MARTELA CORPORATION   INTERIM REPORT   6 August 2014, 8.30 a.m.

MARTELA CORPORATION INTERIM REPORT, 1 January – 30 June 2014

January-June revenue up and improved operating result compared with the first six months of the previous year.

Key figures:

EUR million	4-6 2014	4-6 2013	1-6 2014	1-6 2013	1-12 2013
- Revenue	34.1	29.3	68.1	61.1	132.3
- Change in revenue, %	16.3	-16.6	11.5	-8.9	-7.3
- Operating result	0.4	-2.6	-1.0	-4.0	-2.9
- Operating result, %	1.1	-8.9	-1.5	-6.6	-2.2
- Earnings per share, EUR	0.03	-0.74	-0.34	-1.11	-0.97
- Return on investment, %	4.1	-27.8	-5.4	-21.5	-7.9
- Return on equity, %	2.2	-46.7	-13.3	-37.8	-16.3
- Equity ratio, %			35.8	36.5	37.6
- Gearing, %			44.0	50.7	51.2

The Martela Group anticipates that its revenue and operating result for 2014 will show an improvement on the previous year's figures.

Market

The demand for office furniture in Finland and Sweden continued to be weak in the early part of the year. Demand in Finland and Sweden is still largely focused on office alteration and enhancement projects of different kinds rather than new offices. Despite the weakness in the market, the Activity Based Office concept, which is well-suited for alteration and enhancement projects, has attracted considerable interest among customers in Sweden, Norway, Finland and Russia. The Polish market continued to be stable during the first half of the year.

Statistics on office construction in Finland are available for the first quarter of 2014. These statistics are presented below on the basis of a 12-month rolling average:

Finnish office construction statistics (m^2):

12-month rolling average, change	31.3.2014 vs. 31.3.2013*
Office buildings completed	-40%
Building permissions	-21%
New office building starts	-14%

* This column gives the percentage change in the 12-month rolling average for each variable between the stated dates.

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 that affect the demand for Martela products, such as overall economic growth and the need for companies to use their premises more efficiently. The need to boost efficiency often leads to office alteration projects, which in turn generates demand for Martela products. However, these projects also result in companies allocating fewer square metres of space 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 all kinds of meeting spaces and lobbies is on the increase.

Consolidated revenue and result

Consolidated revenue for the second quarter was EUR 34.1 million (29.3), an increase of 16.3 per cent on the previous year. Consolidated revenue for January-June was EUR 68.1 million (61.1), an increase of 11.5 per cent on the previous year. January-June revenue in Finland was down year on year, but revenue in Finland nevertheless increased slightly in the second quarter compared to the previous year. There were no significant large customer projects in the first six months in Finland, and revenue was largely from small and medium-sized deliveries. As in the previous year, there were no major deliveries in Poland during the first half of 2014, and for this reason, the revenue generated also remained low. By contrast, 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. The most significant deliveries in Sweden and Norway were made in the first quarter, but the second quarter also saw some large deliveries. As a result of the major customer deliveries in Sweden and Norway, the consolidated revenue increased significantly during the first six months. Revenue in Russia also continued to show year-on-year growth.

The consolidated operating result for the second quarter was EUR 0.4 million (-2.6). The operating result for January-June was EUR -1.0 million (-4.0). The Group’s fixed costs decreased slightly on the previous year, as anticipated, due to the adjustment measures taken in 2013. The January-June sales margin on the Group’s products was unchanged from the previous year. The combined effect of these factors and the increase in revenue was a year-on-year improvement in Martela’s consolidated operating result.

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 programme’s impact on costs 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 February 2014, as part of the savings programme, the Group concluded the first codetermination negotiations aimed at improving production efficiency. The 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 addition, negotiations to transfer the manufacture of certain products between the Swedish and Finnish production units were concluded in June 2014. These measures will create a distinct role for each of Martela’s production units and ensure a more flexible and efficient service for customers. The measures taken so far or in progress are expected to achieve the targeted annual savings of EUR 6 million.

It became increasingly clear during the first six months of the year that there is growing demand for activity based office solutions. Martela will thus continue to focus on providing ever higher quality comprehensive solutions and associated services in the field of activity based working. 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 Group’s profit before taxes for January-June was EUR -1.3 million (-4.6), and its profit after taxes was EUR -1.4 million (-4.5).

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 seven sales centres in Poland. The Business Unit's main location is in Warsaw, where its administration is based.

'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
1.1.2014-30.6.2014					
External revenue	41.2	16.8	4.7	5.4	68.1
Internal revenue	0.0	0.9	0.0	6.9	7.8
Total 2014	41.3	17.7	4.7	12.2	
1.1.2013-30.6.2013					
External revenue	41.8	11.2	5.2	3.0	61.1
Internal revenue	0.0	0.8	0.0	5.0	5.9
Total 2013	41.8	12.0	5.2	8.0	
External revenue change, %	-1.3%	50.2%	-8.8%	80.6%	11.5%

Change in segments' external revenue and percentage of consolidated revenue

EUR million	4-6 2014	4-6 2013	Change %	1-6 2014	1-6 2013	Change %	share-%	1-12 2013	share-%
Finland	21,8	20,1	8,6 %	41,2	41,8	-1,3 %	60,5 %	92,3	69,7 %
Sweden & Norway	6,5	5,1	26,7 %	16,8	11,2	50,2 %	24,6 %	20,5	15,5 %
Poland	2,4	2,7	-9,8 %	4,7	5,2	-8,8 %	6,9 %	11,7	8,9 %
Other segments	3,3	1,4	143,4 %	5,4	3,0	80,6 %	7,9 %	7,8	5,9 %
Total	34,1	29,3	16,3 %	68,1	61,1	11,5 %	100.0 %	132,3	100.0 %

Operating result by segment

EUR million	4-6 2014	4-6 2013	1-6 2014	1-6 2013	1-12 2013
Finland	1.0	-1.0	0.6	-1.0	1.4
Sweden & Norway	0.1	-0.4	0.3	-0.8	-1.4
Poland	-0.4	-0.2	-0.8	-0.5	-0.7
Other segments	0.5	-0.5	0.0	-1.1	-1.6
Other	-0.8	-0.5	-1.1	-0.6	-0.7
Total	0.4	-2.6	-1.0	-4.0	-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 'Other' 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 15.8 million (15.6), and net liabilities were EUR 8.9 million (10.6). The gearing ratio at the end of the period was 44.0 per cent (50.7), and the equity ratio was 35.8 per cent (36.5). Net financial expenses were EUR 0.3 million (0.3).

The cash flow from operating activities in January-June was EUR 3.0 million (0.5). The increase in cash flow was due to the Group's improved profit performance.

The balance sheet total at the end of the period was EUR 61.6 million (57.9).

Capital expenditure

The Group's gross capital expenditure for January-June was EUR 1.0 million (1.8)**.** This consisted of expenditure on the production line start-up in Poland and on production replacements.

Personnel

The Group employed an average of 756 (751) people, an increase of 0.7 per cent**.**

Average personnel by region

	1-6 2014	1-6 2013	1-12 2013
Finland	591	599	620
Scandinavia	60	62	58
Poland	92	78	80
Russia	13	12	12
Group total	756	751	770

Product development, products and communications

Martela launched a large number of new products and solutions in the first six months of the year. The most significant product launches were made at the Stockholm Furniture Fair in February. Both the look of Martela's stand at the Fair and the choice of products it presented were based on the Inspiring Office by Martela concept. The concept was the result of thorough research and development and was created to meet the challenges of a modern activity based office. The concept divides the work environment into various zones.

The presence of technology in furniture items is on the increase. 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.

About two years ago Martela began a development project aimed at gaining official accreditation for its test laboratory at the Nummela plant. Following the conclusion of this project, in spring 2014 the test laboratory was granted SFS-EN ISO/IEC 17025:2005 classification under the official accreditation standard. The laboratory is audited annually by Finas (Finnish Accreditation Service).

In May 2014, Martela took part for the third time in the Office Next event in Moscow. This year, Martela's Dynamic Storage locker system was awarded a 'NextProducts' quality sign by the jury of architects and other experts.

Martela's Dynamic solutions were designed for activity based offices and have generated considerable interest in all of the Group's home markets. In activity based offices, employees can be in different places at different times, depending on the activity they are engaged in. If writing a report that requires concentration, the employee may be in a library space, while the coffee area will be for meeting colleagues and having informal conversations. In an open plan office, a standing workstation can be beneficial for work that demands creativity, and a phone booth will offer the opportunity for uninterrupted communication. Different ways of working create the need for a dynamic workplace environment, for which Martela has developed its Dynamic solutions. Every company has its own way of pursuing a more flexible work culture. Many have found that new ways of working increase responsiveness to new situations and bring efficiency, above all. The Dynamic solutions bring clear cost savings to companies. They also allow real-time monitoring of the utilisation level of the storage lockers and workstations, enabling a rapid response to changing needs.

In May, Martela published its fourth Responsibility Report, which was written in accordance with the Global Reporting Initiative (GRI) guidelines (version G3) on sustainability reporting. The report contains the Group's responsibility programme for 2014-2017 and information concerning the monitoring of the previous programme (2013-2016). The responsibility programme lays out targets for improving employee wellbeing and for reducing the environmental impact of products and services. The performance indicators set out in the report contain detailed monitoring information on the period 2011-2013.

Group structure

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

Shares

During January-June, 212,542 (319,694) of the company's A shares were traded on NASDAQ OMX Helsinki. This corresponds to 6.0 per cent (9.0) of all the Martela A shares.

The value of trading turnover was EUR 0.7 million (1.5), and the share price was EUR 3.35 at the beginning of the year and EUR 3.13 at the end of the review period. During January-June the share price was EUR 3.55 at its highest and EUR 3.03 at its lowest. At the end of June, equity per share was EUR 5.01 (5.17).

Treasury shares

Martela did not purchase any of its own shares in January-June. On 30 June 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 30 June 2014. On 30 June 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 AGM and elected from its members Heikki Ala-Ilkka as Chairman and Pekka Martela as Vice Chairman.

Events after the end of the review period

On 30 July 2014 the Group published the stock exchange release in which Martela updated the guidance for the year 2014.

No other significant events requiring reporting have taken place since the January-June 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 and operating result for 2014 will show an improvement on the previous year's figures.

TABLES

Accounting policies

This interim report has been prepared in accordance with the IAS 34 Interim Financial Reporting standard, as approved by the EU. The calculation methods of the interim report are the same as those applied in 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 1-6	2013 1-6	2014 4-6	2013 4-6	2013 1-12
Revenue	**68 132**	**61 132**	**34 052**	**29 277**	**132 293**
Other operating income	558	206	29	174	1 352
Employee benefits expenses	-19 444	-19 946	-9 343	-10 173	-38 160
Operating expenses	-48 410	-43 771	-23 445	-21 048	-94 824
Depreciation and impairment	-1 834	-1 647	-916	-827	-3 550
Operating profit/loss	**-998**	**-4 026**	**377**	**-2 597**	**-2 889**
Financial income and expenses	-306	-298	-143	-168	-1 195
Share of result in associated undertakings	0	-245	0	-157	-305
Profit/loss before taxes	**-1 304**	**-4 569**	**234**	**-2 922**	**-4 389**
Income tax	-91	94	-119	-65	455
Profit/loss for the period	**-1 395**	**-4 475**	**115**	**-2 987**	**-3 934**
Other comprehensive income:					
Translation differences	-117	-138	-58	-208	-80
Actuarial gains and losses	0	0	0	0	337
Deferred taxes, actuarial gains and losses	-18		-18		-81
Total comprehensive income	**-1 530**	**-4 613**	**39**	**-3 195**	**-3 758**
Basic earnings per share, eur	-0,34	-1,11	0,03	-0,74	-0,97
Diluted earnings per share, eur	-0,34	-1,11	0,03	-0,74	-0,97
Allocation of net profit for the period:					
To equity holders of the parent	-1 395	-4 475	115	-2 987	-3 934
Allocation of total comprehensive income:					
To equity holders of the parent	-1 530	-4 613	39	-3 195	-3 758

GROUP BALANCE SHEET (EUR 1 000)	30.6.2014	31.12.2013	30.6.2013
ASSETS			
Non-current assets			
Intangible assets	5 978	6 403	6 994
Tangible assets	11 254	11 767	11 918
Investments	55	55	55
Deferred tax assets	375	373	383
Receivables	0	0	9
Investment properties	600	600	600
Total	**18 262**	**19 198**	**19 959**
Current assets			
Inventories	13 699	10 913	15 279
Receivables	22 729	23 646	17 710
Cash and cash equivalents	6 902	4 857	4 997
Total	**43 330**	**39 416**	**37 986**
Total assets	**61 592**	**58 614**	**57 945**
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	-203	-86	-144
Retained earnings	12 707	14 121	13 324
Treasury shares	-1 050	-1 050	-1 050
Share-based incentives	738	710	710
Total	**20 299**	**21 802**	**20 947**
Non-current liabilities			
Interest-bearing liabilities	8 769	8 645	9 181
Deferred tax liabilities	874	846	1 169
Pension obligations	547	637	861
Total	**10 190**	**10 128**	**11 211**
Current liabilities			
Interest-bearing	6 515	6 731	5 567
Non-interest bearing	24 588	19 386	20 220
Reservation	0	566	0
Total	**31 103**	**26 683**	**25 787**
Total liabilities	**41 293**	**36 811**	**36 998**
Equity and liabilities, total	**61 592**	**58 614**	**57 945**

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
Introduction of IAS 19R			-126		-778		-904
Introduction of IAS 19R, deferred taxes					208		208
01.01.2013	7 000	1 116	-9	-6	19 319	-1 050	26 370
Total comprehensive income				-138	-4 475		-4 613
Dividends					-810		-810
Share-based incentives					0		0
30.06.2013	7 000	1 116	-9	-144	14 034	-1 050	20 947
01.01.2014	7 000	1 116	-9	-86	14 831	-1 050	21 802
Total comprehensive income				-117	-1 396		-1 513
Introduction of IAS 19R, deferred taxes					-18		-18
Dividends					0		0
Share-based incentives					28		28
30.06.2014	7 000	1 116	-9	-203	13 445	-1 050	20 299

CONSOLIDATED CASH FLOW STATEMENT (EUR 1 000)	2014 1-6	2013 1-6	2013 1-12
Cash flows from operating activities			
Cash flow from sales	75 330	65 647	132 033
Cash flow from other operating income	278	200	353
Payments on operating costs	-72 328	-64 813	-131 746
Net cash from operating activities before financial items and taxes	**3 279**	**1 034**	**640**
Interest paid	-148	-154	-475
Interest received	7	17	24
Other financial items	-97	-92	-196
Dividends received	1	0	1
Taxes paid	-12	-280	-130
Net cash from operating activities (A)	**3 029**	**525**	**-136**
Cash flows from investing activities			
Capital expenditure on tangible and intangible assets	-892	-1 593	-2 711
Proceeds from sale of tangible and intangible assets	16	6	38
Proceeds from sale of other investments	0	0	960
Net cash used in investing activities (B)	**-876**	**-1 587**	**-1 713**
Cash flows from financing activities			
Proceeds from short-term loans	17 000	5 500	18 500
Repayments of short-term loans	-16 113	-5 354	-18 246
Proceeds from long-term loans	0	0	1 283
Repayments of long-term loans	-977	-739	-1 503
Dividends paid and other profit distribution	0	-810	-810
Net cash used in financial activities (C)	**-90**	**-1 403**	**-776**
Change in cash and cash equivalents (A+B+C) (+ increase, - decrease)	**2 063**	**-2 465**	**-2 625**
Cash and cash equivalents in the beginning of period	4 857	7 589	7 589
Translation differences	-18	-127	-107
Cash and cash equivalents at the end of period	**6 902**	**4 997**	**4 857**

SEGMENT REPORTING (EUR 1 000)

Segment revenue	2014 1-6	2013 1-6	2014 4-6	2013 4-6	2013 1-12
Business Unit Finland					
external	41 245	41 792	21 815	20 096	92 272
internal	5	0	3	0	0
Business Unit Sweden and Norway					
external	16 774	11 169	6 489	5 122	20 524
internal	934	836	524	500	1 658
Business Unit Poland					
external	4 730	5 189	2 433	2 697	11 710
internal	0	12	0	12	61
Other segments					
external	5 383	2 981	3 315	1 362	7 787
internal	6 850	5 017	3 547	2 405	10 107
Total external revenue	**68 132**	**61 132**	**34 052**	**29 277**	**132 293**

Segment operating profit/loss	2014 1-6	2013 1-6	2014 4-6	2013 4-6	2013 1-12
Business Unit Finland	618	-990	998	-990	1 436
Business Unit Sweden and Norway	284	-776	83	-403	-1 363
Business Unit Poland	-798	-506	-429	-223	-676
Other segments	34	-1 128	543	-526	-1 636
Other	-1 136	-626	-818	-455	-650
Total operating profit/loss	**-998**	**-4 026**	**377**	**-2 597**	**-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 1.1-30.6.2014	Land areas	Buildings	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	0	117	623	0	221
Decreases	0	-5	-34	0	0

TANGIBLE ASSETS 1.1-30.6.2013	Land areas	Buildings	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	0	33	1 114	0	-630
Decreases	0	0	-68	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	2013	2013
	1-6	1-6	1-12
Operating profit/loss	-998	-4 026	-2 889
- in relation to revenue	-1,5	-6,6	-2,2
Profit/loss before taxes	-1 304	-4 569	-4 389
- in relation to revenue	-1,9	-7,5	-3,3
Profit/loss for the period	-1 395	-4 475	-3 934
- in relation to revenue	-2,1	-7,3	-3,0
Basic earnings per share, eur	-0,34	-1,11	-0,97
Diluted earnings per share, eur	-0,34	-1,11	-0,97
Equity/share, eur	5,01	5,17	5,38
Equity ratio	35,8	36,5	37,6
Return on equity *	-13,3	-37,8	-16,3
Return on investment *	-5,4	-21,5	-7,9
Interest-bearing net-debt, eur million	8,9	10,6	11,2
Gearing ratio	44,0	50,7	51,2
Capital expenditure, eur million	1,0	1,8	3,0
- in relation to revenue	1,4	2,9	2,3
Personnel at the end of period	735	797	767
Average personnel	756	751	770
Revenue/employee, eur thousand	90,1	81,4	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	30.6.2014	31.12.2013	30.6.2013
Mortgages and shares pledged	22 074	23 218	23 530
Other commitments	358	902	875
Rental commitments	11 937	14 120	13 089

DEVELOPMENT OF SHARE PRICE	2014	2013	2013
	1-6	1-6	1-12
Share price at the end of period, eur	3,13	3,91	3,35
Highest price, eur	3,55	5,50	5,50
Lowest price, eur	3,03	3,75	3,30
Average price, eur	3,23	4,54	4,11

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