MARTELA CORPORATION INTERIM REPORT 28 October 2014, 8.30 a.m.

MARTELA CORPORATION INTERIM REPORT, 1 January – 30 September 2014

Group's January-September revenue up and operating result positive

Key figures:

EUR million	7-9 2014	7-9 2013	1-9 2014	1-9 2013	1-12 2013
- Revenue	36.5	34.3	104.7	95.4	132.3
- Change in revenue, %	6.5	-1.4	9.7	-6.3	-7.3
- Operating result	2.2	1.5	1.2	-2.5	-2.9
- Operating result, %	6.0	4.4	1.2	-2.6	-2.2
- Earnings per share, EUR	0.44	0.34	0.10	-0.77	-0.97
- Return on investment, %	23.5	14.4	4.3	-8.6	-7.9
- Return on equity, %	32.9	22.2	2.5	-17.1	-16.3
- Equity ratio, %			40.1	38.4	37.6
- Gearing, %			39.6	60.5	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. 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. When implementing the activity based office model at its premises, the customer can achieve substantial savings in premises costs while also improving its employees' job satisfaction and productivity. A weakening has been discernible in the Polish market during the third quarter. Property market activity has slowed down recently also in Russia. The prevailing weak market conditions cause uncertainty about the Group's fourth-quarter performance.

Statistics on office construction in Finland are available for the first half 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	30 June 2014 vs 30 June 2013*
Building completions	-38%
Building permits granted	-8%
Building starts	74%

* 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. Despite the weak general market conditions, the increase in the number of commenced buildings can be regarded as a mildly positive sign. However, in terms of square metres, the values remain at quite a low level, although the change in percentage terms is large. 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 increases the number of office alteration projects, which in turn generates demand especially for Martela's activity based office model. 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 third quarter was EUR 36.5 million (34.3), an increase of 6.5 per cent on the previous year. Consolidated revenue for January-September was EUR 104.7 million (95.4), an increase of 9.7 per cent on the previous year. In Finland, revenue in the third quarter and during the first nine months was down year on year. There were no significant large customer projects in the review period in Finland, and revenue was largely from small and medium-sized deliveries. Revenue in Poland increased in the third quarter, but in January-September it was at the level of the previous year. 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 revenue grew substantially on the previous year also in the third quarter. In Russia, revenue continued to grow on the previous year, but the weakening economic situation of the Russian market may cause a future weakening in the Group's demand from Russia. Major customer deliveries in Sweden and Norway and the significant increase in Business Unit International's revenue were the main reasons for the substantial increase in consolidated revenue during the review period.

The consolidated operating result for the third quarter was EUR 2.2 million (1.5). The operating result for January-September improved substantially and was EUR 1.2 million (-2.5). The Group's fixed costs decreased slightly from the previous year, as anticipated, due to the adjustment measures taken in 2013. The January-September 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.

The EUR 6 million savings programme launched in the Group in the autumn of 2013 has proceeded according to plan, and the measures taken so far or in progress are expected to achieve the targeted annual savings of EUR 6 million. 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 full impact of the savings will be felt in 2015.

As part of the savings programme, measures aiming to increase the efficiency of production were implemented in the Group during the review period. Production transfers between the Group's units located in Nummela and Riihimäki in Finland, in Warsaw, Poland, and in Bodafors, Sweden have proceeded according to plan, and most of these will be completed by the end of the year. These measures will create a distinct role for each of Martela's production units and ensure a more flexible and efficient service for customers.

Demand for activity based office solutions strengthened further. Martela will thus continue to focus on providing ever higher quality comprehensive solutions and associated services in the field of activity based working. With its activity based office solutions Martela can reduce its customers' property costs while increasing the job satisfaction and productivity of these customers' employees. 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-September was EUR 0.7 million (-3.3), and the profit after taxes was EUR 0.4 million (-3.1).

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 subsidiary, 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
1.1.2014–30.9.2014					
External revenue	64.3	21.0	8.1	11.2	104.7
Internal revenue	0.0	1.3	0.4	9.7	11.5
Total 2014	64.3	22.3	8.5	21.0	
1.1.2013–30.9.2013					
External revenue	66.5	15.0	8.1	5.9	95.4
Internal revenue	0.0	1.3	0.0	7.5	8.9
Total 2013	66.5	16.3	8.1	13.4	
External revenue change, %	-3.3%	40.1%	0.4%	92.1%	9.7%

Change in segments' external revenue and percentage of consolidated revenue

EUR million	7–9 2014	7–9 2013	Change %	1–9 2014	1–9 2013	Change %	Share %	1–12 2013	Share %
Finland	23.1	24.7	-6.6%	64.3	66.5	-3.3%	61.5%	92.3	69.7%
Sweden & Norway	4.2	3.8	10.3%	21.0	15.0	40.1%	20.0%	20.5	15.5%
Poland	3.4	2.9	16.9%	8.1	8.1	0.4%	7.8%	11.7	8.9%
Other segments	5.9	2.9	104.1%	11.2	5.9	92.1%	10.7%	7.8	5.9%
Total	36.5	34.3	6.5%	104.7	95.4	9.7%	100.0%	132.3	100.0%

Operating result by segment

EUR mill.	7–9 2014	7–9 2013	1–9 2014	1–9 2013	1–12 2013
Finland	1.3	1.0	1.9	0.0	1.4
Sweden & Norway	0.1	-0.3	0.4	-1.1	-1.4
Poland	-0.2	-0.1	-1.0	-0.6	-0.7
Other segments	1.1	-0.2	1.1	-1.3	-1.6
Other	0.0	1.1	-1.2	0.5	-0.7
Total	2.2	1.5	1.2	-2.5	-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 were EUR 15.3 million (19.4) and net liabilities were EUR 8.7 million (13.5). The gearing ratio at the end of the period was 39.6 per cent (60.5) and the equity ratio was 40.1 per cent (38.4). Net financial expenses were EUR 0.5 million (0.5).

Cash flow from operating activities in January–September came to EUR 3.6 million (-1.8). 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 55.5 million (58.7).

Capital expenditure

The Group's gross capital expenditure for January–September was EUR 1.3 million (2.3). This consisted of expenditure on the production line start-up in Poland and on production replacements.

Personnel

The Group employed an average of 750 people (769), which represents a decrease of 2.5 per cent. The number of staff was 683 (725) at the end of the period.

Average personnel by region

	1–9 2014	1–9 2013	1–12 2013
Finland	576	617	620
Scandinavia	60	60	58
Poland	105	80	80
Russia	9	12	12
Group total	750	769	770

Product development, products and communications

Martela believes in a versatile and flexible workspace solution known as the activity based office. The transformation of an office space begins with the employees' needs and their working methods. Designs for workspaces cannot be based on paper or computer designs, they must always be based on studies of the people who use the workspace. Martela has been applying this philosophy in practice at its own offices at Martela House in Helsinki since 2012.

During the spring and summer of 2014, Martela conducted a study on the use of its own spaces and updated them to meet the needs of the company's new organisation and new ways of working. Today, 40 per cent of the people working at Martela House have their own, fixed workstation and the remaining 60 per cent work at different workstations and in different work spaces depending on their tasks, the day and the project they are working on. They have their own locker to store their own belongings that is locked with their access card, but they are otherwise free to choose the space they work in. All of Martela's workspaces support different types of activities. At the work place, every space is a workspace.

The space reform was introduced to stakeholders at the Open Day event organised in September 2014 which was attended by guests from Finland and the Group's other home markets. The new workspaces and the principles they are based on attracted wide interest among the guests. The Martela House is a great way to showcase the advantages of a modern activity-based office to customers.

New products and solutions designed particularly for activity-based offices were also launched at the same event. They included Antti Kotilainen's new seats for the Sola product family, PodWork and PodLow by the o4i design office, Framery's phone booths and meeting modules and the Flow presentation solution for meetings developed in collaboration with Satavision.

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. During the review period, Martela presented an intelligent storage system and intelligent desks that use smart cards to adapt to each user's individual preferences.

Group structure

The Group's Russian companies in St Petersburg (LLC Martela Sp) and Moscow (LLC Martela) were merged in the third quarter. Operations are now being continued by a legal entity named LLC Martela. There were no other changes in Group structure during the review period year.

Shares

During January–September, 349,145 (483,531) of the company's A shares were traded on NASDAQ OMX Helsinki Ltd, corresponding to 9.8 per cent (13.6) of all A shares.

The value of trading turnover was EUR 1.1 million (2.1), and the share price was EUR 3.35 at the beginning of the year and EUR 3.19 at the end of the review period. During January–September the share price was EUR 3.59 at its highest and EUR 3.03 at its lowest. At the end of September, equity per share was EUR 5.43 (5.52).

Treasury shares

Martela did not purchase any of its own shares in January–September. On 30 September 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 September 2014. On 30 September 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

No other significant events requiring reporting have taken place since the January–September 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 IFRS recognition and measurement principles, but not all the IAS34 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 1-9	2013 1-9	2014 7-9	2013 7-9	2013 1-12
Revenue	**104 675**	**95 443**	**36 543**	**34 311**	**132 293**
Other operating income	740	1 249	182	1 043	1 352
Employee benefits expenses	-27 475	-28 151	-8 031	-8 205	-38 160
Operating expenses	-73 975	-68 527	-25 564	-24 756	-94 824
Depreciation and impairment	-2 760	-2 531	-927	-884	-3 550
Operating profit/loss	**1 205**	**-2 517**	**2 203**	**1 509**	**-2 889**
Financial income and expenses	-508	-513	-202	-215	-1 195
Share of result in associated undertakings	0	-243	0	2	-305
Profit/loss before taxes	**697**	**-3 273**	**2 001**	**1 296**	**-4 389**
Income tax	-294	148	-203	54	455
Profit/loss for the period	**403**	**-3 125**	**1 798**	**1 350**	**-3 934**
Other comprehensive income:					
Translation differences	-167	-81	-50	57	-80
Actuarial gains and losses	0	0	0	0	337
Actuarial gains and losses, deferred taxes	-18	0	0	0	-81
Total comprehensive income	**218**	**-3 206**	**1 748**	**1 407**	**-3 758**
Basic earnings per share, eur	0,10	-0,77	0,44	0,34	-0,97
Diluted earnings per share, eur	0,10	-0,77	0,44	0,34	-0,97
Allocation of net profit for the period:					
To equity holders of the parent	403	-3 125	1 798	1 350	-3 934
Allocation of total comprehensive income:					
To equity holders of the parent	218	-3 206	1 748	1 407	-3 758

GROUP BALANCE SHEET (EUR 1 000)	30.9.2014	31.12.2013	30.9.2013
ASSETS			
Non-current assets			
Intangible assets	5 765	6 403	6 909
Tangible assets	10 883	11 767	11 685
Investments	55	55	55
Deferred tax assets	381	373	387
Receivables	0	0	9
Investment properties	600	600	600
Total	**17 684**	**19 198**	**19 646**
Current assets			
Inventories	11 525	10 913	13 400
Receivables	19 734	23 646	19 809
Financial assets at fair value			
Cash and cash equivalents	6 580	4 857	5 830
Total	**37 839**	**39 416**	**39 039**
Total assets	**55 523**	**58 614**	**58 685**
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	-253	-86	-87
Retained earnings	14 415	14 121	14 674
Treasury shares	-1 050	-1 050	-1 050
Share-based incentives	766	710	710
Total	**21 985**	**21 802**	**22 354**
Non-current liabilities			
Interest-bearing liabilities	8 501	8 645	9 276
Deferred tax liabilities	846	846	1 102
Pension obligations	547	637	868
Total	**9 894**	**10 128**	**11 246**
Current liabilities			
Interest-bearing	6 227	6 731	9 209
Non-interest bearing	17 417	19 386	15 876
Reservation	0	566	0
Total	**23 644**	**26 683**	**25 085**
Total liabilities	**33 538**	**36 811**	**36 331**
Equity and liabilities, total	**55 523**	**58 614**	**58 685**

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				-81	-3 125		-3 206
Dividends					-810		-810
Share-based incentives					0		0
30.09.2013	7 000	1 116	-9	-87	15 384	-1 050	22 354
01.01.2014	7 000	1 116	-9	-86	14 831	-1 050	21 802
Total comprehensive income				-167	403		236
Other change					-91		-91
Introduction of IAS 19R, deferred taxes					-18		-18
Dividends					0		0
Share-based incentives					56		56
30.09.2014	7 000	1 116	-9	-253	15 181	-1 050	21 985

CONSOLIDATED CASH FLOW STATEMENT (EUR 1 000)	2014 1-9	2013 1-9	2013 1-12
Cash flows from operating activities			
Cash flow from sales	108 159	98 203	132 033
Cash flow from other operating income	460	1 244	353
Payments on operating costs	-104 397	-100 865	-131 746
Net cash from operating activities before financial items and taxes	**4 222**	**-1 418**	**640**
Interest paid	-240	-246	-475
Interest received	9	17	24
Other financial items	-194	-141	-196
Dividends received	0	1	1
Taxes paid	-159	-51	-130
Net cash from operating activities (A)	**3 638**	**-1 839**	**-136**
Cash flows from investing activities			
Capital expenditure on tangible and intangible assets	-1 237	-2 160	-2 711
Proceeds from sale of tangible and intangible assets	17	5	38
Proceeds from sale of other investments	0	0	960
Net cash used in investing activities (B)	**-1 220**	**-2 155**	**-1 713**
Cash flows from financing activities			
Proceeds from short-term loans	26 000	11 500	18 500
Repayments of short-term loans	-25 116	-7 275	-18 246
Proceeds from long-term loans	0	0	1 283
Repayments of long-term loans	-1 529	-1 081	-1 503
Dividends paid and other profit distribution	0	-810	-810
Net cash used in financial activities (C)	**-645**	**2 334**	**-776**
Change in cash and cash equivalents (A+B+C) (+ increase, - decrease)	**1 773**	**-1 660**	**-2 625**
Cash and cash equivalents in the beginning of period	4 857	7 589	7 589
Translation differences	-50	-99	-107
Cash and cash equivalents at the end of period	**6 580**	**5 830**	**4 857**

SEGMENT REPORTING (EUR 1 000)

Segment revenue	2014 1-9	2013 1-9	2014 7-9	2013 7-9	2013 1-12
Business Unit Finland					
external	64 343	66 532	23 098	24 740	92 272
internal	4	0	-1	0	0
Business Unit Sweden and Norway					
external	20 966	14 970	4 192	3 801	20 524
internal	1 344	1 294	410	458	1 658
Business Unit Poland					
external	8 119	8 087	3 389	2 898	11 710
internal	390	40	390	28	61
Other segments					
external	11 247	5 854	5 864	2 873	7 787
internal	9 716	7 536	2 866	2 519	10 107
Total external revenue	**104 675**	**95 443**	**36 543**	**34 311**	**132 293**

Segment operating profit/loss	2014 1-9	2013 1-9	2014 7-9	2013 7-9	2013 1-12
Business Unit Finland	1 886	40	1 268	1 030	1 436
Business Unit Sweden and Norway	373	-1 098	89	-322	-1 363
Business Unit Poland	-970	-648	-172	-142	-676
Other segments	1 086	-1 292	1 052	-164	-1 636
Other	-1 170	481	-34	1 107	-650
Total operating profit/loss	**1 205**	**-2 517**	**2 203**	**1 509**	**-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 1.1-30.9.2014	Land areas	Buildings	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	0	176	1 061	0	72
Decreases	0	-29	-35	0	0

TANGIBLE ASSETS 1.1-30.9.2013	Land areas	Buildings	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	0	72	1 512	0	-603
Decreases	-4	0	-84	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 1-9	2013 1-9	2013 1-12
Operating profit/loss	1 205	-2 517	-2 889
- in relation to revenue	1,2	-2,6	-2,2
Profit/loss before taxes	697	-3 273	-4 389
- in relation to revenue	0,7	-3,4	-3,3
Profit/loss for the period	403	-3 125	-3 934
- in relation to revenue	0,4	-3,3	-3,0
Basic earnings per share, eur	0,10	-0,77	-0,97
Diluted earnings per share, eur	0,10	-0,77	-0,97
Equity/share, eur	5,43	5,52	5,38
Equity ratio	40,1	38,4	37,6
Return on equity *	2,5	-17,1	-16,3
Return on investment *	4,3	-8,6	-7,9
Interest-bearing net-debt, eur million	8,7	13,5	11,2
Gearing ratio	39,6	60,5	51,2
Capital expenditure, eur million	1,3	2,3	3,0
- in relation to revenue	1,3	2,5	2,3
Personnel at the end of period	683	725	767
Average personnel	750	769	770
Revenue/employee, eur thousand	139,6	124,1	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	30.9.2014	31.12.2013	30.9.2013
Mortgages and shares pledged	22 088	23 218	23 293
Other commitments	354	902	877
Rental commitments	10 710	14 120	12 803

DEVELOPMENT OF SHARE PRICE	2014	2013	2013
	1-9	1-9	1-12
Share price at the end of period, eur	3,19	3,61	3,35
Highest price, eur	3,59	5,50	5,50
Lowest price, eur	3,03	3,49	3,30
Average price, eur	3,22	4,27	4,11

Martela Corporation
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