to decide on a bonus or capitalisation issue of shares, as prescribed in Section 1, Chapter 10 of the Limited Liability Companies Act regarding the issue of option rights in one or more batches, under the following terms and conditions:

- On the basis of the authorisation, the Board of Directors can issue new shares and/or transfer existing B shares held by the company in a total maximum amount of 400 000 shares, including shares that may be granted with special rights.
- The shares can also be issued to the company itself, within the confines of the law.
- The authorisation entitles the company to deviate, 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 as part of the company's business operations, 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 assets (assets given as subscription in kind) can be used to pay the subscription price, either in full or in part. Furthermore, claims held by the subcriber can be used to set off the subscription price. The Board of Directors is entitled to decide on any other matters concerning the share issue and the granting of special rights entitling their holders to shares.

The Board of Directors did not exercise these authorisations in 2012.

REDEMPTION CLAUSE

If a series A share is transferred to a non-shareholder otherwise than by inheritance, testament or matrimonial right, the Board of Directors must be informed of the transfer in writing.

The Board has the right to redeem the series A shares within 30 days of receiving said notification at the book value of the share in the previous financial statements by using the reserve fund or other assets exceeding the share capital. If the A shares are not redeemed for the company, the Board of Directors must inform the other series A shareholders of this without delay. Series A shareholders have the right of redemption with the same terms as described above within another 30 days. If more than one shareholder wishes to exercise his/her right of redemption, the redeemable series A shares shall be split among them in proportion to their prior holdings of series A shares in the company. If this is not possible, lots will be drawn.

Series B shares are not subject to redemption rights and there are no restrictions on their transfer.

SHAREHOLDER AGREEMENT

Saarelainen Oy and certain shareholders 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 at company meetings. If they are unable to reach 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 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, including their underage children, is 252 000 A shares and 1 096 964 B shares. They hold 26.10% of all shares, representing 56.45% of all votes.

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 the Directors' Report.

Parent Company Income Statement (FAS)

EUR	1.1.–31.12.2012	1.1.–31.12.2011
NET SALES	44 358 502,47	51 200 939,61
Change in inventories of finished goods and work in progress, increase (+) or decrease (-)	-234 578,78	-1 991 622,00
Production for own use (+)	34 058,87	25 576,96
Other operating income	594 183,76	677 012,69
Materials and services		
Materials, supplies and goods:		
Purchases during the financial year	-22 620 684,25	-23 858 089,53
Increase (-)/ decrease (+) in inventories	-98 067,15	-511 411,99
External services	-2 609 838,00	-3 721 888,18
Personnel expenses	-11 126 275,42	-9 968 008,61
Depreciation, amorsation and write-offs		
Depreciation and amorsation according to plan	-2 414 869,43	-2 730 232,22
Reduction in value	-1 780 939,56	-74 632,11
Other operating expenses	-7 840 900,74	-8 466 887,53
OPERATING PROFIT/LOSS	**-3 739 408,23**	**580 757,09**
Financial income and expenses		
Income from other non-current asset investments	0,00	0,00
Other interest and financial income	629 383,08	255 589,71
Interest and other financial expenses	-699 625,55	-897 491,49
PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS	**-3 809 650,70**	**-61 144,69**

	1.1.–31.12.2012	1.1.–31.12.2011
Extraordinary items	0,00	-111 916,71
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES	**-3 809 650,70**	**-173 061,40**
Appropriations		
Increase (-) or decrease (+) in depreciation difference	9,77	573 290,18
Income taxes		
Changes in deferred tax assets	-63 931,10	-133 191,29
PROFIT/LOSS FOR THE PERIOD	**-3 873 572,03**	**267 037,49**

Parent Company Balance Sheet (FAS)

EUR

Assets	31.12.2012	31.12.2011
NON-CURRENT ASSETS		
Intangible assets		
Intangible rights	415 384,27	685 792,79
Other long-term expenditure	0,00	21 191,80
Advance payments	172 140,15	0,00
	587 524,42	**706 984,59**
Tangible assets		
Land and water	1 143 357,92	1 365 057,75
Buildings and structures	9 020 892,38	11 932 639,36
Machinery and equipment	4 271 987,74	5 578 818,34
Other tangible assets	190 547,88	293 291,75
Advance payments and acquisitions in ...progress	69 388,62	108 755,05
	14 696 174,54	**19 278 562,25**
Investments		
Holdings in Group companies	527 394,16	491 680,74
Participating interests	439 425,63	439 425,63
Other shares and holdings	69 477,05	186 946,61
Other receivables from Group companies	2 451 023,00	2 451 023,00
	3 487 319,84	**3 569 075,98**
TOTAL NON-CURRENT ASSETS	**18 771 018,80**	**23 554 622,82**

CURRENT ASSETS	31.12.2012	31.12.2011
Inventories		
Materials and supplies	148 527,00	324 935,55
Work in progress	3 449 898,19	2 686 822,28
Finished products/goods	805 468,63	1 626 714,46
Other inventories	1 389 946,38	1 483 119,53
Advance payments	99 169,29	306 030,89
	5 893 009,49	**6 427 622,71**
Receivables		
Non-current receivables		
Loan receivables	23 458,76	23 458,76
	23 458,76	**23 458,76**
Current receivables		
Trade receivables	3 434 481,14	4 498 058,16
Receivables from Group companies	-71 925,76	692 198,37
Receivables from participating interest companies	33 339,90	31 401,22
Other receivables	711 232,60	633 456,65
Accrued income	826 237,67	877 537,67
Deferred tax assets	672 402,51	736 333,61
	5 605 768,06	**7 468 985,68**
Cash and bank	**3 239 614,73**	**132 322,81**
TOTAL CURRENT ASSETS	**14 761 851,04**	**14 052 389,96**
Total assets	**33 532 869,84**	**37 607 012,78**

EUR		
Equity and liabilities	**31.12.2012**	**31.12.2011**
SHAREHOLDERS' EQUITY		
Share capital	9 897 936,00	9 897 936,00
Share premium account	520 000,00	520 000,00
Reserve fund	0,00	5 316 389,64
Fund for Invested unrestricted equity	6 896 335,68	1 986 935,00
Retained earnings	680 274,62	1 304 633,15
Profit/loss for the period	–3 873 572,03	267 037,48
TOTAL SHAREHOLDERS' EQUITY	**14 120 974,27**	**19 292 931,27**
ACCUMULATED APPROPRIATIONS		
Depreciation difference	8 338,97	8 348,74
PROVISIONS		
Other provisions	1 920 600,06	265 163,00
LIABILITIES		
Non-current		
Loans from financial institutions	3 082 000,00	3 273 127,43
Other payables	500 000,00	1 500 000,00
	3 582 000,00	**4 773 127,43**
Current		
Loans from financial institutions	1 276 000,00	2 358 017,43
Pension loans	1 000 000,00	1 000 000,00
Advances received	5 946 682,54	3 959 275,77
Trade payables	1 250 338,66	1 898 589,30
Amounts owed to Group ...companies	230 681,32	82 900,96
Amounts owed to participating ...interest companies	96 978,26	96 978,26
Other payables	241 751,28	246 182,62
Accrued liabilities	3 858 524,48	3 625 498,00
	13 900 956,54	13 267 442,34
TOTAL LIABILITIES	**17 482 956,54**	**18 040 569,77**
Total equity and liabilities	**33 532 869,84**	**37 607 012,78**

Parent Company Cash Flow Statement

EUR THOUSAND	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/loss for the period	-3 874	267
Adjustements for:		
Depreciation and reduction in value	4 196	2 805
Other non-cash items	1 919	495
Financial income and expenses	70	642
Other adjustments	16	224
Cash flow before working capital changes	**2 328**	**4 433**
WORKING CAPITAL CHANGES		
Change in current trade receivables	1 800	504
Change in inventories	535	2 790
Change in current liabilities	2 102	-1 489
Cash flow before financial items and taxes	**6 765**	**6 238**
Paid interest and other financial expences	-800	-761
Interest received	99	234
Cash flow from operating activities	**6 063**	**5 711**
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in tangible and intangible assets	-432	-874
Capital gains on tangible and intangible assets	92	83
Capital expenditures on other investments	100	1 736
Loans granted		-51
Purchase of non-controlling interest	-36	
Cash flow from investing activities	**-276**	**895**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from sale of own shares		91
Repayment of short-term loans	-840	-577
Proceeds from long-term loans	2 100	
Repayment of long-term loans	-3 533	-5 531
Dividends paid		-477
Repayment of the capital	-407	
Cash flow from financing activities	**-2 680**	**-6 495**
Net change in cash and cash equivalents	3 107	112
Cash and cash equivalents, 1 Jan.	132	21
Cash and cash equivalents, 31 Dec.	3 240	132

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 according to plan 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.

Derivatives are measured at fair value in the financial statements. Changes in fair value are recognised through profit or loss in other financial income and expenses.

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

	2012	2011
Distribution of net sales EUR thousand		
Finland & Baltics	19 624	24 562
Russia & CIS	14 704	13 889
Global Markets	10 031	13 073
Total	**44 359**	**51 524**

Finland & Baltics includes other than Finland 534 EUR thousand (110 EUR thousand).

1.2. Other operating income

Received contributions	48	129
Rental income	1	4
Sales of round timber	385	499
Gain on disposal of fixed assets	45	31
Received compensation for damages	84	0

1.3. Notes concerning personnel and members of administrative bodies

Personnel expenses	**2012**	**2011**
Wages and salaries	8 848 045,76	8 099 185,60
Pension costs	1 482 622,49	1 376 012,61
Social costs	795 607,17	492 810,41
Total	**11 126 275,42**	**9 968 008,62**

Average number of personnel		
Clerical and management	134	142
Workers	108	109
Total	**241**	**251**

Number of personnel in person-years, average		
Clerical and management	81	103
Workers	102	104
Total	**184**	**206**

Management remuneration	**2012**	**2011**
President and CEO and board members, total	**486 972,17**	**541 991,32**

President and CEO

Rautalinko Esa	93 812,40	348 347,32
Jaskari Mikko	98 608,68	
Kilpeläinen Mikko	112 608,37	
Total	**305 029,45**	**348 347,32**

Board members

Kurkilahti Lasse Chairman	61 000,00	63 000,00
Adlercreutz Anders	14 400,00	10 800,00
Laamanen Tomi	0,00	4 100,00
Niemi Mauri	14 400,00	14 400,00
Pankko Teijo	14 900,00	12 800,00
Ruuska Pirjo	15 400,00	17 400,00
Saarelainen Marko	14 400,00	32 300,00
Saarelainen Mauri	47 442,72	38 844,00
Total	**181 942,72**	**193 644,00**

Business transactions with related party, EUR thousand

Purchases	281	293
Sales	358	805
Loans to related party, granted this period		51
Loans to related party, granted earlier	851	800

Related parties consist of subsidiaries, associated companies and key management as well as companies in which the latter hold a controlling interest. Key management comprises the Board of Directors, CEO and the company's Executive Group. Related-party transactions are ordinary business transactions on market-based terms.

1.4. Depreciation, amortisation and reduce in value

	2012	**2011**
Depreciation and amortisation according to plan		
Immaterial rights	273 760,79	429 874,59
Other intangible assets	21 191,80	21 191,80
Buildings and structures	863 484,23	918 751,97
Machinery and equipment	1 173 229,16	1 282 155,85
Other tangible assets	83 203,45	78 258,01
Total depreciation and amortisation according to plan	2 414 869,43	2 730 232,22
Reduction in value of non-current assets	1 780 939,56	74 632,11
Total depreciation, amortisation and reduce in value	**4 195 808,99**	**2 804 864,33**

1.5. Auditor's remuneration	**2012**	**2011**
Actual auditing	43 371,38	37 121,42
Extra statements and certificates	859,50	782,00
Tax consulting	0,00	2 565,00
Other services	0,00	9 548,75
Total	**44 230,88**	**50 017,17**

1.6. Financial income and expenses	**2012**	**2011**
Interest income	15 768,66	103 582,64
Reduction of value of investments held as non-current assets	-49 117,99	
Interest expenses	-400 204,06	-551 599,33
Other financial expenses	-72 616,43	-40 333,97
Exchange rate gains/losses	-63 324,65	-74 715,12
Changes in the value of currency derivatives	499 252,00	-78 836,00
Total	**-70 242,47**	**-641 901,78**

1.7. Extraordinary items	**2012**	**2011**
Merger loss	0,00	-83 942,71
Other extraordinary expenses	0,00	-27 974,00
Total	**0,00**	**-111 916,71**

1.8. Income taxes	**2012**	**2011**
Change in deferred taxes	-63 931,10	-113 191,29
Total	-63 931,10	**-113 191,29**

2.1 Parent company's intangible assets 2012

EUR THOUSAND	Immaterial rights	Other capitalised expenditures	Advance payments	Intangible asset total
Acquisition cost 1 Jan	**4 654 341,24**	**2 148 314,76**	**0,00**	**6 802 656,00**
Increase	4 375,02		172 140,15	176 515,17
Acquisition cost 31 Dec	**4 658 716,26**	**2 148 314,76**	**172 140,15**	**6 979 171,17**
Accumulated amortisation 1 Jan	**3 968 548,45**	**2 127 122,96**		**6 095 671,41**
Amortisation for the period	273 760,79	21 191,80		294 952,59
Write-offs	1 022,75			1 022,75
Accumulated amortisation 31 Dec	**4 243 331,99**	**2 148 314,76**		**6 391 646,75**
Carrying amount 31 Dec	**415 384,27**	**0,00**	**172 140,15**	**587 524,42**

2.2 Parent company's tangible assets 2012

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 1 Jan	**1 353 334,44**	**22 209 506,78**	**34 775 612,94**	**2 597 920,32**	**108 755,05**	**61 045 129,53**
Increase		91 152,40	47 677,67	26 561,91	90 236,55	255 628,53
Disposals	0,00	37 791,09	9 354,84			47 145,93
Transfers between items			129 602,98		-129 602,98	0,00
Acquisition cost 31 Dec	**1 353 334,44**	**22 262 868,09**	**34 943 538,75**	**2 624 482,23**	**69 388,62**	**61 253 612,13**
Accumulated depreciation 1 Jan	**98 591,50**	**11 860 321,02**	**29 196 794,60**	**2 304 628,57**		**43 460 335,69**
Depreciation for the period		863 484,23	1 173 229,16	83 203,45		2 119 916,84
Write-offs	221 699,83	1 210 587,40	301 527,25	46 102,33		1 779 916,81
Accumulated depreciation 31 Dec	320 291,33	13 934 392,65	30 671 551,01	2 433 934,35		47 360 169,34
Revaluations	110 314,81	692 416,94				802 731,75
Carrying amount 31 Dec	**1 143 357,92**	**9 020 892,38**	**4 271 987,74**	**190 547,88**	**69 388,62**	**14 696 174,54**

The carrying amount of production machinery and equipment on 31 Dec 2012 was EUR 4 229 thousand.
Revaluations are based on the assessment of the value of assets. The prior revaluation of the Alajärvi factory, amounting to EUR 891 thousand, was reversed in the 2012 financial year.
The reversal of revaluation is recognised as a decrease in retained earnings.

2.1 Parent company's intangible assets 2011

EUR THOUSAND	Immaterial rights	Other capitalised expenditures	Advance payments	Intangible asset total
Acquisition cost 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
Transfers between items	4 500,00		-4 500,00	0,00
Acquisition cost 31 Dec	**4 654 341,24**	**2 148 314,76**	**0,00**	**6 802 656,00**
Accumulated amortisation 1 Jan	**3 538 673,86**	**2 105 931,16**	**-**	**5 644 605,02**
Amortisation for the period	429 874,59	21 191,80	-	451 066,39
Accumulated amortisation 31 Dec	**3 968 548,45**	**2 127 122,96**	**-**	**6 095 671,41**
Carrying amount 31 Dec	**685 792,79**	**21 191,80**	**0,00**	**706 984,59**

2.2 Parent company's tangible assets 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 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
Disposals	142,96	17 945,02	173 544,10			191 632,08
Transfers between items			136 749,74		-136 749,74	0,00
Acquisition cost 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 1 Jan	**98 591,50**	**10 882 941,22**	**28 038 905,58**	**2 226 370,56**		**41 246 808,86**
Accumulated depreciation of disposals and transfers		-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
Write-offs		74 632,11				
Accumulated depreciation 31 Dec	**98 591,50**	**11 860 321,02**	**29 196 794,60**	**2 304 628,57**	**0,00**	**43 460 335,69**
Revaluations	110 314,81	1 583 812,95				1 694 127,76
Carrying amount 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 was EUR 5 467 thousand. Revaluations are based on the assessment of the value of assets. The prior revaluation of the Karstula factory, amounting to EUR 1 347 thousand, was reversed in the 2011 financial year. The reversal of revaluation is recognised as a decrease in retained earnings.

2.3. Investments

Parent company's investments on 2012

EUR THOUSAND	Holdings in Group companies	Holdings in associated companies	Other shares and holdings	Other receivables from Group companies	Investments total
Acquisition cost 1 Jan	491 680,74	439 425,63	186 946,61	2 451 023,00	3 569 075,98
Increase	35 713,42				35 713,42
Disposals			117 469,56		117 469,56
Acquisition cost 31 Dec	**527 394,16**	**439 425,63**	**69 477,05**	**2 451 023,00**	**3 487 319,84**
Carrying amount 31 Dec	**527 394,16**	**439 425,63**	**69 477,05**	**2 451 023,00**	**3 487 319,84**

Holdings in Group companies includes 345 EUR thousand of German subsidiary shares which are valued at acquisioton costs.
The parent company has 1 600 EUR thousand non-current capital loan receivable from German subsidiary and that is valued at acquistion cost.
On the closing date 2012 the German subsidiary equity totals negative 841 EUR thousand excluding the capital loan. Based on management's view
The management expects the German subsidiary to grow in future years. The balance sheet values of German subsidiary are valued on future cash flows according to business plan.

Parent company's investments on 2011

EUR THOUSAND	Holdings in Group companies	Holdings in associated companies	Other shares and holdings	Other receivables from Group companies	Investments total
Acquisition cost 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
Disposals		1 763 776,00	500,00	173 000,00	1 937 276,00
Acquisition cost 31 Dec	**491 680,74**	**439 425,63**	**186 946,61**	**2 451 023,00**	**3 569 075,98**
Carrying amount 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 %
Honka Blockhaus GmbH, Germany	100,00 %
Honka Japan Inc., Japan	100,00 %
Honkarakenne Sarl, France	87,00 %
Alajärven Hirsitalot Oy, Alajärvi	100,00 %
Honka-Kodit Oy, Tuusula	100,00 %
Honka Management Oy	controlling power

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

2.5. Inventories

Other inventories consist of EUR 109 thousand (EUR 207 thousand) in timeshares and EUR 1 280 thousand (EUR 1 276 thousand) in land and water. Other inventories are measured at acquisition cost or at fair market value, whichever is lower.

2.6. Receivables

2.6.1. Non-current receivables	2012	2011
Receivables maturing in more than one year		
Loan receivables	23 458,76	23 458,76
Loan receivables from the company owned by top management	851 023,00	851 023,00

A loan of EUR 851 023 was granted to a company owned by senior 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	2012	2011
Receivables from Group companies		
Sales receivables	-82 926,37	604 617,77
Other receivables	11 040,61	87 580,60
Total	**-71 885,76**	**692 198,37**

2.6.3. Accrued income	2012	2011
Material accrued income (EUR thousand)		
VAT on advances received	595	543
VAT receivables	216	131
Other accrued income	15	204
	826	**878**

2.6.4. Deferred tax assets and liabilities, EUR thousand

Deferred tax assets	672	736

Tax assets for the 2012 financial year consist of the confirmed losses of the parent company. The major items for which no deferred tax assets have been recognised due to the uncertanty of their materialisation are:

Restructuring provision	1 781
Write-offs of fixed assets	1 721

2.7. Shareholders' equity

2.7. Shareholders' equity	2012	2011
Capital stock 1 Jan	9 897 936,00	9 897 936,00
Capital stock 31 Dec	9 897 936,00	9 897 936,00
Share premium 1 Jan	520 000,00	520 000,00
Share premium 31 Dec	520 000,00	520 000,00
Reserve fund 1 Jan	5 316 389,64	5 316 389,64
Transfer to fund for invested unrestricted equity	-5 316 389,64	
Reserve fund 31 Dec	0,00	5 316 389,64
Restricted equity	10 417 936,00	15 734 325,64
Fund for invested unrestricted equity 1 Jan	1 986 935,00	1 896 200,00
Transfer from reserve fund	5 316 389,64	
Repayment of capital	-406 988,96	
Divestment of own shares		90 735,00
Fund for invested unrestricted equity 31 Dec	6 896 335,68	1 986 935,00
Retained earnings 1 Jan	1 571 670,64	3 123 521,00
Dividends		-472 098,77
Adjustment for result of previous periods	-891 396,01	-1 346 789,08
Profit/loss for the period	-3 873 572,03	267 037,49
Retained earnings 31 Dec	**-3 193 297,40**	**1 571 670,64**
Unrestricted equity	3 703 038,28	3 558 605,64
Total equity	**14 120 974,28**	**19 292 931,28**

The prior revaluation of the Alajärvi factory, amounting to EUR 891 thousand, was reversed in the 2012 financial year. The reversal of revaluation is recognised as a decrease in retained earnings.

The prior revaluation of the Karstula factory, amounting to EUR 1,347 thousand, was reversed in the 2011 financial year. The reversal of revaluation is recognised as a decrease in retained earnings.

Statement of distributable equity 31 Dec	2012	2011
Profit from previous financial years	680 274,63	1 304 633,15
Profit/Loss for the period	-3 873 572,03	267 037,49
Fund for invested unrestricted equity	6 896 335,68	1 986 935,00
Loan to Honka Management Oy	-851 023,00	-851 023,00
Total	**2 852 015,28**	**2 707 582,64**

Statement of distributable earnings 31 Dec	2012	2011
Profit from previous financial years	680 274,63	1 304 633,15
Profit/Loss for the period	-3 873 572,03	267 037,49
Loan to Honka Management Oy	-851 023,00	-851 023,00
Total	**-4 044 320,40**	**720 647,64**

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

2.8. Provisions	2012	2011
Warranty provision	200 000,00	265 000,00
Restructuring provision, non-current	324 904,11	
Restructuring provision, current	1 395 695,95	
	1 920 600,06	**265 000,00**

Restructuring provision, total 1 721 EUR thousand, is provision for closing Alajärvi factory in 2013.
Non-current restructuring provision includes 214 EUR thousand in redundancy expences and 111 EUR thousand in Alajärvi property maintenance expenses. Current restructuring provision includes 1 359 EUR thousand in redundancy expenses and 37 EUR thousand in property maintenance expenses.

2.9. Liabilities

2.9.1. Non-current liabilities

Liabilities maturing in five years or more	2012	2011
Loans from financial institutions	0,00	0,00
Total	0,00	0,00

Loans from financial institutions includes bank overdrafts, EUR thousand	**0**	**840**

2.9.2. Current liabilities

Liabilities to Group companies	2012	2011
Trade payables	54 457,28	2 741,07
Other payables	57 176,28	57 176,28
Accrued liabilities	118 625,00	22 983,61
Total	**230 258,56**	**82 900,96**

Liabilities to assosiated companies	2012	2011
Other payables	96 978,26	96 978,26

2.9.3. Accrued liabilities

Most significant accrued liabilities, EUR thousand	2012	2011
Wages and salaries, including social costs	1 655	1 800
Accrued interest costs	88	87
Provisions	248	404
Accrued derivates	162	585
Accrued purchase invoices	537	319
Accrued post costs for deliveries	391	
Accrued reclamations	200	
Accrued guarantee costs	158	
Accrued transportations	194	80
Accrued other costs	225	350
	3 858	**3 625**

Accrued derivates include fair value of forward exchange contracts and intrest rate swaps on closing date. Change in fair value is recognised in income statement in other financial income and expences. The fair value change in 2012 in +499 EUR thousand (+578 EUR thousand in 2011).

3. Pledges given	2012	2011
Debts and liabilities secured with real estate mortgages, mortgages on company assets and pledged shares		
Loans from financial institutions	5 858 000,00	8 131 144,86
Total	**5 858 000,00**	**8 131 144,86**

Given to secure the above	2012	2011
Real estatem mortgages	20 409 394,99	20 409 958,77
Mortgages on company assets	5 306 323,97	5 306 323,97
Total	**25 715 718,96**	**25 716 282,74**

Guarantees given	2012	2011
Guarantees for own commitments	3 387 166,55	1 809 710,23
Guarantees for others		179 640,72
Total	**3 387 166,55**	**1 989 350,95**

Amounts payable on leasing contracts	2012	2011
Payable in the next financial year	276 118,65	386 954,61
Payable later	186 990,90	398 510,65
Total	**463 109,55**	**785 465,25**

4. Shares and shareholders

Information about shares and shareholder is represented in Notes to Group figures 30 and in Directors' Report.

HONKARAKENNE OYJ

Tilinpäätöksen ja toimintakertomuksen allekirjoitukset

Tuusulassa 14. päivänä helmikuuta 2013

Lasse Kurkilahti
puheenjohtaja

Anders Adlercreutz

Mauri Niemi

Teijo Pankko

Pirjo Ruuska

Marko Saarelainen

Mauri Saarelainen

Mikko Kilpeläinen
toimitusjohtaja

Suoritetusta tarkastuksesta on tänään annettu tilintarkastuskertomus.

Helsingissä 5 päivänä maaliskuuta 2013

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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 year ended December 31, 2012. 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, 5 March 2013

KPMG OY AB

REINO TIKKANEN
Authorized Public Accountant

CORPORATE GOVERNANCE STATEMENT

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 Directors' 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 2012 were:

Lasse Kurkilahti
Chairman of the Board, Board member since 2009

- 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; Nextmesh Oy, Chairman since 2012, Hartela Oy, Deputy 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

- 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
- Excercises influence in Lieksaare Oy, which owns 18,500 Honkarakenne Oyj A shares, and 142,700 Honkarakenne Oyj B shares.

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; Specialist Qualification in Business Management, Jyväskylä 2009
- Epira Oy, Managing Director since 2004; positions held at Honkarakenne Oyj: Designer, Delivery Operator 1981–2005
- Board membership: Kirjakauppa Paavo ja Liisa 2010-2012; Honkarakenne Oyj since 2008; Epira Oy since 2004; Saarelaisten sukuseura ry 2003-2012.
- 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 30 March 2012 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 are paid per diems and their travel costs are reimbursed against an invoice. If the Board establishes committees from amongst its members, the Board committee members will be paid EUR 500 per meeting. The Board of Directors elected at the Annual General Meeting of 30 March 2012 did not establish any committees.

During the accounting period of 2012, 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 previous Board of Directors established an Audit Committee from among its members. The Audit Committee was active until 30 March 2012. The members of the Board's Audit Committee comprised Mr Lasse Kurkilahti (Chairman), Mr Teijo Pankko and Ms Pirjo Ruuska.

The Audit Committee monitors the financial statements reporting and general financial reporting processes, the efficiency of internal supervision, and auditing and risk management systems as well as supervises the statutory auditing process and evaluates the independence of the auditor.

The Board held 12 Board meetings in 2012. The Board members' meeting attendance rate was 96%.

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 key terms of the CEO's employment in a written contract of employment.

The company's President and CEO is Mikko Kilpeläinen.

Mikko Kilpeläinen, as from 1 August 2012

- Born in 1972
- Bachelor of Business and Administration, BBA, 1997
- Honkarakenne Oyj, President and CEO 2012-. Karelia-Upofloor Oy, President & CEO 2007-2012, CFO 2006-2007. Finnforest Oyj, CFO and SVP 2004-2006, Business Controller, VP 2002-2004, Project Manager 2000-2004. Coca-Cola Juomat, Business Analyst 1999-2000, Cost Accounting Supervisor 1997-1999.

Mikko Kilpeläinen has a CEO's contract of employment with monthly salary and benefits amounting to EUR 22,500. In addition, Mr Kilpeläinen enjoys a personal incentive bonus arrangement. If the annual performance targets approved by the Board of Directors are achieved, he 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 Kilpeläinen has a notice period of six months. If the company decides to terminate Mr Kilpeläinen's employment, he shall have the right to receive an additional severance payment equivalent to his salary for 12 months.

Mr Kilpeläinen does not have a long-term incentive scheme.

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, the Executive Group has the following members:

Mikko Jaskari
Chief Financial Officer
Acting President and CEO from 2 February to 31 July 2012

- 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
- Holds 18,000 B shares
- Owns 18.8% 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.)
- 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.

Pekka Elo
Vice President – Business Area Global Markets

- Born in 1973
- Master of Arts (MA)
- Honkarakenne Oyj 2012-, Karelia-Upofloor Oy: Global Sales Director 2012; Sales Director Finland & Baltics 2012. Nokia Oyj: Head of Sales, Europe 2010-2012; Head of Category Marketing and Sales, Consumer Smartphones, Europe/Eurasia 2009-2010; Head of Services & Software Go-To-Market and Portfolio 2008-2009; Customer Business Manager 2006-2008; Business Development Manager 2004-2006. Elisa Oyj: Market Analyst, Business Analyst, Business Manager 2000-2004. Finnet Oy: Development Manager 1999-2000. Council of Europe 1998-1999.

Sami Leinonen
Vice President – Business Area Finland and Baltics

- Born in 1972
- M.Sc. (Eng.)
- Honkarakenne Oyj 2012-, Karelia-Upofloor Oy: Operations Director 2009-2012. UPM Raflatec: Director, Paper Business Europe 2008-2009. UPM-Kymmene: Production Director 2004-2008. UPM-Kymmene New Ventures: Venture Manager 2003-2004. UPM-Kymmene Converting: Development Manager 2001-2002. UPM-Kymmene: Technical Customer Service Engineer, Development Engineer, Shift Supervisor 1997-2001.

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.

Some of the Executive Group members are included in Honkarakenne's long-term incentive scheme through Honka Management, a company owned by the management. 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 principle, 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.

Esa Rautalinko, who served as the President and CEO until 1 February 2012, resigned from the company on 27 January 2012. Honkarakenne Oyj redeemed the 500 Honka Management Oy shares owned by Mr Rautalinko for the price of EUR 35,151, based on the shareholders' agreement.

Honka Management is owned by the following parties: Honkarakenne 47.0%, Mikko Jaskari 18.8%, Risto Kilkki 9.4%, Eino Hekali 9.4%, Reijo Virtanen 9.4% and Sanna Wester 6.0%. Mr Kilkki and Mr Hekali are no longer members of the Executive Group. Honkarakenne terminated their employment contracts. On the basis of the shareholder agreement, they retain their holdings in Honka Management.

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 30 March 2012 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 44 thousand for the accounting period of 2012. During 2012, KPMG Oy Ab received a total of EUR 1 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 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 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 subsidiaries' own systems are based. Honkarakenne has a valid, up-to-date data security policy and supporting data security guidelines.

6. Insiders

Honkarakenne Oyj adheres to the Insider Guidelines prepared by NASDAQ OMX Helsinki Ltd. 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.