ANNUAL REPORT 2003

HONKARAKENNE OYJ

HONKARAKENNE IS A FORERUNNER

In 45 years Honkarakenne has become the best-known international log house brand within the industry.

Honkarakenne is a forerunner as designer, manufacturer and marketer of individually designed log houses.

Honkarakenne's growth is generated in international markets.

CONTENTS

To shareholders 3
Year 2003 in brief 4
President's review 5
Report by the Board of Directors 8
Income statements 11
Balance sheets 12
Cash flow statement 14
Notes to the financial statements 15
Proposal of the Board of Directors 22
Auditor's report 22
Key indicators 23
Major shareholders 24
Regional market review 25
Administration and management 30
Business locations and export network 31

INFORMATION TO SHAREHOLDERS

Honkarakenne Oyj's Annual General Meeting will be held at the head office of the company in Tuusula, address: Lahdentie 870, Järvenpää, on Friday 2 April 2004 starting at 2 p.m. Notifications of attendance by 26 March 2004, telephone +358 20 575 700, e-mail info@honka.com.

The interim reports will be published as follows:

• January - March 2004	Wednesday 12 May 2004
• January - June 2004	Wednesday 11 August 2004
• January - September 2004	Wednesday 10 November 2004

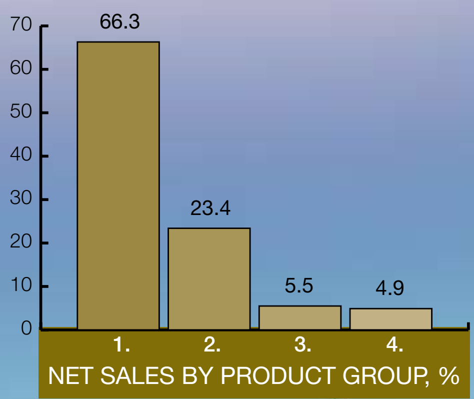
The annual reports and the interim reports are published in Finnish and English and are also available on Internet: www.honka.com. The printed version of the Annual Report can be ordered by telephone, +358 20 575 700 or e-mail info@honka.com.

YEAR 2003 IN BRIEF

- Sales by the log construction industry grew by 7 % both in Finland and in exports.
- Honkarakenne's deliveries increased by 7 % and the volume of current orders at year-end was 2 % up from the previous year.
- Honkarakenne's net sales totaled EUR 85 million; international operations accounted for 68 % of the total figure. Result before extraordinary items and taxes was a profit of EUR 2.1 million. Equity ratio improved to 48 %.
- Sales of leisure homes was 23 %, saunas 6 % and sales of single-family houses were 66 % and the rest (e.g. by-products) 5 % of total sales.
- The most important deals were a project in Russia, implemented together with Seicon Oy, and construction of the world's largest log house in Russia (see the drawing below).
- The unprofitable sawmill operation was wound up.
- The average number of personnel was 442.
- As a result of statutory cooperation negotiations during summer and fall, the number of personnel was reduced by 30, mainly from the sawmill line at Karstula.
- Honka Holiday's holiday share business was divested.
- Honkarakenne purchased its own shares to an amount equivalent of 3 % of the share capital.
- Honkarakenne's holding in the German subsidiary was increased to 100 %.
- Network of show houses in Central Europe was complemented by Design Center in Altheim, Austria. Exhibition of detached log houses was inaugurated in Tokyo.
- The first house made of innovative multi-laminated round log was delivered to Greece.
- Sizable resources invested in R&D produced new components and a new HonkaLook.
- Honka participated with two leisure residences in Holiday Home Show at Kuru, Finland.
- Marketing was intensified by means of Honka Road Show that toured Finland and continental Europe.
- New comprehensive leisure house model collection, Lomakirja, was launched. HonkaStudio, developed as a tool for electronic marketing, permits customers to tailor the basic model by adding standard components.
- Honka was the first industry operator to launch Quality Master Service. A properly serviced log house retains its value.
- Persons responsible for delivery were designated to serve buyers of family houses or large holiday residences; these persons will be responsible for the total implementation of each project.
- Honka won a Japanese contest for log house design already for the third year running.

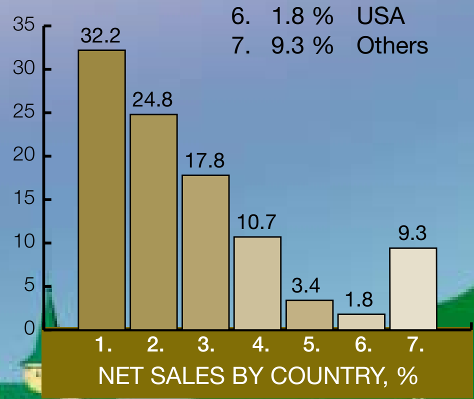
Net sales by product group %, 2003 (2002)

1.	66.3 %	Single-family homes	(62.0%)
2.	23.4 %	Vacation homes	(25.9%)
3.	5.5 %	Garden buildings and saunas	(6.2%)
4.	4.9 %	Others	(5.8%)



Consolidated net sales by country %, 2003 (2002)

1.	32.2 %	Finland	(36.1 %)
2.	24.8 %	Germany	(24.5 %)
3.	17.8 %	Japan	(17.5 %)
4.	10.7 %	Russia	(8.2 %)
5.	3.4 %	France	(3.3 %)
6.	1.8 %	USA	(1.7 %)
7.	9.3 %	Others	(8.7 %)



PRESIDENT'S REVIEW

Mauri Saarelainen

Honkarakenne's net sales fell slightly behind the previous year's level and amounted to EUR 85 million; net sales from the actual log operations (excluding Honka Holiday and projects) grew, however, by 7 per cent. Result improved significantly to EUR 2.1 million. While the target was not fully achieved, the result can be considered as satisfactory. The result improvement is attributable to implemented structural programs, reduced costs and higher efficiency. The structural changes also eased the burden on the balance sheet. Equity ratio increased and interest-bearing net liabilities decreased significantly. Changes in the accounting system contributed to the result improvement.

Honkarakenne continued the systematic implementation of its internationalization strategy, strengthening the Honka brand with focus on marketing, development and manufacture of massive log houses. The strategy has been extended to the development of living solutions with the objective of diversifying customer services and further improving customer satisfaction. Production has been clarified and is now organized in own production and network production.

Today already 68 % of Honkarakenne's net sales are generated from international business. Besides Finland, Germany (25 %), Japan (18 %) and Russia (11 %) are the principal markets. The domestic market is growing, albeit very slowly, and the growth potential continues to be better in exports. A key requirement in international markets is solid know-how. Honkarakenne's expertise is based on its 45-years of operations and its early establishment in international markets. Growth has been strongest in Russia with a particularly dramatic increase in regional construction.

Rationalization and improvement of the competitiveness of the log house industry is overdue

The log house industry has five years of sluggish growth behind it. Sales growth has been minimal in spite of increased capacity, which has aggravated unsound competition in the domestic market. Companies with modest resources try to penetrate export markets although their products and services do not always meet the demands of international customers.

There are about 150 operators in the Finnish log house sector. New companies and excess capacity have been created with the support of municipalities and specialized financing institutions. When the companies have ended up in difficulties they have been subsidized from public funds to save employments. After debt reorganizations and bankruptcies the companies have been given a new start and some have even increased their capacity. This has further distorted competition.

I hope that financiers and authorities would analyze the situation from the perspective of the entire sector to ensure the sustained competitiveness of the log construction industry. Log house industry is the only house construction sector where Finland possesses expert know-how of an international standard. The log house industry accounts for as much as 80 per cent of Finland's total exports of wooden houses.

The industry needs internationally growing, healthy and competitive companies to safeguard its quality image in export markets. Demand for ecological and healthy log houses is increasing. Also efficient domestic markets have great significance as testing ground and development field.

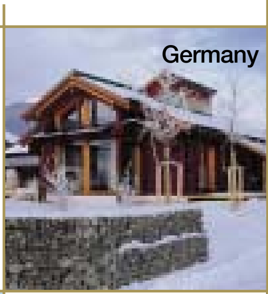
Market situation improved after summer

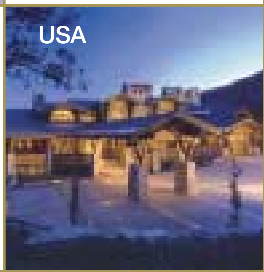
In 2003, sales by the Finnish log construction industry grew by 7 % over the previous year. Sales of Honka log buildings increased by 7 % from 2003, with the strongest growth in single-family houses. Residential construction activity was boosted by low interest rates but hampered by lack of suitable sites for log houses in growing urban areas. An upturn was seen towards the year-end. Honkarakenne's volume of current orders at the end of the year was 2 % higher than the year before.

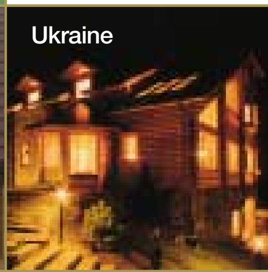
The market improvement that was anticipated early in the year did not materialize. Honkarakenne's production volume remained low and operations were unprofitable. Structural programs implemented in the first half of the year increased non-recurring costs. The market situation changed after the summer, net sales increased in the second half and profitability improved. Economies were achieved thanks to cost analysis and competing of suppliers; the full effect of these measures will be seen during this year.

Marketing in Finland was successful, boosted by the new model collection and the architectural and product component concepts. Sales efficiency improved following changes in operative organization and the introduction of the new product line. These programs helped Honka enhance its position as the leading industry brand.

Growth in Germany continued. Business in Japan was strong all the year and the pace accelerated towards the year-end.







Relative profitability was eroded due to the weakening yen rate. Business in Russia continued to be good, and Honkarakenne's competitive ability was excellent particularly in big projects.

Sales and profitability fell short of budget in Western Europe and the United States. These markets have now been integrated under the New Markets Team to improve efficiency. The team is expected to achieve an annual growth rate of 10 % with improved profitability.

Structural profitability improvement program

Since Honkarakenne's own sawmill operation would not be profitable with the current volumes and machinery in the longer term, the company has opted for a networking strategy and discontinued its sawmill business. The decision was spurred by profitability problems afflicting the entire sector. Statutory cooperation negotiations led to an attrition of 30 persons at the Karstula factory. Also the seasonal fluctuations seem to have become sharper increasing the pressure to replace permanent jobs by fixed-term contracts.

Holiday share operations were sold to the newly established Honka Holiday Oy whose shareholders include Finland's leading operator Holiday Club Finland Oy. Honkarakenne retains an 18 % interest in Honka Holiday. Thanks to the broader ownership base and a wider product line, the new company has good potential to operate successfully as an entrepreneur-driven business.

The President of Honkarakenne's German subsidiary changed and Honka acquired the former President's 10 % holding. Dr. Horst Knafl was appointed President of Honka Blockhaus GmbH, and the activity of the subsidiary has grown to cover the entire German-speaking market in Europe.

The structural arrangements caused extraordinary non-recurring costs. Thanks to strong cash flow and improved performance, the balance sheet was strengthened and equity ratio increased to 48 %. This is reflected in Honkarakenne's improved profitability.

Systematic work yields results

Honkarakenne's systematic work in international markets is yielding results. The company won several major delivery contracts in Russia during the year. Since the mid-1990s, the company has delivered more than 700 single-family homes or corresponding large leisure residences.

Honkarakenne also delivered together with Seicon Oy a leisure complex with a total constructed area of about 4,000 m^2 to Russia. Deliveries for another big leisure resort started in the latter half of 2003. It will include the world's biggest log house, with a surface area of 4,500 m^2, as well as 20 other log buildings.

Honkarakenne's capital expenditure totaled EUR 3.3 million in 2003. The most significant marketing investment was the exposition of single-family houses in Japan, strengthening Honka's position in one of its principal markets. Thanks to the exposition, sales by the Japanese subsidiary reached a record level and improved recognition of the Honka brand in this important market area.

Investments in new technology will ensure future success. A decision was made to modernize gluing technology at the Alajärvi factory. The gluing line will be finished in early 2005. After that, the gluing time will be shorter and the capacity will be doubled. The investment is necessary because the popularity of laminated logs and glued structures is growing especially in exports, and it will also significantly improve the production process.

Customer driven model design is one of Honkarakenne's strengths. The HonkaLook brochure and Lomakirja leisure house catalog are recent examples of this. This model collection concept will be continued in international markets, with the objective of creating unique designs for different markets catering to the preferences of customers, mainly based on the same efficiently produced components.

Outlook

The market outlook has visibly improved although no dramatic growth is in sight even this year. Of the main markets, growth in Finland, Germany and Japan is expected to be modest unless global economy improves significantly. On the other hand, the Russian market still presents potential for considerable growth. The implemented improvement programs and the ongoing ProHonka project will generate cost savings and improve profitability.

In Finland, the new energy regulations are dimming the outlook for the entire log construction industry. The price competitiveness of detached log houses will weaken at least temporarily in Finland, and many companies will shift their focus on exports or holiday homes. Honka houses meet the new energy standards, and in international markets the company has clearly better possibilities than the competition, thanks to its considerably deeper penetration and its extensive network in the main markets.

A reform of forest taxation in 2005 will mean new risks for raw-material supply. The company will prepare for them by cooperating with other forestry operators. Alternative possibilities for purchases of raw-materials and semi-finished products from Russia or its neighboring regions are being studied.

The organizational changes implemented at the year-end and in early 2004 will strengthen and clarify Honkarakenne's operations. Executive Vice President Juha Kohonen will assume the duties of President on 2 April 2004, and will be assisted by the Executive Team and the Administration Team. The Executive Team consists of the heads of all market areas to ensure prompt exchange of market information to permit immediate reaction to changing situations.

Strong commitment to development will continue. The development measures will increasingly focus on international operations. Creation of the Living Solutions Team will consolidate Honka's customer driven technical and international expertise.

Profitability improvement will be the top priority also in 2004. Marketing in the main regions will be intensified, and operating practices in the promising markets under the New Markets Team will be harmonized for better efficiency. The growth potential of new markets will be tested before extending the network.

Honkarakenne's outlook today is considerably brighter than the year before. The implemented organizational changes provide a good basis for further development of operations, and the energy of personnel can be directed to consolidation of core competences. I am convinced that Honkarakenne is at the doorstep of a new boom supported by the new organization.

Thanks for past decades

I have been in Honkarakenne's service for 30 years, the last ten years as President. During my office I have seen both the global depression and the recovery. Now that we have managed to turn the performance trend, we can continue full speed ahead under the new management. I wish my successor Juha Kohonen much success at the helm of the 45-year old Honkarakenne.

Honkarakenne will remain a family business although the new President comes from outside. I will assume responsibility for the strategic development of the company and its corporate relations. The role of the family as shareholders will be strengthened.

I wish to thank all our cooperation partners for long and fruitful cooperation. May I also express my thanks to the shareholders for their patience and confidence even during the unprofitable years. Our personnel deserves a special acknowledgement for their dedicated work that has helped Honkarakenne consolidate its positions as a global manufacturer of log houses. Good results would not be possible even with superior products and top technology without knowledgeable people.

Mauri Saarelainen

REPORT BY THE BOARD OF DIRECTORS
1 January - 31 December 2003

Honkarakenne Oyj's net sales decreased slightly from the previous year to EUR 85.4 million (85.6), mainly due to the divestment of the holiday share business and winding up of sawmill operations. Sales of log houses increased by 7 %.

Consolidated operating profit was EUR 3.1 million (-1.1) and profit before extraordinary items, appropriations and taxes totaled EUR 2.1 million (-2.9). The Board of Directors proposes a dividend distribution of EUR 0.50/share.

Net sales
Consolidated net sales decreased by EUR 0.2 million from 2002 to EUR 85.4 million (85.6). International operations accounted for EUR 57.9 million (54.7), or 67.8 % (63.9) of total net sales.

Honkarakenne's production and sales were modest at the beginning of the year due to seasonal fluctuations. Simultaneously implemented structural programs increased non-recurring costs. The company managed to improve profitability of domestic operations and maintain sales on the previous year's level. The main markets are Finland as well as Germany (25 %), Japan (18 %) and Russia with its neighboring regions (13 %).

The German construction market saw a moderate upturn, and the volume of current orders increased towards the year-end. Business in Japan was good throughout the year accelerating towards the end of the year. Relative profitability was affected by the weakening yen rate. Business in Russia continued to be good and targets were exceeded. Sales in Western Europe and the United States fell behind profitability and sales targets. These markets were organized under the New Markets Team that had been created to improve efficiency.

Result and profitability
Consolidated operating profit totaled EUR 3.1 million (-1.1) and represented 3.6 % (-1.2) of net sales. Result before extraordinary items, appropriations and taxes was EUR 2.1 million (-2.9). Result for the period improved by EUR 3.8 million from the previous year and was a profit of EUR 1.9 million (-1.9).

The result improvement was attributable to implemented structural programs, reduction of costs and improved efficiency. Honkarakenne's result was also increased by EUR 1.2 million as a result of measures, mainly changes in the accounting system, in preparation for the adoption of the IAS accounting system.

The sawmill operation which had proved to be unprofitable was wound up. The reduction of personnel was 30, mainly at the Karstula factory.

The holiday share business was sold to a newly established company, Honka Holiday Oy, in which Honkarakenne retains a stake of 18 %. The President of Honkarakenne's German subsidiary changed, and Honkarakenne acquired the previous President's 10 % holding in the subsidiary Honka Blockhaus GmbH.

The structural measures caused non-recurring extraordinary costs. Thanks to strong cash flow and the result improvement, the balance sheet was strengthened, indebtedness decreased, and the equity ratio improved.

Earnings/share was EUR 0.60 (-0.55). Return on equity improved from -0.1 % in the previous year to 9.7 %, and return on investments was 8.4 % (-0.0).

Manager Kogawa, President Marko Saarelainen, Commercial Counsellor Juvonen, Architect Ueda, and Bysted, Director of the Chamber of Commerce, at the inauguration of the Tokyo show.

Capital expenditure; financing
The Group's capital expenditure totaled EUR 3.3 million (3.2). The capacity for production of massive logs is sufficient and most of the investments are replacement investments. The new gluing line at Alajärvi will improve efficiency and double the gluing capacity.
The most significant marketing investment was the show of family houses in Tokyo. The models were renewed in accordance with the component concept. This approach will be continued in international markets.

The company continued buying its own shares and had purchased 3 % of its shares by the end of the financial period.
The financing position improved during the year. Equity ratio improved to 48.3 % (41.7). Net financing costs were EUR 1.0 million (1.8). Interest-bearing net liabilities totaled EUR 7.3 million (15.1) and accounted for 8.5 % (17.6) of net sales. Long-term loans were amortized by EUR 6.5 million.

Research and development
Dedication of considerable resources in R&D continued, and the Group's R&D investments totaled EUR 1.0 million (1.2), or 1.2 % of net sales.

Honkarakenne developed house models and components that represent new architectural ideas. The models were introduced both in Finland and in export markets during the Honka Way events and the Road Show. The new HonkaLook component range is based on systematic development. In the HonkaLook range, the appearance of existing products was also improved, coating choices were increased and technical characteristics were improved. The door and window lines were renewed.

Research and development of a log based on a new optimal drying method continued, and the ROL round log with optimal properties was launched at the beginning of 2004. The total energy economy of buildings and new energy concepts for log houses were studied to respond to the tighter European standards.

The application process for CE certification meeting the European-wide ETA approval was continued. Honkarakenne obtained the certification in February 2004 as the first European manufacturer of wooden houses.

Environment
Environmental protection is one of Honkarakenne's values. This can be achieved by purchasing wood raw-material produced in an environmental-friendly way, efficient use of raw-material, manufacture of by-products, short transport distances, production and use of energy and efficient sorting of wastes.

Honkarakenne consumes 80,000 m3 of pine wood as its raw-material. Internal sourcing accounted for 40% of total consumption in 2003; the domestic content was 95 %.

In its environmental policy, Honkarakenne is committed to the

Lasse Länsimaa and Timo Myllyaho of Passimo Oy, with Jukka Markkanen and Reijo Virtanen at the signing ceremony of the huge Alajärvi project.

Finnish Forestry Certification System (FFCS) since its beginning in 1999 and participates actively in the certification work. The entire staff of the forestry and environment department are graduates in nature protection. Honkarakenne does not purchase wood from areas belonging to protection programs. Honkarakenne is also prepared for the PEFC certification, having conducted an internal audit in 2003.

Efficient use of wood raw-material has been a top priority for Honkarakenne for decades. Today, 99 % of wood is used in log house production or as by-products or for energy. Sorting of wastes has been increased at Honkarakenne's factories. For instance packaging materials, (plastics, wooden pallets) are recycled or used as fuel. Thanks to efficient sorting, the volume of waste transported to landfill sites has been significantly reduced in the past couple of years; for example at the principal factory in Karstula, the volume has decreased to one tenth.

Honkarakenne's main factory Karstula is self-sufficient in energy production. Honkarakenne's associated company Puulaakson Energia Oy produces all the heat and steam needed in production and drying, and delivers district heat to the municipality and electricity to the nationwide grid. Honkarakenne holds a 41 % interest in the company which uses bark, chips and sawdust generated in the production processes as fuel for energy production. The materials are transported to the power plant through pipes to reduce transport costs.

Honkarakenne's transport department ensures that the trucks travel with full loads to save the environment. Puulaakson Kuljetus Oy is responsible for return transports.

Personnel

The Group's personnel totaled 424 persons (444) at the year-end and the average number of personnel was 442 (472). The international subsidiaries employed 43 (37) persons. The number of personnel in the parent company was 377 (402) at the end of the year, and the average number was 397 (431).

In addition to shop stewards and industrial safety delegates, personnel is represented also in the Personnel Team already since 1995. The team includes representatives of different units and personnel categories, and it serves as employees' channel of influence, and forum for discussion and exchange of information and ideas. On the basis of the suggestions of the Personnel Team the company has conducted work climate surveys, produced a personnel survey, started development discussions and increased suggestion activity. The common "Honka Personnel Rules" that include the criteria for recruitment, job initiation, industrial safety, equal opportunities, training and development of personnel as well as industrial relation matters, were prepared in 2003.

Eino Hekali displays the ball joint of the new Honka log.

Production

Honkarakenne's production facilities are located at Karstula (large round logs and sawn products), Alajärvi (laminated logs and glued beams), Paltamo (small round logs) and Lieksa (planed logs). Improvement of the efficiency of production was continued with focus on the core expertise of the company: refining of massive logs.

The company wound up its sawmill operations, and purchases sawn products from sawmills in Central and Eastern Finland. The logistics of joints and metal parts for frames and roof structures was taken over by Mitek Oy at Karstula. The network of sub-suppliers includes about one hundred suppliers. Decline in the offering of raw-materials is anticipated for 2006, and possibilities to purchase wood in Russia are being studied.

Corporate structure

The Group's parent company is Honkarakenne Oyj. The other operating companies of the Group are Arkkitehtuuritoimisto Kari Rainio Ky, Alajärven Hirsitalot Oy, Honka Export Services Oy, Honka Japan Inc, (Japan), Honka Blockhaus GmbH (Germany), Honkarakenne S.a.r.l. (France) and Honka Homes USA Inc. (USA).

Share capital and shares

Honkarakenne Oyj's share capital was EUR 7,747,936 (8,017,936) at the end of the financial year. The share capital was decreased by EUR 270,000 following the decision of the Annual General Meeting held on 11 April 2003. According to the amendment of the Articles of Association approved by the same meeting, the minimum share capital is EUR 6,000,000 and the maximum share capital EUR 24,000,000.

The nominal value of a share is EUR 2.00. The company has two share classes, A and B. At a general meeting the shares of series A carry 20 votes each and those of series B one vote each. The B-shares are quoted on the I-list of the Helsinki Exchanges.

The company's own shares

During the financial year, Honkarakenne Oyj acquired in total 133,694 shares of its own for an aggregate price of EUR 602,265.82. In May 2003, it invalidated 135,000 shares of series B acquired during 2002 - 2003. At the balance sheet date the company held 117,684 shares of series B with a total nominal value of EUR 235,368.00 and total acquisition price of EUR 550,952.62. The shares represent 3.04 % of the share capital and 1.23 % of the votes.

At the end of the financial year, the Board of Directors has an authorization to acquire shares of the company to an amount representing 5 % of the share capital. The authorization to acquire in total 193,698 shares had been exercised for the acquisition of 117,684 shares by 31 December 2003. At the end of the year, the Board of Directors also had an authority to transfer a maximum number of 193,698 shares of series B. The two authorizations granted by the Annual General Meeting on 11 April 2004 will remain in force until 11 April 2004.

Administration

The composition of Honkarakenne Oyj's Board of Directors was: Mr. Arimo Ristola, Chairman; Mr. Esko Teerikorpi, Mr. Mauri Saarelainen and Mrs. Helena Ruponen, members. The Board convened 11 times during the year.

The President of the company is Mr. Mauri Saarelainen who also acted as Chairman of the Executive Team. The other members were Mr. Juha Kohonen, Executive Vice President, Mr. Jukka Markkanen, Vice President, Production, Mr. Eero Saarelainen, Vice President, Development, and Mr. Antti Unkuri, Chief Financial Officer (from 1 November 2003).

The auditors were Ernst & Young Oy, corporation of authorized public accountants, with Mr. Arvi Hurskainen, APA, as the auditor with main responsibility.

Introduction of IFRS standard

Honkarakenne Oyj will start applying the IFRS standard in its reporting as from the beginning of 2005. The matter was prepared during the year by a project team, and the required changes in the systems will be implemented during 2004 on the basis of its work.

Events after the financial year

The organization has been renewed under the management of Mr. Juha Kohonen who will assume the responsibilities of President on 2 April 2004. The organization consists of four units: Living Solutions, Sales, Production, and Administration. The company also has an Administration Team with focus on supervision and control of operations, as well as an International Management Team. The Administration Team includes Mr. Juha Kohonen, Mr. Jukka Markkanen, who acts as deputy to the President, Mr. Eino Hekali, Vice President, Development and Logistics, as well as Mr. Antti Unkuri. The corporate Executive Team includes the heads of all customer teams in addition to the Administration Team. The new customer teams are Finland, Central Europe, Far East, Eastern Europe and New Markets.

Honkarakenne Oyj was the first industrial wood house manufacturer in Europe to obtain the CE certification for its products. The certification will have great significance for exports to the EU and the prospective member states. The CE symbol adds to the credibility of the products also in Russia and Japan.

Estimate of the most likely future development

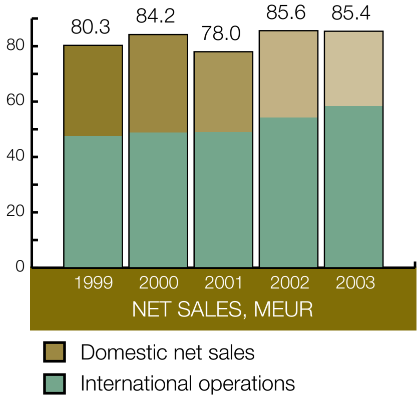
The market outlook has clearly improved although there is no dramatic growth in sight even this year. The implemented measures and the ongoing internal ProHonka project will bring cost savings and improve profitability.

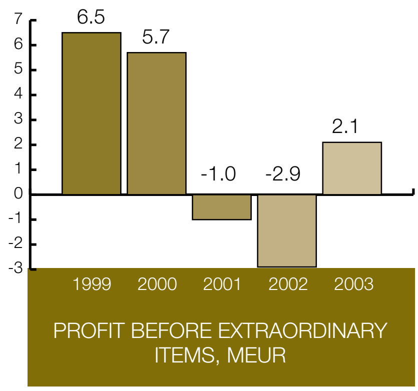
Honkarakenne continues dedicating resources to product and service development. The development measures will increasingly focus on international operations and customer oriented development of products and services.

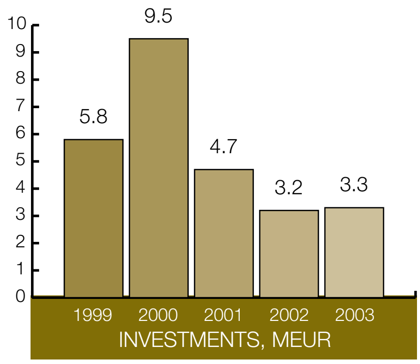
The level of investments will remain moderate in 2004, with main emphasis on replacement, maintenance and marketing investments. Profitability improvement is the most important goal also in 2004. Honkarakenne's prospects today are clearly better than a year ago. The implemented organizational changes will provide a good basis for further improvement of operations, and the potential for better performance in 2004 is good.

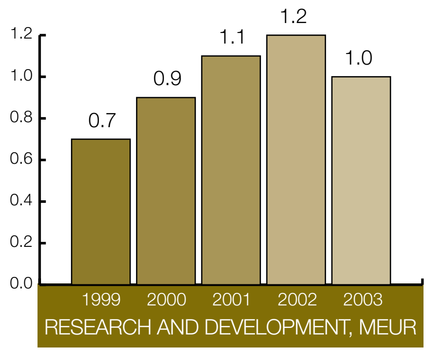
Board's proposal for application of profits

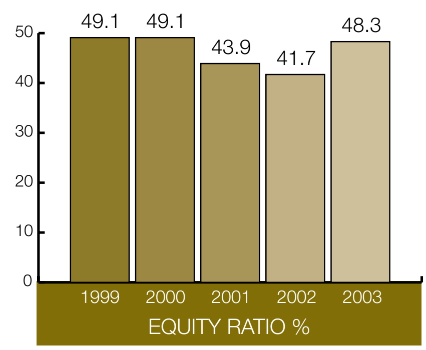
The consolidated unrestricted equity at the balance sheet date 31 December 2003 was EUR 11,831,327.13 and the parent company's unrestricted equity was EUR 8,852,137.45. Distributable earnings totaled EUR 7,759,059.41. The Board of Directors proposes that the profit of EUR 653,114.43 for 2003 be transferred to retained earnings and that a dividend of EUR 0.50/share be paid from the distributable earnings.











INCOME STATEMENT

EUR 1000	Group		Parent Company	
	31.12.2003	**31.12.2002**	**31.12.2003**	**31.12.2002**
NET SALES	85 430	85 628	74 655	72 711
Increase (+) / decrease (-) in inventories	717	32	382	-33
Production for own use (+)	24	325	24	325
Other operating income	1 824	1 423	1 766	1 233
Raw materials and services				
Raw materials and consumables				
Purchases during the financial year	39 914	49 937	38 632	44 789
Increase (-) / decrease (+) in inventories	3 690	-924	3 698	-934
External services	8 842	8 580	4 054	3 576
Personnel expenses	15 945	16 042	13 100	13 387
Depreciation				
Depreciation according to plan	4 223	4 131	3 706	3 740
Depreciation of group goodwill	14	131		
Other operating expenses	12 246	10 574	8 631	11 258
OPERATING PROFIT / LOSS	3 120	-1 064	5 005	-1 578
Financial income and expenses				
Income from participating interests	-59	4		
Income from other investments held as non-current assets	20	36	442	122
Other interest and financial income	466	573	425	489
Write-downs on investments under non-current assets			-3 020	
Interest and other financial expenses	-1 443	-2 413	-1 456	-2 381
PROFIT / LOSS BEFORE EXTRAORDINARY ITEMS	2 103	-2 863	1 396	-3 348
Extraordinary income and expenses				
Extraordinary income	0	281	0	281
Extraordinary expenses	-507	0	-507	0
PROFIT / LOSS BEFORE APPROPRIATIONS AND TAXES	1 596	-2 582	889	-3 068
Appropriations				
Increase (-) decrease (+) of depreciation difference			117	2 204
Increase (-) decrease (+) in untaxed reserves			-32	-6
Income taxes	28	-204	-59	14
Change in deferred tax liabilities	243	900		
Change in deferred tax receivables			-262	262
Minority interest	0	-30		
PROFIT / LOSS FOR THE FINANCIAL YEAR	1 867	-1 916	653	-594

ASSETS

EUR 1000	Group		Parent Company	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
NON-CURRENT ASSETS				
Intangible assets				
Intangible rights	561	783	510	753
Group goodwill	72	0		
Other long-term expenditure	509	912	472	861
Advance payments	86	74	83	74
	1 228	1 769	1 064	1 689
Tangible assets				
Land and water	1 753	1 693	1 624	1 557
Buildings and constructions	16 492	16 883	14 274	14 979
Machinery and equipment	7 979	9 339	7 575	8 816
Other tangible assets	569	666	535	618
Advance payments and construction in progress	927	963	927	139
	27 720	29 543	24 936	26 108
Investments				
Shares in group companies	15	15	1 004	892
Shares in participating interests	397	460	456	456
Own shares	551	478	551	478
Other shares and holdings	309	266	309	275
Receivables from group companies			1 823	223
Other receivables	279	629	178	178
	1 551	1 848	4 322	2 502
TOTAL NON-CURRENT ASSETS	30 499	33 160	30 322	30 299
CURRENT ASSETS				
Inventories				
Materials and consumables	728	2 221	707	2 221
Work in progress	5 711	4 891	5 054	3 911
Finished products and goods for resale	5 799	5 989	4 777	5 538
Other inventories	2 809	5 006	2 803	4 988
Advance payments	402	447	392	437
	15 449	18 554	13 734	17 095
Receivables				
Long-term receivables				
Trade receivables	1 041	0	1 041	0
Loan receivables	1 036	1 114	754	682
	2 077	1 114	1 795	682
Short-term receivables				
Trade receivables	4 551	5 717	1 386	2 667
Receivables from group companies			7 476	9 604
Loan receivables	15	22	15	22
Other receivables	1 669	687	1 063	564
Prepaid expenses and accrued income	2 378	2 625	1 532	2 083
Deferred tax receivables			0	262
	8 614	9 050	11 471	15 202
Cash at banks and in hand	7 021	5 725	1 095	1 074
TOTAL CURRENT ASSETS	33 160	34 443	28 095	34 052
TOTAL ASSETS	63 660	67 603	58 416	64 351

EUR 1000	Group		Parent Company	
	31.12.2003	**31.12.2002**	**31.12.2003**	**31.12.2002**
SHAREHOLDERS' EQUITY				
Share capital	7 748	8 018	7 748	8 018
Premium fund	270	0	270	0
Reserve fund	5 316	5 316	5 316	5 316
Retained earnings	9 964	12 425	8 199	9 323
Profit or loss for the financial year	1 867	-1 916	653	-594
TOTAL SHAREHOLDERS' EQUITY	25 166	23 843	22 186	22 063
APPROPRIATIONS				
Accelerated depreciation			4 485	4 602
Untaxed reserves			70	38
			4 555	4 640
MINORITY INTEREST	0	43		
LIABILITIES				
Long-term				
Loans from credit institutions	9 335	15 441	9 335	15 431
Pension loans	614	709	606	709
Loans to group companies			43	546
Deferred tax liability	1 321	1 083		
	11 271	17 233	9 984	16 686
Short-term				
Loans from credit institutions	4 267	4 394	4 228	4 381
Pension loans	104	243	103	243
Advances received	11 588	10 298	10 947	9 972
Trade payables	3 875	3 366	3 002	2 546
Liabilities to group companies			334	761
Liabilities to participating interests	103	106	103	106
Other liabilities	748	1 322	316	332
Accruals and deferred income	6 539	6 755	2 658	2 620
	27 223	26 483	21 691	20 962
TOTAL LIABILITIES	38 494	43 717	31 675	37 648
TOTAL SHAREHOLDERS´ EQUITY AND LIABILITIES	63 660	67 603	58 416	64 351

EUR 1000	Group		Parent Company	
	2003	**2002**	**2003**	**2002**
CASH FLOW FROM OPERATIONS				
+ Payments received from sales	87 584	86 179	74 145	72 713
+ Payments received from other operational income	1 824	1 002	1 766	1 026
- Payments on operational expenses	-78 773	-85 857	-66 480	-73 157
Cash flow before financial items and taxes	10 635	1 324	9 431	581
- Interest paid and charges on financial expenses	-939	-1 157	-952	-1 126
+ Interest received from operations	465	573	425	489
+ Dividend received from operations	20	36	314	122
- Direct taxes paid	129	-456	162	-371
Cash flow before extraordinary items	10 310	320	9 380	-304
+/ - Cash flow from extraordinary items	166	178	166	178
Cash flow from operations (A)	10 476	498	9 546	-126
CASH FLOW FROM INVESTMENTS				
- Investments in tangible and intangible assets	-2 613	-1 664	-1 909	-1 341
- Investments in other investment assets	369	-126	-146	-37
+ Loans granted		-356	-2	-356
+ Repayments of loan receivables		355		355
+ Dividend received from investments				
Cash flow from investments (B)	-2 244	-1 791	-2 057	-1 379
CASH FLOW FROM FINANCING				
- Purchase of own shares	-602	-478	-602	-478
+ Change in short-term loans	-267	-1 240	-293	-1 253
+ Change in long-term loan receivables	133	-276	133	156
+ Change in long-term loans	-6 200	3 463	-6 706	3 545
- Dividend paid				
Cash flow from financing (C)	-6 936	1 469	-7 468	1 970
Change in liquid assets (A+B+C)	1 296	176	21	464
Liquid assets, Jan. 1	5 725	5 549	1 074	610
Liquid assets, Dec. 31	7 021	5 725	1 095	1 074

ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include all the subsidiaries with the exception of the Russian subsidiary Honka Log House which was dormant during 2003.

The financial statements have been consolidated using the acquisition method. The asset items relating to buildings, machinery and equipment, appropriations and goodwill are stated as consolidated goodwill and will be amortized on a straight-line basis over an estimated ten-year effective period.

Participating companies Pielishonka Oy, Puulaakson Energia Oy and JJ-Suunnittelu Oy have been consolidated under the equity method. A share of the results of the participating companies, corresponding to the Group's shareholdings in them, is stated under financing items.

Deferred tax liability is calculated from appropriations at the tax rate approved at the balance sheet date.

The financial statements of foreign subsidiaries have been translated into euro using the average rates of exchange rates of the period for the income statements and the rates in effect at the balance sheet date. The translation differences on translation of equity are stated under retained earnings.

Items in foreign currencies have been translated at the exchange rates in effect at the balance sheet date.

Operating result improved by changes of approximately EUR 1.2 million in preparation made in anticipation of introduction of IFRS reporting.

Assets

Assets have been stated using the direct acquisition method.

Planned depreciation is calculated on a straight-line basis to write off the cost of acquisition over the expected useful lives of the assets.

The periods of planned depreciation for different asset categories are:

Intangible rights	5 - 10 years
Goodwill	10 years
Buildings and constructions	20 - 30 years
Machinery and equipment	3 - 8 years
Other tangible assets	3 - 10 years

Inventories

Inventory items are determined on a first-in-first-out basis at the lower of cost or realizable value.

Pension liabilities

The statutory pension schemes of personnel are administered by pension insurance companies.

1.1. Net sales

(EUR 1 000)	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
By product group				
Vacation homes	19 980	22 209	18 824	20 542
Single-family homes	56 617	53 077	47 246	41 827
Saunas and garden products	4 687	5 339	4 586	5 339
Other	4 145	5 003	3 999	5 003
Total	85 430	85 628	74 655	72 711
By market area				
Finland	27 519	30 939	27 519	30 931
Germany	21 216	20 945	14 200	13 199
Japan	15 206	14 986	12 290	10 059
Other Europe	7 202	6 912	7 202	6 912
Russia	9 160	7 036	9 160	7 036
France	2 901	2 835	2 901	2 835
Other countries	2 227	1 975	1 384	1 739
Total	85 430	85 628	74 655	72 711

Other operating income includes the following items: income from sale of round logs EUR 1,265,000, income from rents EUR 51,000, export guarantee compensations EUR 290,000, received corporate contributions EUR 148,000 and income from the sale of fixed assets EUR 29,000.

1.2. Notes concerning personnel and members of administrative bodies

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Personnel expenses				
Wages, salaries	12 472	12 765	10 108	10 429
Pension expense	2 024	1 788	1 966	1 706
Other social expenses	1 449	1 489	1 026	1 252
Total	15 945	16 042	13 100	13 387
Wages of the management				
President and Board members	702	657	137	120
Number of personnel, average				
Number of personnel, average	197	201	152	159
Workers	245	272	245	272
Total	442	473	397	431

1.3. Depreciation

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Planned depreciation				
Intangible rights	390	403	348	399
Group goodwill	14	131	-	-
Other long-term expenditure	399	426	389	386
Buildings and constructions	947	821	675	671
Machinery and equipment	2 178	2 133	1 999	1 960
Other tangible assets	309	348	294	324
Total	4 238	4 262	3 706	3 740

1.4. Financial income and expenses

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Share of the profits of associated companies	-59	4	-	-
Dividend income from group companies	-	-	423	122
Dividend income from other companies	20	36	20	0
Interest income	93	89	36	37
Other financial income	373	485	389	451
Write-downs on investments under non-current assets	-	-	-3 020	-
Interest expenses	-597	-798	-579	-789
Other financial expenses	-847	-1 615	-877	-1 592
Total	-1 017	-1 799	-3 609	-1 770

Write-downs on investments under non-current assets include write-down depreciation on equity loan granted to the US subsidiary. The depreciation has no impact on consolidated result.

2.1. Intangible and tangible assets

Group intangible assets, Dec. 31, 2003

(EUR 1 000)	Intangible rights	Goodwill	Group goodwill	Other long-term expenditure	Advance payments	Total intangible assets
Acquisition cost, Jan. 1	2 522	208	3 197	2 161	74	8 162
Conversion difference	-3			-35		-38
Increase	189		87	0	86	361
Decrease	18			0	74	92
Transfers between balance sheet items	0			0		0
Acquisition cost, Dec. 31	2 689	208	3 284	2 126	86	8 393
Accumulated depreciation, Jan. 1	1 739	208	3 197	1 249	-	6 393
Conversion difference	-2			-31		-32
Depreciation for the financial year	390		14	399	-	804
Accumulated depreciation, Dec. 31	2 128	208	3 212	1 617	-	7 165
Book value, Dec 31	561	0	72	509	86	1 228

Group tangible assets Dec. 31, 2003

(EUR 1 000)	Land and water	Buildings and constructions	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total tangible assets
Acquisition cost, Jan. 1	1 579	21 068	20 118	2 927	963	46 655
Conversion difference	-7	-90	-46	0	-65	-208
Increase	135	692	922	302	927	2 979
Decrease	68	79	100	84	898	1 228
Transfers between balance sheet items	0	0	6	-6	0	0
Acquisition cost, Dec. 31	1 639	21 592	20 901	3 139	927	48 198
Accumulated depreciation, Jan. 1	-	7 373	10 780	2 262	-	20 414
Conversion difference	-	-32	-36	0	-	-68
Depreciation for the financial year	-	947	2 178	309	-	3 434
Accumulated depreciation, Dec. 31	-	8 287	12 922	2 570	-	23 779
Value appreciation	114	3 187				3 302
Book value, Dec 31	1 753	16 492	7 979	569	927	27 720

On Dec. 31, production machines accounted for EUR 6 730 000.

Value appreciations have been made on the basis 1987.

Parent company intangible assets Dec. 31, 2003

(EUR 1 000)	Intangible rights	Goodwill	Other long-term expenditure	Advance payments	Total intangible asseets
Acquisition cost, Jan. 1	2 479	208	1 918	74	4 679
Increase	123			83	205
Decrease	18			74	92
Acquisition cost, Dec. 31	2 584	208	1 918	83	4 792
Accumulated depreciation, Jan. 1	1 725	208	1 057	-	2 990
Depreciation for the financial year	348		389	-	738
Accumulated depreciation, Dec. 31	2 074	208	1 446	-	3 728
Book value, Dec 31.	510	0	472	83	1 064

Parent company tangible assets Dec. 31, 2003

(EUR 1 000)	Land and water	Buildings and constructions	Machinery equipment	Othert tangible assets	Advance payments and construction in progress	Total tangible assets
Acquisition cost, Jan. 1	1 443	17 690	18 584	2 825	139	40 680
Increase	135	47	795	302	927	2 207
Decrease	68	78	43	84	139	411
Transfers between balance sheet items			6	-6	0	0
Acquisition cost, Dec. 31	1 510	17 660	19 342	3 037	927	42 476
Accumulated depreciation, Jan. 1	-	5 898	9 768	2 207	-	17 874
Depreciation for the financial year	-	675	1 999	294	-	2 968
Accumulated depreciation, Dec. 31	-	6 573	11 767	2 501	-	20 842
Value appreciation	114	3 187				3 302
Book value, Dec 31	1 624	14 274	7 575	535	927	24 936

On Dec. 31, production machines accounted for EUR 6 730 000.

Value appreciations have been made on the basis 1987.

2.2. Investments

Group investments Dec. 31, 2003

(EUR 1 000)	Shares in group companies	Shares in participating companies	Own shares	Other shares and holdings	Receivables from group companies	Other receivables	Total investments
Acquisition cost, Jan. 1	15	460	478	266		629	1 848
Conversion difference		-63		9		-65	-119
Increase			602	35		0	637
Decrease			530	1		284	815
Acquisition cost, Dec. 3.	15	397	551	309		279	1 551
Book value, Dec 31	15	397	551	309		279	1 551

Parent company investments Dec. 31, 2003

(EUR 1 000)	Shares in group companies	Shares in participating companies	Own shares	Other shares and holdings	Receivables from group companies	Other receivables	Total investments
Acquisition cost, Jan. 1	892	456	478	275	223	178	2 502
Increase	120		602	35	4 620		5 378
Decrease	8		530	1	3 020		3 559
Acquisition cost, Dec 31	1 004	456	551	309	1 823	178	4 322
Book value, Dec 31	1 004	456	551	309	1 823	178	4 322

2.3. Investments in subsidiaries and Group holdings in participating companies

Subsidiaries	Shares and votes held by Parent company and Group, %	Group's share of equity (EUR 1000)
Alajärven Hirsitalot Oy, Alajärvi	100	111
Arkkitehtuuritoimisto Kari Rainio Ky, Tuusula	100	84
Honka Blockhaus GmbH, Germany	100	69
Honka Export Services Oy, Tuusula	100	8
Honka Homes USA Inc., USA	100	112
Honka Japan Inc., Japan	100	1 050
Honka Log House, Russia	100	
Honkarakenne Sarl, France	100	24

Participating companies	Shares and votes held by Parent company and Group, %	Group's share of equity (EUR 1000)
JJ-Suunnittelu Oy, Karstula	40.0	12
Pielishonka Oy, Lieksa	39.3	35
Puulaakson Energia Oy, Karstula	41.1	322

2.4. Inventories

The consolidated inventories include holiday shares to the value of EUR 355,000. Land and water has been stated at direct acquisition cost EUR 2,266,000.

2.5. Receivables

2.5.1. Long-term receivables

	Group		Parent company	
(EUR 1 000)	2003	2002	2003	2002
Receivables maturing in one year or later				
Loan receivables	1 976	1 685	1 694	802
Loan receivables from closely related parties	101	58	101	58

The loans granted to closely related parties mature in 2-4 years and are generally amortization-free during the loan period. The interest rate on the loans exceeds the base rate.

2.5.2. Short-term receivables

	Group		Parent company	
(EUR 1.000)	2003	2002	2003	2002
Receivables from group companies				
Trade receivables	-	-	7 474	9 253
Other receivables	-	-	2	351
Total	-	-	7 476	9 604

2.6. Shareholders' equity

	Group		Parent company	
(EUR 1 000)	2003	2002	2003	2002
Share capital Jan. 1	8 018	8 018	8 018	8 018
Decrease of share capital	-270	-	-270	-
Share capital Dec. 31	7 748	8 018	7 748	8 018
Premium fund 1 Dec.	-	-	-	-
Decrease of share capital	270	-	270	-
Premium fund 31 Dec.	270		270	
Reserve fund, Jan. 1	5 316	5 316	5 316	5 316
Reserve fund, Dec. 31	5 316	5 316	5 316	5 316
Fund for own shares 1 Dec.	478	-	478	-
Invalidation of own shares	-530	-	-530	-
Purchases of own shares	602	478	602	478
Fund for own shares 31 Dec.	551	478	551	478
Retained earnings, Jan. 1	10 030	12 039	8 250	9 323
By decision of shareholders' meeting dividends distributed	-	-	-	-
Conversion difference	-15	386	-	-
Carried over to fund for own shares	-602	-478	-602	-478
Profit/loss for the financial year	1 867	-1 916	653	-594
Retained earnings, Dec. 31	11 280	10 030	8 301	8 250
Total shareholders' equity, Dec. 31	25 166	23 843	22 186	22 063
Group's distributable retained earnings	7 759	6 948		

The parent company's share capital consists of two share categories as follows:

	1.000 shares	EUR 1.000
A shares (20 votes/share)	300	600
B shares (1 vote/share)	3 574	7 148
Total	3 874	7 748

2.7. Liabilities

2.7.1. Long-term liabilities

(EUR 1 000)	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Liabilities to group companies				
Other loans	-	-	43	546
Loans maturing in five years or later				
Loans from financial institutions	2 833	2 462	2 833	2 462
Pension loans	196	394	196	394
Total	3 029	2 856	3 029	2 856

2.7.2. Short-term liabilities

(EUR 1 000)				
Liabilities to group companies				
Trade payables	-	-	226	627
Other liabilities	-	-	108	135
Total	-	-	334	761
Liabilities to participating interests				
Other liabilities	103	106	103	106
Total	103	106	103	106

2.8 Collateral pledged

(EUR 1 000)	Group 2003	Group 2002	Parent company 2003	Parent company 2002
Debts with collateral consisting of mortgages on real property, industrial mortgages and pledged securities				
Loans from financial institutions	13 563	19 897	13 563	19 812
Pension loans	709	952	709	952
Bank guarantees	285	666	285	666
Guarantees	1 107	1 116	1 107	1 116
Pledged as collateral for the above liabilities				
Mortgages on real property	16 158	15 822	16 158	15 822
Industrial mortgages	4 079	4 079	4 079	4 079
Industrial mortgages	180	180	180	180
Collateral pledged for group companies				
Mortgages on real property	0	536	0	536
Collateral pledged for group companies				
Guarantees	543	262	408	462
Other liabilities for group companies				
Other liabilities for group companies	144	144	144	144
Leasing liabilities				
Beginning financial year	363	219	228	154
Following financial year	433	321	295	208
Total	796	540	523	362
Derivatives contracts				
Nominal value of currency forwards	4 155	1 166	4 155	1 166

PROPOSAL OF THE BOARD OF DIRECTORS FOR DISPOSITION OF DISTRIBUTABLE PROFITS

The Group's unrestricted equity according to the balance sheet at December 31, 2003 was EUR 11,831,327.13 and the parent company's unrestricted equity was EUR 8,852,137.45.

The Board of Directors proposes that the profit for the period, EUR 653,144.43, should be carried over to retained earnings and that dividend EUR 0.5 per share should be distributed.

Tuusula, March 4, 2004

Arimo Ristola Chairman of the Board	Mauri Saarelainen President	Helena Ruponen	Esko Teerikorpi

AUDITORS' REPORT

To Honkarakenne Oyj's shareholders

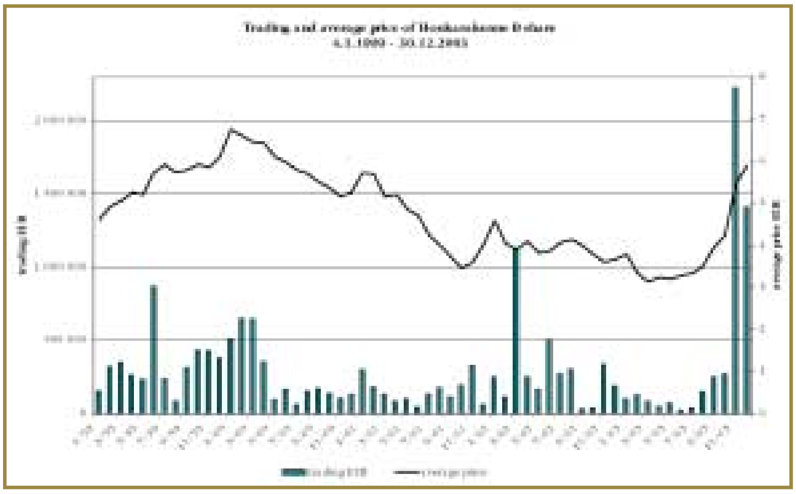
We have audited the accounts, the accounting records and the administration of Honkarakenne Oyj for the financial period January 1 to December 31, 2003. The financial statements prepared by the Board of Directors and the President include, both for the Group and the Parent Company, an income statement, a balance sheet and notes to the financial statements. We provide our opinion on the accounts and the administration based on our audit.

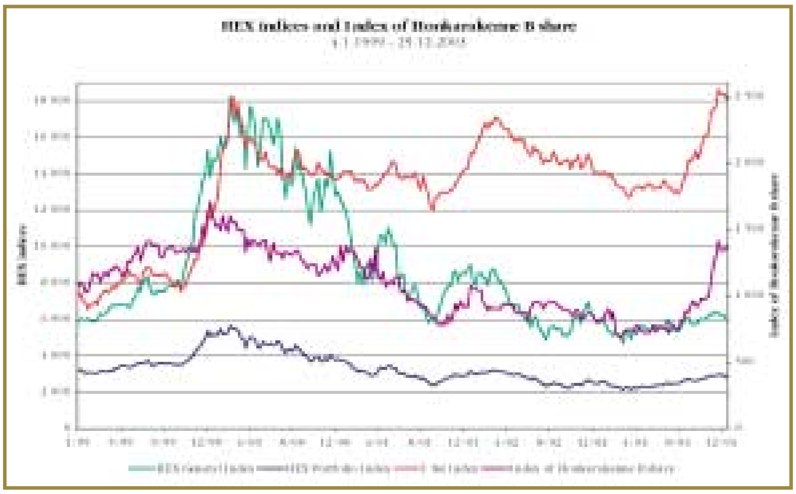
We have audited in accordance with the gener ally accepted auditing standards the accounting records, the accounting policies, the disclosures and presentation of the financial statements in sufficient detail to obtain assurance that the financial statements have been prepared correctly so as to contain no essential errors or shortcomings. The administration was examined to obtain assurance that the actions of the members of the parent company's Board of Directors and the President have been in conformity with the regulations of the Companies Act.

The financial statements have been prepared in accordance with the regulations of the Accounting Act and other legislation and regulations relevant to the preparation of the financial statements. The accounts give true and adequate information on the Group's and the Parent Company's results from operations and financial positions as required by the Accounting Act.
The financial statements including the Group accounts may be approved, and the members of the Board of Directors and the President may be discharged from liability for the financial year examined by us.
The proposal of the Board of Directors concerning the disposition of distributable profits is in accordance with the Companies Act.

Tuusula, March 5, 2004

Ernst & Young Oy
Arvi Hurskainen
Authorized Public Accountant





Financial key indicators

		2003	2002	2001	2000	1999
Net sales	MEUR	85.4	85.6	78.0	84.2	80.3
Operating profit	MEUR	3.12	-1.06	0.07	6.45	7.10
	% of net sales	3.7	-1.2	0.1	7.7	8,8
Profit before extraordinary items	MEUR	2.10	-2.86	-1.02	5.70	6.53
	% of net sales	2.5	-3.3	-1.3	6.8	8.1
Profit before appropriations and Tax	MEUR	1.60	-2.58	-0.87	6.90	6.74
	% of net sales	1.9	-3.0	-1.1	8.2	8.4
Return on equity	%	9.7	-0.1	-5.2	12.9	15.7
Return on investments	%	8.4	-0.0	0.2	14.8	18.3
Equity ratio	%	48.3	41.7	43.9	49.1	49.1
Gross investments	MEUR	3.3	3.2	4.7	9.5	5.8
	% of net sales	3.9	3.8	6.0	11.3	7.3
R&D expenditure	MEUR	1.0	1.2	1.1	0.9	0.7
	% of net sales	1.2	1.4	1.5	1.0	0.9
Order book, Dec. 31	MEUR	34.1	33.4	29.3	20.6	21.4
Personnel (average)		442	472	504	547	543
Per share ratios						
Earnings per share	EUR	0.60	-0.55	-0.34	0.88	0.96
Dividend per share	EUR	0.50*	0.00	0.00	0.34	0.42
Dividend/earnings	%	82.7*	0.0	0.0	38.4	43.8
Effective yield	%	8.2*	0.0	0.0	6.5	6.50
Equity per share	EUR	6.50	5.96	6.33	7.03	6.50
P/E ratio		10.04	neg.	neg.	5.94	6.77

*) Proposal of the Board of Directors

Trend of the share price		**2003**	**2002**	**2001**	**2000**	**1999**
Highest price of the year	EUR	6.16	4.70	6.30	7.45	6.70
Lowest price of the year	EUR	2.87	3.40	3.35	5.02	4.20
Price at balance sheet date	EUR	6.07	3.52	4.00	5.20	6.50
Market value of share capital	MEUR	23.5	14.1	16,0	20.8	25.5
Trading of shares						
value of trading	MEUR	4.8	3.6	1.8	3.2	4.1
trading volume	1.000 shares	961	907	418	510	728
percentage of total number of shares	%	24.5	22.6	10.4	12.7	18.1
Adjusted number of shares						
at year-end	1.000 shares	3 874	4 009	4 009	4 009	4 009
average for the year	1.000 shares	3 925	4 009	4 009	4 009	4 009

*) The price of B-share has been used as the value of A-share

CALCULATION OF KEY INDICATORS

Return on equity (ROE), %

$$\frac{\text{Profit before extraordinary items less income taxes}}{\text{Shareholders´ equity + minority interest (average)}} \times 100$$

Return on investment (ROI) -%

$$\frac{\text{Profit before extraordinary items + interest and other finananciel expenses}}{\text{Balance sheet total less interest-free debt (average)}} \times 100$$

Equity ratio, %

$$\frac{\text{Shareholders´ equity + minority interest}}{\text{Balance sheet total less advances received}} \times 100$$

Earnings per share

$$\frac{\text{Profit before extraordinary items less income taxes less minority interest}}{\text{Adjusted average number of shares}}$$

Dividend per result, %

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

Effective dividend yield

$$\frac{\text{Dividend per share}}{\text{Last share price at Dec. 31}} \times 100$$

Equity per share

$$\frac{\text{Shareholders´ equity}}{\text{Number of shares at Dec. 31, adjusted for share issue}}$$

P/E ratio

$$\frac{\text{Last share price at Dec. 31}}{\text{Earnings per share}}$$

MAJOR SHAREHOLDERS at December 31, 2003

	A shares	B shares	% of votes	% of shares
Saarelainen Oy	134 600	631 000	34.7	19.8
Saarelainen Sinikka	33 820	200	7.1	0.9
Saarelainen Arvo	32 874	1 600	6.9	0.9
Epira Oy	18 500	137 400	5.3	4.0
Saarelainen Reino	23 024	2 000	4.8	0.6
Saarelainen Raija	10 456	51 909	2.7	1.6
Saarelainen Erja	10 456	42 421	2.6	1.4
Saarelainen Eero	10 456	38 623	2.6	1.3
Saarelainen Mauri	10 456	23 960	2.4	0.9
Odin Finland		221 100	2.3	5.7

Nominee registrations at December 31, 2003				
Nordea Pankki Suomi Oyj		35 810	0.4	0.9

Management's shareholdings at December 31, 2003
The members of the Board of Directors and the President together own 163,134 shares in the company; this represents 4.2 % of the shares and 3.8 % of the votes.

BREAKDOWN OF SHAREHOLDINGS at December 31, 2003

	Number of shareholders	% of shareholders	Number of shares	% of share capital
1-500	624	52.48	132 779	3.43
501-1.000	264	22.20	215 574	5.57
1.001-10.000	260	21.87	760 181	19.62
over 10.000	41	3.45	2 752 990	71.06
On joint account			3 494	0.09
On waiting list			8 950	0.23
Total	1 189	100.0	3 873 968	100.0

BREAKDOWN OF SHARE CAPITAL BY SECTOR at December 31, 2003

	Number of shareholders	% of shareholders	Number of shares	% of share capital
Private companies	115	9.7	1 374 182	35.5
Financial and insurance institutions	5	0.4	244 174	6.3
Public corporations	2	0.2	57 400	1.5
Non-profit organizations	8	0.7	13 240	0.3
Households	1 055	88.7	1 940 268	50.1
Foreign	4	0.3	232 260	6.0
On joint account			3 494	0.1
On waiting list			8 950	0.2
Total	1 189	100.0	3 873 968	100.0

AUTHORIZATIONS

The Annual General Meeting held on 11 April 2003 authorized the Board of Directors to acquire and transfer not more than 193 698 of its own shares of series B. The Authorization will remain in force until 11 April 2004.

The number of B-shares acquired by 31 December 2003 was 117 684 (60.8 % of the target). The average price of B-shares was EUR 4.68.

REGIONAL MARKET REVIEW

Honkarakenne continues the systematic implementation of its strategy based on profitable growth and internationalization. The log business grew by 7 % during the year. Concentration on the main markets continued, consolidating Honkarakenne's market positions. Demand was increased by well focused marketing efforts in the chosen priority markets. Thanks to these improvement programs, the result can be characterized as satisfactory. Extension of the strategy to living solutions further emphasizes the importance of customer angle. The product and service offering is developed to respond to market demand.

A challenge in the relatively small but growing log house market has been how to integrate the many different processes to form an efficient and profitable entity. Honka has responded to the challenge by creating the New Markets Team.

Today already about 70 % of Honkarakenne's sales are generated from international business. Besides Finland, the main markets are Germany, Japan and Russia, all of these with growth potential especially in the family house sector.

Finland

The Finnish market represents 32 % of Honkarakenne's net sales. The number of holiday residences built in Finland is about 7,200 annually; about 3,700 of these are made of industrially manufactured logs. Detached log houses built during a year number about 850. Honkarakenne remains the market leader with its 27 % share.

Growth in the Finnish market is slow. Profitability improvement programs resulted in a slightly lower market share while at the same time the sales volume grew thanks to successful service sales. The HonkaLook model collection based on components, published during the fall, consolidated Honka's pioneering position in Finland. The organizational change, a new sales concept and a training program for salespeople increased the efficiency of sales and customer satisfaction. Training, high-quality show grounds and expositions continue to be key investment areas.

In Finland, the number of log house manufacturers is high and competition is harsh, even unsound at times. Sales by industrial manufacturers grew particularly in the family house sector. Residential construction was boosted by low interest rates and on the other hand hampered by lack of building sites in population centers, and in some instances by the bias of town planning authorities against log houses.

The log construction industry will face challenges due to new energy regulations which will complicate the activity of many companies in the family house sector. Honkarakenne's single-family houses meet the new criteria already today. Unfortunately, the regulations do not take account of the entire life cycle of buildings. Log houses are genuinely recyclable, and their construction binds carbon dioxide thus reducing the greenhouse effect.

The industry has for years believed in the waning popularity of traditional leisure residences. However, there are no indications of this, because young families also want to have their own lakeside or seaside leisure homes. Attitudes have changed more in favor of beachfront construction, helping many rural villages survive.

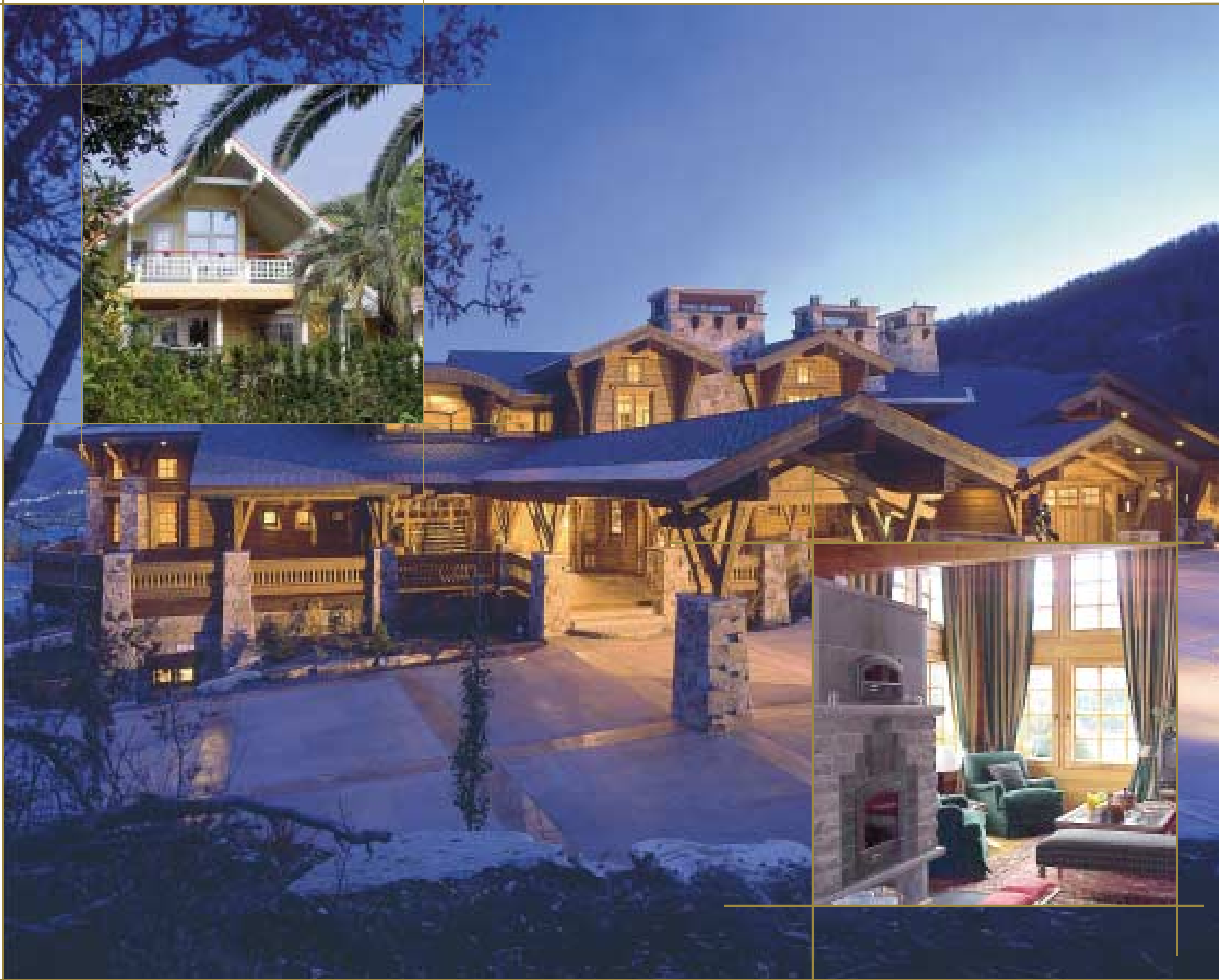
Germany and German speaking Europe

Germany is the most important export market for Honkarakenne, representing 25 % of net sales. It is also Honka's largest market area for family houses where Honka has managed to increase its popularity. The 3,000 Honka houses built in Germany are an important reference, and the large number of happy home owners support continued growth.

The economic outlook in Germany as the dynamo of the whole Europe also impacts expectations in the construction industry. The beginning economic recovery will contribute to Honkarakenne's growth, and the number of building permits is on the increase. The tax relief programs of the German government and its policies aimed at supporting young families with children have been inconsistent. While they have boosted advance home acquisitions they have on the other hand postponed the final implementation.

Although changes in the German Honka organization sapped energies during the first part of the year, they are now supporting future growth. The President of the subsidiary changed, and today Honka is the sole shareholder. Sales were successful especially towards the end of the year, and the total figure for the year grew by 11 %.

The German family house market is large enough to permit continued profitable growth. To ensure this, the network is being developed according to the corporate strategy. Now the subsidiary coordinates European operations in Germany, Austria and Switzerland. Development of the well tested efficient marketing concept based on customer orientation



and focus continues. Networking services and sales support have been strengthened. The organization of Honka Blockhaus is prepared for the growth and profitability challenges in 2004.

Honkarakenne's Austrian representative built a Design Center in Altheim. This has considerably improved Honka's recognition and increased the number of customer contacts. Wood construction, healthy living and ecological concerns interest people, and Honka's log house know-how is valued. The objective is to deliver about 100 houses a year to Austria. A new show house is rising in Europe's largest home show area, the Blaue Lagune near Vienna.

Japan and other Asian markets

About 18 % of Honkarakenne's sales are generated in East Asia. Business in the main market Japan continued to be strong throughout the year, accelerating towards the year-end. Inauguration of a model house in Tokyo and the new models of the Design Center clearly invigorated sales. Yen denominated orders won by the subsidiary increased by a healthy 26 %. Total net sales in the Asian market amounted to EUR 15 million but the weakening rate of the yen eroded profitability. Honka Japan's share of all the houses exported from Finland is 22 %.

The Japanese economy is recovering after a recession that lasted for ten years. Investments, exports and private consumption are growing. Residential construction increased by 1.3 %, for the first time in four years, indicating the beginning of market growth. Construction activity declined compared with the 1996 level of 1.7 million dwellings, and dropped to 1.2 million dwelling at its lowest level.

Since its establishment in 1991, Honka Japan has managed to increase sales with its energetic efforts in spite of the difficult economic situation, and showed good growth also in 2003. Today the network comprises 37 representatives.

Honka Japan is investing in a network of model houses. The most important one is the single-family show house in Tokyo, inaugurated in April. Honka Design Center's show in connection with the subsidiary in Yamanako was also complemented. A new customer management program was taken into use to manage orders and monitor deliveries. Training of representatives was another factor that contributed to the success of Honka Japan. Training will continue with the purpose to ensure sales growth and high customer satisfaction.

The Japanese economy will grow in 2004; however, fluctuations of the yen rate could compromise Honka Japan's sales growth and performance. Houses that can be built on small sites are designed for children of the baby boom generation who are today an important target group. The new model collection will be launched in April.

In other Asian markets, such as Korea and China, Honka's sales and other activities remain modest. The risks are high and the company chose not to make significant investments in these markets in 2003. Some scheduled operations were cancelled due to the SARS epidemic. Although other Asian markets are being analyzed, the focus of the Team will remain on the Japanese market.

Russia and its neighboring regions

Russia represents 11 % of Honkarakenne's net sales; together with its neighboring regions the figure is 13 %. The Russian markets are huge and fast growing. The market situation evolved positively for Honkarakenne and profitability was good. New competitors entered the market but did not succeed in undermining Honka's leading position. Several new models were launched towards the end of the year in accordance with the HonkaLook concept.

A number of major projects and numerous single-family homes were implemented in the Russian market. Since 1995, Honka has delivered 700 family houses. Together with Seicon Oy, Honka delivered a 4,000 m^2 leisure complex to Russia. Deliveries of another major holiday resort started in the latter part of the year. The resort will include the world's largest log house with a surface area of 4,500 m^2, made of laminated log; the other 20 buildings are round log houses with an average surface area of 260 m^2.

Cooperation with the local representative has further improved. Personnel have been given training contributing to the higher quality of local activities. The representative has extended its own operations that now offer comprehensive service starting from the building site.

The outlook for 2004 continues to be good. However, the nature of markets is changing as the current trend is towards a higher construction volume with more buildings constructed in one area. Besides Russia, Honka log houses have been exported to Ukraine and Kazakhstan where the prospects are also good.

Western Europe and New Markets

Although growth targets in Western Europe were not achieved the Team posted a positive result. Today the situation looks brighter, and the recently created New Markets Team will achieve the new realistic sales targets in 2004.

The economic development in the region appears to have improved since last year. Cost structures have been streamlined and the gross margins of the Team are expected to improve significantly. Trade will increase following the adherence of new members to the EU.

Francophone countries

Honkarakenne is one of the leading log house suppliers in France with net sales of EUR 2.8 million. In 2003, the company delivered 70 log houses, accounting for 8 % of the French log house market. Honka network covers 55 % of France and the whole francophone Switzerland. Since its establishment in 1995, the subsidiary has systematically increased its sales. Net sales grew by 10 % from the previous year and the volume of current orders was 35 % higher than the year before.

Outlook for 2004 is good, with a growth expectation of 15 %. Harmonization of regulations within the EU will facilitate marketing and improve credibility also in public sector projects such as schools and kindergartens. New offices will be opened in downtown Paris and Toulouse to enhance the recognition of Honka as a quality brand of single-family houses.

Marketing will be supported by new model houses, standard model collection, focused marketing, participation in expositions, and more extensive utilization

of electronic marketing. Active marketing and PR will be continued with open-door theme events at shows.

Honka France is successful in the harsh competitive climate thanks to its flexible, competent and enthusiastic personnel and representative network. Technical and brand know-how will be developed in closer cooperation with the parent company. At the beginning of 2004, the francophone markets were organized under the New Markets Team.

USA

Growth and profitability targets in the USA were not achieved. This was partly due to overoptimistic expectations concerning recovery of the global economy. The euro and dollar exchange rates also made business unusually challenging.

Deliveries of a highly interesting new project to Vail in Colorado started towards the end of the year, consisting of 14 high-quality log chalets with an average surface area of 250 m^2 for this well-known ski resort.

In 2004 the US market was integrated under the New Markets Team.


Esko Teerikorpi


Arimo Ristola

ADMINISTRATION AND MANAGEMENT

Board of Directors

Mr. Arimo Ristola, b. 1946,
Board member since 1993,
Chairman of the Board since 2002

Mr. Esko Teerikorpi, b.1961,
Board member since 1999

Mr. Mauri Saarelainen, b. 1949,
President since 1994

Ms. Helena Ruponen, b. 1961,
Board member since 2002

Auditors

Ernst & Young Oy,
Mr. Arvi Hurskainen, APA

Board of Management

Mr. Juha Kohonen,
Senior Vice President, Marketing

Mr. Jukka Markkanen,
Senior Vice President, Production

Mr. Eero Saarelainen,
Senior Vice President, Business Development

Mr. Mauri Saarelainen,
President and C.E.O. of Honka Group

Mr. Antti Unkuri,
Vice President,
Business Control (from 1.Nov.)

Plant management

Mr. Jorma Ruuska, Karstula and Paltamo factories

Mr. Jukka Markkanen, Lieksa factory

Mr. Reijo Virtanen, Alajärvi factory

Presidents of subsidiaries

Honka Blockhaus GmbH,
Mr. Helmut Jaspers (till 31.Mar.),
Horst Knafl (from 1.Apr.)

Honka Japan Inc.,
Mr. Marko Saarelainen

Honkarakenne S.a.r.l.,
Mr. Pierre Vacherand

Honka Homes USA, Inc.,
Mr. Pekka Laine

Customer Teams and Team Leaders

Scandinavia	Kari Hirvijärvi
West Europe	Terhi Ahvonen
Middle Europe	Bernd Schiller / Horst Knafl
East Europe	Martti Kyyrönen
Far East	Marko Saarelainen
USA	Pekka Laine


Mauri Saarelainen


Helena Ruponen


Antti Unkuri and Juha Kohonen working on the budget for 2004.

Honka Japan's staff

Honka Design Center in Altheim, Austria.

The team of Honka France at a house expo.

BUSINESS LOCATIONS AND EXPORT NETWORK

Call center in Finland (0)205 757 00

Production facilities

KARSTULAN TEHDAS
Hongantie 41
43500 Karstula
Fax 0205 757 210

ALAJÄRVEN TEHDAS
Sahapolku 49
62940 Hoisko
Fax 0205 757 517

LIEKSAN TEHDAS
Tuomikoskentie 2 b
81720 Lieksa
Fax 0205 757 430

PALTAMON TEHDAS
Kajaanintie 29 A
88300 Paltamo
Fax 0205 757 470

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Hungary
Ireland
Italy
Japan
Kazakhstan
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