MARTELA CORPORATION INTERIM REPORT 29 April 2014, 8.30 a.m.

MARTELA CORPORATION INTERIM REPORT, 1 January - 31 March 2014

First quarter revenue increased on the previous year and the operating result remained the same as the previous year.

Key figures:

EUR million	1-3 2014	1-3 2013	1-12 2013
- Revenue	34.1	31.9	132.3
- Change in revenue, %	7.0	-0.5	-7.3
- Operating result	-1.4	-1.4	-2.9
- Operating result, %	-4.0	-4.5	-2.2
- Earnings/share, EUR	-0.37	-0.42	-0.97
- Return on investment, %	-14.9	-15.0	-7.9
- Return on equity, %	-28.7	-27.2	-16.3
- Equity ratio, %	37.6	43.1	37.6
- Gearing ratio, %	44.9	28.5	51.2

The Martela Group anticipates that its revenue in 2014 will remain at the previous year's level and that its operating result will show a year-on-year improvement. Due to normal seasonal variation, the Group's operating result is weighted towards the second half of the year.

Market

There was no improvement in the demand for office furniture in Finland during the early part of the year. Demand in Finland is still largely focused on office alteration and enhancement projects of different kinds rather than on new offices. Demand in Sweden has also remained weak. Despite weak demand, the Activity Based Office concept, which is well-suited for alteration and enhancement projects, has attracted considerable interest among customers in Sweden, Norway and Finland. The Polish market remained at the normal level during the first quarter.

The latest statistics on office construction in Finland refer to 2013. Martela's previous interim reports have presented the figures on a quarterly basis. However due to the short time span covered by the statistics, there has been a great deal of variation between the quarters. Therefore, from now on, the statistics will be presented on the basis of a 12-month rolling average.

Finnish construction statistics (m2):

12-month rolling average, change	31 Dec 2013 vs 31 Dec. 2012*
Building completions	-48%
Building permits granted	-45%
Building starts	-53%

* Change in the 12-month rolling average between the dates is compared.

Martela has used the above office construction statistics as a key indicator when assessing overall market developments. However, it should be remembered that there are also many other factors, such as overall economic growth and the need for companies to use their premises more efficiently, that are impacting the demand for Martela products. The need to boost efficiency often prompts companies to initiate office alteration projects, which naturally generates demand for Martela products. However, these projects also result in companies allocating less space, when measured in terms of square metres, for each employee, which means that they purchase fewer pieces of traditional office furniture, such as desks and cabinets. On the other hand, the demand for products and solutions for different types of assembly areas and lobbies is on the increase.

Consolidated revenue and result

Consolidated revenue for January-March was EUR 34.1 million (31.9). There was a substantial decline in revenue in Finland. The Finnish market remained stagnant and there were no significant projects in Finland during the first quarter and most the revenue was generated by small and medium-sized deliveries. Like the previous year, there were no major deliveries in Poland during the early months of 2014 and for this reason, the revenue generated by Martela's operations in Poland also remained low. However, there were major customer deliveries in Sweden and Norway during the review period and, as a result, the revenue of the Business Unit in these countries grew substantially from the previous year. As a result of the major customer deliveries in Sweden and Norway, the consolidated revenue also increased during the first quarter. In Russia, revenue continued to increase, compared with 2013, even though the figures remained fairly low.

The operating result for the first quarter was EUR -1.4 million (-1.4). The Group’s fixed costs declined somewhat on the previous year as planned due to adjustment measures taken already in the previous year. At the same time, however, the sales margin of the Group’s products was slightly lower than a year earlier, a result of large customer projects. As a result of all these factors, Martela’s consolidated operating result remained at previous year’s levels.

In the third quarter of 2013, the Group began to plan measures to reduce its costs, targeting an annual cost saving of about EUR 6 million. The savings programme will be implemented by the end of 2014, after which the full impact of the savings will be felt. It is estimated that due to the timing of the measures the cost reduction impact of the programme in 2014 will be equivalent to about one third of the total savings target. The measures will allow the Group to adjust its cost structure to correspond to the company’s changed operating environment.

In January 2014, as part of the savings programme, the Group began codetermination negotiations aimed at improving production efficiency. Improvements will be sought by production transfers between the Group’s units located in Nummela and Riihimäki in Finland, and in Warsaw, Poland. In April 2014, after the review period, Martela also started negotiations to redistribute the production of selected products between its production units in Sweden and Finland. The aim is to create a distinctive role for each of Martela’s production units in order to ensure a more flexible and efficient service for customers. It is estimated that the measures implemented and under way will account for approximately EUR 4.5 million annually of the total savings programme of six million.

In February 2014, it was decided that P.O. Korhonen Oy, a joint enterprise of Martela Corporation and Artek Oy Ab, would cease operations due to the fact that they are unprofitable.

As part of the efforts to boost the efficiency of the operations, the personnel in the registers of Grundell Henkilöstöpalvelut Oy who are on standby and called to work when needed will be transferred to an external personnel services company outside the Martela Group. The persons in question have been employed in Martela’s service production and will continue in the same tasks. However, in the future they will work for two selected personnel services companies outside the Group. The arrangement will provide more flexibility and increase the availability of the personnel, allowing Martela to meet its personnel needs in a strongly fluctuating service production environment.

It became increasingly clear during the first quarter that there is growing demand for Activity Based Office solutions. The Group will thus continue to focus on providing even more high-quality comprehensive solutions and associated services in the Activity Based Working field. The Group’s aim is to strengthen its pioneering position as a supplier of comprehensive solutions and as the leading service provider for offices and other working environments.

The result before taxes was EUR -1.5 million (-1.6), and the result after taxes was EUR -1.5 million (-1.7).

Segment reporting

The business segments are based on the Group's operating structure and internal financial reporting.

Sales between segments are reported as part of the segments' revenue. The segment results presented are their operating results, because tax items and financial items are not allocated by segment. The Group's assets and liabilities are not allocated or monitored by segment in the internal financial reporting. The revenue and operating result are in accordance with the consolidated financial statements.

Business Unit Finland is responsible for sales and marketing and for service production in Finland. Martela has an extensive sales and service network covering the whole of Finland, with a total of 27 sales centres.

Business Unit Sweden & Norway's sales are handled through dealers. The Business Unit also has its own sales and showroom facilities at three locations: Stockholm and Bodafors in Sweden and Oslo in Norway. The Business Unit's administration and order handling are also located in Bodafors. The sales company in Oslo acts as a supporting organisation for Norway's dealer network.

Business Unit Poland is responsible for the sales and distribution of Martela products in Poland and eastern Central Europe. Sales in Poland are organised via the sales network maintained by the Business Unit. There are a total of seven sales centres in Poland. Business Unit Poland is based in Warsaw, where its administration is located.

'Other segments' includes the business activities of Kidex Oy and Business Unit International. Business Unit International's main market areas are Russia, Denmark and Estonia. Exports are also made to the Netherlands, Germany and Japan. The unit is also responsible for managing the Group's key international accounts. In Russia, sales are organised by the unit's own subsidiaries, and in other markets through local authorised importers.

Production and purchasing for the Business Units are carried out by the Group's Supply Chain Management unit, which has logistics centres in Finland, Sweden and Poland.

Revenue by segment

EUR million	Finland	Sweden & Norway	Poland	Other segments	Total
1 Jan – 31 Mar 2014					
External revenue	19.4	10.3	2.3	2.1	34.1
Internal revenue	0.0	0.4	0.0	3.3	3.7
Total 2014	19.4	10.7	2.3	5.4	
1 Jan – 31 Mar 2013					
External revenue	21.7	6.0	2.5	1.6	31.9
Internal revenue	0.0	0.3	0.0	2.6	2.9
Total 2013	21.7	6.4	2.5	4.2	
External revenue change, %	-10.4%	70.1%	-7.8%	27.7%	7.0%

Change in segments' external revenue and percentage of consolidated revenue

EUR million	1-3 2014	1-3 2013	Change %	share-%	1-12 2013	share-%
Finland	19.4	21.7	-10.4 %	57.0 %	92.3	69.7 %
Sweden & Norway	10.3	6.0	70.1 %	30.2 %	20.5	15.5 %
Poland	2.3	2.5	-7.8 %	6.7 %	11.7	8.9 %
Other segments	2.1	1.6	27.7 %	6.1 %	7.8	5.9 %
Total	34.1	31.9	7.0 %	100.0 %	132.3	100.0 %

Operating result by segment

EUR million	1-3 2014	1-3 2013	1-12 2013
Finland	-0.4	0.0	1.4
Sweden & Norway	0.2	-0.4	-1.4
Poland	-0.4	-0.3	-0.7
Other Segments	-0.5	-0.6	-1.6
Other	-0.3	-0.2	-0.7
Total	-1.4	-1.4	-2.9

'Other segments' includes Kidex Oy and Business Unit International. Business Unit International is responsible for the Group's other export markets. The item 'Others' includes non-allocated Group functions, production units and non-recurring sales gains and losses.

Financial position

The Group's financial position improved slightly from the situation at the turn of the year and remains stable. Interest-bearing liabilities at the end of the period amounted to EUR 15.1 million (13.6) and net liabilities were EUR 9.1 million (6.8). The gearing ratio at the end of the period was 44.9 per cent (28.5). and the equity ratio was 37.6 per cent (43.1). Net financial expenses were EUR 0.2 million (0.1).

The cash flow from operating activities in January-March was EUR 2.8 million (3.4). The cash flow was strengthened by a decline in the working capital during the review period.

The balance sheet total at the end of the period was EUR 56.1 million (56.0).

Capital expenditure

The Group's gross capital expenditure for January-March was EUR 0.7 million (0.9). and was incurred on production replacements.

Personnel

The Group employed an average of 793 (757) persons, an increase of 4.8 per cent. The number of personnel was increased by the start-up of the production transferred to Poland. During this period. there were employees simultaneously engaged in the manufacturing of the same products in two different production plants. There was also an increase in the number of service production personnel in Finland.

Average personnel by region

	1-3 2014	1-3 2013	1-12 2013
Finland	627	606	620
Scandinavia	60	62	58
Poland	94	78	80
Russia	12	11	12
Group total	793	757	770

Product development, products and communications

Martela launched a large number of new products and solutions in the first quarter. Martela’s stand at the Stockholm Furniture Fair in February 2014 had a softer ambience than ever before. Workspace thinking is not only ergonomically sound and reasonable. but also comfortable. beautiful. harmonious and easy to approach. The appearance of the stand and the products presented there were closely connected with the Inspiring Office by Martela concept. The concept was created to meet the challenges of a modern activity-based office. The concept. which is a result of thorough research and development. divides the work environment into various zones.

Technology helps us in our work in many ways. and this also applies to furniture technology. Martela is one of the pioneers in the development of more intelligent office furniture. At the Stockholm Furniture Fair Martela presented an intelligent storage system and intelligent desks that use smart cards to adapt to each user’s individual preferences.

In Stockholm we also relaunched the classic Kilta chair and a number of entirely new products. Designed by Olli Mannermaa Kilta is a design classic and the new version has castors, height adjustment and a swing motion. Its two- or three-colour upholstery offers an opportunity to create more interesting and inspiring visual environments.

The X-Series is a completely new range of task chairs, and X-Code is the first product to be launched in this series. The chair is visually dynamic and the materials include an interesting 3D mesh on the backrest. The mesh reduces the use of materials by 30% making it an ecologically sustainable solution. The white colour of the frame is a surprising but trendy choice in a task chair. Manufactured in Finland at Martela’s Nummela factory the X-Code chairs are the first collaboration between Martela and its new partner Dauphin.

With its fresh appearance the Alku desk designed by Iiro Viljanen is an excellent example of the Inspiring Office concept in practice. The new higher model is perfect for coffee breaks and other less formal uses. It is also available with A-frame legs for an easy-going office environment. Alku is also an excellent desk for home use.

With its soft and sensitive forms the Sola chair designed by Antti Kotilainen is a perfect fit for the Inspiring Office by Martela concept. The Sola chairs contribute to a visually diverse and inspiring office environment. Sola is available as a universal chair and a barstool and it is the perfect partner for Alku desks, for example.

Group structure

There were no changes in Group structure during the review period.

Shares

During January-March 114.572 (163.627) of the company's A shares were traded on NASDAQ OMX Helsinki corresponding to 3.2 per cent (4.6) of all A shares.

The value of trading turnover was EUR 0.4 million (0.8) and the share price was EUR 3.35 at the beginning of the year and EUR 3.10 at the end of the quarter. During January-March the share price was EUR 3.55 at its highest and EUR 3.03 at its lowest. At the end of March equity per share was EUR 5.00 (5.93).

Treasury shares

The company did not purchase any Martela shares in January-March. On 31 March 2014 Martela owned a total of 67.700 Martela A shares purchased at an average price of EUR 10.65. Martela's holding of treasury shares amounts to 1.6 per cent of all shares and 0.4 per cent of all votes.

Share acquisition for the share-based incentive scheme has been outsourced to an external service provider. The shares were entered under equity in the consolidated financial statements on 31 March 2014. On 31 March 2014 a total of 38.647 shares under the incentive scheme were undistributed.

2014 Annual General Meeting

Martela Corporation's Annual General Meeting was held on 13 March 2014. The AGM approved the financial statements for 2013 and discharged the members of the Board of Directors and the Managing Director from liability. In accordance with the Board of Directors' proposal the AGM decided that no dividends will be distributed for the 2013 financial year.

The number of members on the Board of Directors was confirmed as seven. Heikki Ala-Ilkka, Kirsi Komi, Heikki Martela, Pekka Martela, Pinja Metsäranta and Yrjö Närhinen were re-elected to the Board and Eero Leskinen was elected as a new member. KPMG Oy Ab, Authorised Public Accountants, was appointed again as the company's auditor.

The AGM also approved the Board of Directors' proposals detailed in the meeting notice to authorise the Board to acquire and/or dispose of Martela shares.

The new Board of Directors convened after the Annual General Meeting and elected from its members Heikki Ala-Ilkka as Chairman and Pekka Martela as Vice Chairman.

Events after the end of the review period

Martela started codetermination negotiations at its Swedish unit on 25 April 2014 with the aim of increasing the efficiency of the Group's supply chain. More efficiency will be sought by redistributing the production of selected products between Swedish and Finnish production units. The aim is to create a distinctive role for each of Martela's production units in order to ensure a more flexible and efficient service for customers. The negotiations may lead to a maximum of 23 redundancies.

No other significant reportable events have taken place since the January-March period and operations have continued according to plan.

Short-term risks

The principal risk to profit performance is related to general economic uncertainty and the consequent effects on the overall demand for office furniture.

Outlook for 2014

The Martela Group anticipates that its revenue in 2014 will remain at the previous year's level and that its operating result will show a year-on-year improvement. Due to normal seasonal variation the Group's operating result is weighted towards the second half of the year.

TABLES

Accounting policies

This interim report has been prepared in accordance with IFRS recognition and measurement principles, but not all the IAS 34 requirements have been complied with. The interim report should be read in conjunction with the 2013 financial statements.

The figures in this release have been rounded, and so the combined sum of individual figures may differ from the sums presented. This report is unaudited.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (EUR 1 000)

	2014 1-3	2013 1-3	2013 1-12
Revenue	**34 080**	**31 855**	**132 293**
Other operating income	529	32	1 352
Employee benefits expenses	-10 101	-9 773	-38 160
Operating expenses	-24 965	-22 723	-94 824
Depreciation and impairment	-918	-820	-3 550
Operating profit/loss	**-1 375**	**-1 429**	**-2 889**
Financial income and expenses	-163	-130	-1 195
Share of result in associated undertakings	0	-88	-305
Profit/loss before taxes	**-1 538**	**-1 647**	**-4 389**
Income tax	28	-67	455
Profit/loss for the period	**-1 510**	**-1 714**	**-3 934**
Other comprehensive income:			
Translation differences	-59	70	-80
Actuarial gains and losses	0	0	337
Actuarial gains and losses, deferred taxes	0	0	-81
Total comprehensive income	**-1 569**	**-1 644**	**-3 758**
Basic earnings per share, eur	-0,37	-0,42	-0,97
Diluted earnings per share, eur	-0,37	-0,42	-0,97
Allocation of net profit for the period:			
To equity holders of the parent	-1 510	-1 714	-3 934
Allocation of total comprehensive income:			
To equity holders of the parent	-1 569	-1 644	-3 758

GROUP BALANCE SHEET (EUR 1 000)	31.3.2014	31.12.2013	31.3.2013
ASSETS			
Non-current assets			
Intangible assets	6 188	6 403	6 377
Tangible assets	11 741	11 767	12 559
Investments	55	55	55
Deferred tax assets	379	373	389
Pension receivables	0	0	55
Receivables	0	0	9
Investment properties	600	600	600
Total	**18 963**	**19 198**	**20 044**
Current assets			
Inventories	11 848	10 913	13 334
Receivables	19 218	23 646	15 865
Cash and cash equivalents	6 039	4 857	6 740
Total	**37 105**	**39 416**	**35 939**
Total assets	**56 068**	**58 614**	**55 983**
EQUITY AND LIABILITIES			
Equity			
Share capital	7 000	7 000	7 000
Share premium account	1 116	1 116	1 116
Other reserves	-9	-9	-9
Translation differences	-145	-86	64
Retained earnings	12 611	14 121	16 167
Treasury shares	-1 050	-1 050	-1 050
Share-based incentives	710	710	710
Total	**20 233**	**21 802**	**23 998**
Non-current liabilities			
Interest-bearing liabilities	8 928	8 645	9 292
Deferred tax liabilities	818	846	1 221
Other liabilities	3	0	0
Pension obligations	637	637	904
Total	**10 386**	**10 128**	**11 417**
Current liabilities			
Interest-bearing	5 560	6 731	3 376
Non-interest bearing	19 889	19 386	17 192
Reservation	0	566	0
Total	**25 449**	**26 683**	**20 568**
Total liabilities	**35 835**	**36 811**	**31 985**
Equity and liabilities, total	**56 068**	**58 614**	**55 983**

STATEMENT OF CHANGES IN EQUITY (EUR 1 000)

Equity attributable to equity holders of the parent

	Share capital	Share premium account	Other reserves	Trans. diff.	Retained earnings	Treasury shares	Total
01.01.2013	7 000	1 116	117	-6	19 889	-1 050	27 066
IAS 19R			-126		-778		-904
IAS 19R , deferred taxes					208		208
01.01.2013, adjusted	7 000	1 116	-9	-6	19 319	-1 050	26 370
Total comprehensive income					-1 714		-1 714
Translation diff.				70			70
Dividends					-728		-728
Share-based incentives					0		0
31.03.2013	7 000	1 116	-9	64	16 877	-1 050	23 998
01.01.2014	7 000	1 116	-9	-86	14 831	-1 050	21 802
Total comprehensive income					-1 510		-1 510
Translation diff.				-59			-59
Dividends					0		0
Share-based incentives					0		0
31.03.2014	7 000	1 116	-9	-145	13 321	-1 050	20 233

CONSOLIDATED CASH FLOW STATEMENT (EUR 1 000)	2014 1-3	2013 1-3	2013 1-12
Cash flows from operating activities			
Cash flow from sales	39 912	39 180	132 033
Cash flow from other operating income	513	28	353
Payments on operating costs	-37 500	-35 564	-131 746
Net cash from operating activities before financial items and taxes	**2 925**	**3 645**	**640**
Interest paid	-95	-103	-475
Interest received	3	7	24
Other financial items	-55	-43	-196
Dividends received	0	0	1
Taxes paid	-11	-150	-130
Net cash from operating activities (A)	**2 767**	**3 357**	**-136**
Cash flows from investing activities			
Capital expenditure on tangible and intangible assets	-676	-795	-2 711
Proceeds from sale of tangible and intangible assets	16	4	38
Proceeds from sale of other investments	0	0	960
Net cash used in investing activities (B)	**-660**	**-791**	**-1 713**
Cash flows from financing activities			
Proceeds from short-term loans	6 000	1 500	18 500
Repayments of short-term loans	-5 988	-3 492	-18 246
Proceeds from long-term loans	0	0	1 283
Repayments of long-term loans	-899	-682	-1 502
Dividends paid and other profit distribution	0	-728	-810
Net cash used in financial activities (C)	**-887**	**-3 402**	**-775**
Change in cash and cash equivalents (A+B+C) (+ increase, - decrease)	**1 220**	**-836**	**-2 624**
Cash and cash equivalents in the beginning of period	4 858	7 589	7 589
Translation differences	-39	-13	-107
Cash and cash equivalents at the end of period	**6 039**	**6 740**	**4 858**

SEGMENT REPORTING (EUR 1 000)

Segment revenue	2014 1-3	2013 1-3	2013 1-12
Business Unit Finland			
external	19 430	21 696	92 272
internal	2	0	0
Business Unit Sweden and Norway			
external	10 285	6 048	20 524
internal	410	336	1 658
Business Unit Poland			
external	2 297	2 492	11 710
internal	0	0	61
Other segments			
external	2 068	1 619	7 787
internal	3 303	2 612	10 107
Total external revenue	**34 080**	**31 855**	**132 293**

Segment operating profit/loss	2014 1-3	2013 1-3	2013 1-12
Business Unit Finland	-380	0	1 436
Business Unit Sweden and Norway	201	-373	-1 363
Business Unit Poland	-369	-283	-676
Other segments	-509	-602	-1 636
Other	-318	-171	-650
Total operating profit/loss	**-1 375**	**-1 429**	**-2 889**

Other segments include Kidex Oy and Business Unit International, which is responsible for export markets.
The item "Other" includes non-allocated Group functions, production units and non-recurring sales gains and losses.

TANGIBLE ASSETS 1.1-31.3.2014	Land areas	Buildings	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	0	91	531	0	79
Decreases	0	-5	-13	0	0

TANGIBLE ASSETS 1.1-31.3.2013	Land areas	Buildings	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	0	9	1 007	0	-637
Decreases	0	0	-59	0	0

RELATED PARTY AND SHARE-BASED INCENTIVE PROGRAMME

The CEO and the group's management are included in a long-term share-based incentive scheme, extending to the end of 2016.

KEY FIGURES/RATIOS	2014 1-3	2013 1-3	2013 1-12
Operating profit/loss	-1 375	-1 429	-2 889
- in relation to revenue	-4,0	-4,5	-2,2
Profit/loss before taxes	-1 538	-1 647	-4 389
- in relation to revenue	-4,5	-5,2	-3,3
Profit/loss for the period	-1 510	-1 714	-3 934
- in relation to revenue	-4,4	-5,4	-3,0
Basic earnings per share, eur	-0,37	-0,42	-0,97
Diluted earnings per share, eur	-0,37	-0,42	-0,97
Equity/share, eur	5,00	5,93	5,38
Equity ratio	37,6	43,1	37,6
Return on equity *	-28,7	-27,2	-16,3
Return on investment *	-14,9	-15,0	-7,9
Interest-bearing net-debt, eur million	9,1	6,8	11,2
Gearing ratio	44,9	28,5	51,2
Capital expenditure, eur million	0,7	0,9	3,0
- in relation to revenue	2,1	2,7	2,3
Personnel at the end of period	794	758	767
Average personnel	793	757	770
Revenue/employee, eur thousand	43,0	42,1	171,8

Key figures are calculated according to formulae as presented in Annual Report 2013

* When calculating return on equity and return on investment the profit/loss for the period has been multiplied in interim reports.

CONTINGENT LIABILITIES	31.3.2014	31.12.2013	31.3.2013
Mortgages and shares pledged	22 357	23 218	21 689
Other commitments	354	902	865
Rental commitments	13 067	14 120	14 051

DEVELOPMENT OF SHARE PRICE	2014	2013	2013
	1-3	1-3	1-12
Share price at the end of period, eur	3,10	4,50	3,35
Highest price, eur	3,55	5,50	5,50
Lowest price, eur	3,03	4,34	3,30
Average price, eur	3,32	4,99	4,11

Martela Oyj
Board of Directors
Heikki Martela
CEO

For more information, please contact
Heikki Martela, CEO, tel. +358 50 502 4711
Markku Pirskanen, CFO, tel. +358 40 517 4606

Distribution
NASDAQ OMX Nordic
Main News Media
www.martela.com