MARTELA CORPORATION INTERIM REPORT 11 August 2015 at 8.30 a.m.

MARTELA CORPORATION INTERIM REPORT, 1 January – 30 June 2015

Substantial decrease in revenue in the first half of the year, but operating result remained at previous year's level

Key figures:

EUR million	4-6 2015	4-6 2014	1-6 2015	1-6 2014	1-12 2014
- Revenue	30.0	34.1	56.6	68.1	135.9
- Change in revenue, %	-12.0	16.3	-16.9	11.5	2.7
- Operating result	0.2	0.4	-1.1	-1.0	0.2
- Operating result, %	0.8	1.1	-1.9	-1.5	0.1
- Earnings/share, EUR	0.01	0.03	-0.35	-0.34	-0.18
- Return on investment, %	2.5	4.1	-6.1	-5.4	0.5
- Return on equity, %	0.7	2.2	-14.7	-13.4	-3.4
- Equity ratio, %			35.7	35.4	38.1
- Gearing ratio, %			46.3	44.5	33.4

The Martela Group anticipates that its revenue in 2015 will remain at the previous year's level or that there will be a slight decline. A slight improvement in the operating result is expected. The Group's operating result is weighted towards the second half of the year due to normal seasonal variation, and this year the trend will be further emphasised by the fact that there are large projects taking place during the final months of the year.

Market

The market environment has remained largely unchanged. The overall demand for office furniture continued to be low in the review period in the Group's main market areas: Finland, Sweden, Poland and Russia. Demand currently focuses on alteration and enhancement projects, which is reflected in an increasing interest in activity-based office solutions and the Martela Lifecycle model. Even though the overall demand continues to be low, the many office alteration projects that are at the planning stage in the Nordic countries are improving the market situation slightly. However, decision-making is being slowed by the general economic uncertainty and the extent of long-term leases. In the Russian market, the situation has been even more challenging than elsewhere.

In addition to office construction, the demand for Martela's products and services is significantly affected by the general economic situation and by the extent to which companies need to use their office space more efficiently. The need to boost efficiency often leads to office alteration projects, which in turn generate demand for Martela's products and services. The annual change in gross domestic product (GDP) can be regarded as a indicator of general economic development. In Finland, this change was -0.1% in 2014. According to most forecasts, the change in Finland's GDP is estimated to be near zero or only slightly positive in 2015. Judging from these forecasts, there can still be no expectation of a strong recovery in the near future.

Consolidated revenue and result

Consolidated revenue for the second quarter was EUR 30.0 million (34.1), a decrease of 12.0 per cent on the previous year. Consolidated revenue for January-June was EUR 56.6 million (68.1), a decrease of 16.9 per cent. Despite the challenging market situation in Finland, the Group's revenue in Finland in the review period was slightly higher than in the previous year. This was due to the positive response to the activity-based office solutions and the Martela Lifecycle model in Finland. There were no major customer projects in the first half of the year in Finland. Instead, revenue consisted of small and medium-sized deliveries. There was a substantial decrease in the revenue of Business Unit International compared with the previous year. Since 1 May 2015, the unit has been responsible for sales in Poland and Russia and exports to countries where Martela does not have a subsidiary. Russia accounted for most of the decrease, whereas the revenue in Poland was at the previous year's level. In Sweden and Norway, Martela had major customer deliveries in the first half of 2014, but in 2015 there are major deliveries taking place in the second half of the year. For this reason, the revenue generated by Business Unit Sweden & Norway decreased considerably year-on-year in the first half of 2015. As a result of the developments in Sweden and Norway and the decrease in the revenue in Russia, the Group's revenue decreased in the first half of the year.

The consolidated operating result for the second quarter was EUR 0.2 million (0.4) and the figure for the first half of the year was EUR -1.1 million (-1.0). Efficiency improvement measures helped the Business Unit Finland to achieve a good operating result during the review period. At the same time, however, the operating results of Martela's foreign business units weakened due to the decrease in revenue. In autumn 2013, the Group launched a savings programme of EUR 6 million, which was completed in 2014. About one third of the savings were implemented in 2014 and the rest will be put into effect during 2015. The adjustment measures helped the Group to cut its fixed costs on a year-on-year basis as planned. At the same time, as a result of the production efficiency measures implemented in 2014, the sales margin on the Group's products was slightly higher than in the previous year. Due to the measures taken, the Group's operating result for the first half of 2015 remained at the previous year's level, even though at the same time there was a substantial decrease in revenue.

Measures to improve supply chain efficiency continued in the first half of the year. In January Martela Corporation launched statutory employee negotiations to increase the efficiency of its logistics centre in Nummela and its subsidiary, Kidex Oy, in Kitee. As a result of the negotiations, the number of personnel was reduced by four employees in the Nummela logistics centre and by 13 employees at Kidex. In addition, a decision was made to implement temporary lay-offs of no more than 90 days. The lay-offs concerned employees in Nummela and the entire staff at Kidex. The purpose of these measures is to adjust capacity to the market demand and the changes in the structure of demand.

Martela also launched a new savings programme in April. The aim is to reduce costs by EUR 4 million at the annual level by the end of 2016, such that these cost savings will take full effect in 2017. As part the programme, the company launched statutory employee negotiations in April that covered all office employees at Martela Corporation. As a consequence of the negotiations the decision was taken to give notice to a total of 15 employees. It was also agreed that, if necessary, Martela will resort to temporary lay-offs lasting for a maximum of 90 days. Costs savings will also be made as a result of normal retirements and other personnel reductions, as these positions will not be filled but instead the work will be reorganised. As a result of the above-mentioned measures, Martela expects to achieve yearly cost savings of about EUR 1.2 million by the end of 2016.

To enhance operational efficiency, it was decided to integrate Business Unit Poland into Business Unit International. From 1 May 2015, Business Unit International has consisted of sales operations in Poland and Russia as well as exports to countries where Martela does not have a subsidiary.

Over the past year, interest in activity-based office solutions has continued to increase in Martela's main market areas. The Group has introduced novel solutions suitable for activity-based offices and continues to invest in its ability to provide even more high-quality comprehensive solutions and services in the field of activity-based working. The Group has strengthened its pioneering position as a supplier of comprehensive solutions and as a leading service provider for offices and other working environments.

The result before taxes was EUR -1.4 million (-1.3), and the result after taxes was EUR -1.4 million (-1.4).

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

The Business Unit International is responsible for the sales of Martela products in Poland and Russia and in countries where Martela does not have a subsidiary. The most important export countries are Denmark, Estonia, the Netherlands, Germany and Japan. The unit has its own sales network in Poland and Russia, while in other countries it relies on authorised dealers. The unit is also responsible for managing the Group's key international accounts. There are seven sales centres in Poland and two in Russia.

'Other segments' comprises the business activities of Kidex Oy, Non-allocated Group functions, production units and non-recurring sales gains and losses are also reported in the operating result of other segments.

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.

Change in segments' external revenue and percentage of consolidated revenue

EUR million	4-6 2015	4-6 2014	Change, %	1-6 2015	1-6 2014	Change, %	Share, %	1-12 2014	Share, %
Finland	22.1	21.8	1.4 %	42.1	41.2	2.0 %	74.3 %	87.5	64.4 %
Sweden & Norway	3.4	6.5	-48.0 %	6.8	16.8	-59.3 %	12.1 %	24.9	18.3 %
International	4.1	5.5	-25.8 %	7.0	9.5	-26.1 %	12.4 %	22.4	16.4 %
Other segments	0.4	0.2	82.2 %	0.7	0.6	21.9 %	1.3 %	1.2	0.9 %
Total	30.0	34.1	-12.0 %	56.6	68.1	-16.9 %	100.0 %	135.9	100.0 %

Operating result by segment

EUR million	4-6 2015	4-6* 2014	1-6 2015	1-6* 2014	1-12* 2014
Finland	1.4	1.0	2.8	0.6	2.8
Sweden & Norway	-0.6	0.3	-1.2	0.4	-0.4
International	-0.2	0.2	-0.9	-0.5	-0.3
Other segments	-0.4	-1.1	-1.7	-1.5	-2.0
Total	0.2	0.4	-1.1	-1.0	0.2

'Other segments' includes the business activities of Kidex Oy. Non-allocated Group functions, production units and non-recurring sales gains and losses are also presented under other segments.

* The operating result generated by internal invoicing in the production unit (under 'Other') in 2014 has been adjusted to be comparable to this year. For this reason, the operating results of the various units for 2014 have changed slightly.

Financial position

The Group has a stable financial position. The cash flow from operating activities in January-June totalled EUR -1.2 million (3.0). The weakening was a result of an increase in working capital, some of which was tied to inventories at the end of the review period when the Group was preparing for deliveries during the summer.

At the end of the period, interest-bearing liabilities stood at EUR 14.4 million (15.8) and net liabilities at EUR 8.7 million (8.9). The gearing ratio at the end of the period was 46.3% (44.5) and the equity ratio 35.7% (35.4). Net financial expenses were EUR 0.3 million (0.3). Financing arrangements include covenant clauses in which the ratio between the Group's net liabilities and EBITDA and the Group's equity ratio are calculated. The key figures calculated at the end of the period fulfil the covenant clauses.

The balance sheet total stood at EUR 52.9 million (61.6) at the end of the period.

Capital expenditure

The Group's gross capital expenditure for January–June was EUR 0.5 million (1.0) and was incurred in production replacements.

Personnel

Matti Rantaniemi was appointed as the new Managing Director of Martela Corporation on 1 June 2015. He will take up his duties on 1 October 2015 when Heikki Martela, the current Managing Director, will assume the position of Chairman of the Board of Martela Corporation.

The Group employed an average of 651 (756) persons, which is a year-on-year decrease of 13.9 per cent. The number of employees was 659 (735) at the end of the period.

Average personnel by region

	1-6 2015	1-6 2014	1-12 2014
Finland	489	591	559
Scandinavia	48	60	62
Poland	104	92	110
Russia	10	13	11
Group total	651	756	742

Product development and products

Martela Lifecycle® model

The Martela Lifecycle® model has been well received in the domestic market and it continued to be the focus of sales and marketing measures in the second quarter. With its model, Martela can specify the customer's workplace requirements and design, implement and maintain the workplace in accordance with these requirements. In Finland, Martela already has comprehensive services available for each stage of the lifecycle. Now Martela is also mainly able to provide its customers in Poland, Russia, Sweden and Norway with full lifecycle services. Martela's product development focus has been very much on the development of lifecycle services.

In activity-based offices, workstations must feel personal even if they are used by several employees

Martela launched a novel PodWork workstation during the review period. All Pod products are perfect for activity-based offices. Pod furniture supports different ways of working and feels personal even when used by several people. An important factor is the design, which is both open and suitably intimate. The Pod product family includes workstations that are open or more intimate, a meeting space, and sofas and chairs, which can all be combined to create spaces for various needs.

Go with the GoBag

Another new product is the small and handy GoBag, in which employees can carry the items that they need during the day. When they put their personal items in a locker for the day in the morning, they take out a GoBag for their work-related items. Originally intended as an experiment, the GoBag immediately became so popular that it was included in Martela's product range. A laptop, papers and other necessary items that are usually kept on the desk all fit conveniently into a GoBag. After the working day, the GoBag can be left in the personal locker to await a new day.

Other new products launched during the second quarter were the Bit seats, which are particularly well-suited for learning environments, the Frankie conference table and the new seats of the Sola product family.

Group structure

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

Shares

During January–June, 362,228 (212,542) of the company's A shares were traded on NASDAQ OMX Helsinki, which was equivalent to 10.2 per cent (6.0) of the total number of A shares.

The value of trading turnover was EUR 1.1 million (0.7), and the share price was EUR 2.91 at the end of 2014 and EUR 2.96 at the end of the review period. During January-June the share price was EUR 3.40 at its highest and EUR 2.85 at its lowest. At the end of June, equity per share was EUR 4.58 (4.96).

Treasury shares

Martela did not purchase any of its own shares in January–June. Of the Martela A shares held by the company, a total of 4,553 shares were transferred to recipients of incentives on 15 April 2015 in accordance with the terms of the share-based incentive scheme. This means that on 30 June 2015, Martela owned a total of 63,147 Martela A shares, purchased at an average price of EUR 10.65. Martela's holding of treasury shares amounts to 1.5% of all shares and 0.4% of all votes.

Share acquisition for the share-based incentive scheme has been outsourced to an external service provider. The external service provider was not in possession of any undistributed shares at the end of the review period on 30 June 2015.

2015 Annual General Meeting

Martela Corporation's Annual General Meeting was held on 10 March 2015. The AGM approved the financial statements for 2014 and discharged the members of the Board of Directors and the Managing Director from liability. The AGM decided, in accordance with the Board of Directors' proposal, to distribute a dividend of EUR 0.10 per share. The dividend was paid on 19 March 2015.

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

Events after the review period

Maija Kaski (M.Ed, age 47) was appointed Martela Group's HR director and a member of the Group's Management Team in July. She will take up her new duties on 1 September 2015.

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 2015

The Martela Group anticipates that its revenue in 2015 will remain at the previous year's level or that there will be a slight decline. A slight improvement in the operating result is expected. The Group's operating result is weighted towards the second half of the year due to normal seasonal variation, and this year the trend will be further emphasised by the fact that there are large projects taking place during the final months of the year.

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 2014 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)

	2015 1-6	2014 1-6	2015 4-6	2014 4-6	2014 1-12
Revenue	**56 642**	**68 132**	**29 978**	**34 052**	**135 918**
Other operating income	184	558	39	29	1 049
Employee benefits expenses	-16 453	-19 444	-8 339	-9 343	-36 258
Operating expenses	-39 710	-48 410	-20 579	-23 445	-96 789
Depreciation and impairment	-1 723	-1 834	-858	-916	-3 764
Operating profit/loss	**-1 060**	**-998**	**241**	**377**	**156**
Financial income and expenses	-347	-306	-198	-143	-753
Profit/loss before taxes	**-1 407**	**-1 304**	**43**	**234**	**-597**
Income tax	-25	-91	-7	-119	-112
Profit/loss for the period	**-1 432**	**-1 395**	**36**	**115**	**-709**
Other comprehensive income:					
Translation differences	206	-117	26	-58	-613
Actuarial gains and losses	0	0	0	0	-72
Deferred taxes, actuarial gains and losses	0	-18	0	-18	14
Total comprehensive income	**-1 226**	**-1 530**	**62**	**39**	**-1 380**
Basic earnings per share, eur	-0,35	-0,34	0,01	0,03	-0,18
Diluted earnings per share, eur	-0,35	-0,34	0,01	0,03	-0,18
Allocation of net profit for the period:					
To equity holders of the parent	-1 432	-1 395	36	115	-709
Allocation of total comprehensive income:					
To equity holders of the parent	-1 226	-1 530	62	39	-1 380

GROUP BALANCE SHEET (EUR 1 000)	30.6.2015	31.12.2014	30.6.2014
ASSETS			
Non-current assets			
Intangible assets	5 094	5 481	5 978
Tangible assets	9 616	10 499	11 254
Investments	55	55	55
Deferred tax assets	462	496	375
Investment properties	600	600	600
Total	**15 827**	**17 131**	**18 262**
Current assets			
Inventories	12 472	10 161	13 699
Receivables	18 890	20 538	22 729
Cash and cash equivalents	5 755	6 407	6 902
Total	**37 117**	**37 106**	**43 330**
Total assets	**52 944**	**54 237**	**61 592**
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	-493	-699	-203
Retained earnings	10 911	13 125	12 478
Treasury shares	-673	-1 050	-1 050
Share-based incentives	896	837	738
Total	**18 748**	**20 320**	**20 070**
Non-current liabilities			
Interest-bearing liabilities	10 375	6 794	8 769
Deferred tax liabilities	734	813	874
Pension obligations	737	737	547
Total	**11 846**	**8 344**	**10 190**
Current liabilities			
Interest-bearing	3 319	5 671	6 515
Non-interest bearing	19 031	19 902	24 817
Total	**22 350**	**25 573**	**31 332**
Total liabilities	**34 196**	**33 917**	**41 522**
Equity and liabilities, total	**52 944**	**54 237**	**61 592**

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
01.01.2014	7 000	1 116	-9	-86	14 602	-1 050	21 573
Total comprehensive income					-1 396		-1 396
Translation differences				-117			-117
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	13 216	-1 050	20 070
01.01.2015	7 000	1 116	-9	-699	13 962	-1 050	20 320
Total comprehensive income					-1 432		-1 432
Translation differences				206			206
Dividends					-354		-354
Withholding tax on dividends					-51		-51
Share-based incentives					-318	377	59
30.06.2015	7 000	1 116	-9	-493	11 807	-673	18 748

CONSOLIDATED CASH FLOW STATEMENT (EUR 1 000)	2015 1-6	2014 1-6	2014 1-12
Cash flows from operating activities			
Cash flow from sales	56 878	75 330	139 896
Cash flow from other operating income	151	278	764
Payments on operating costs	-57 942	-72 328	-133 266
Net cash from operating activities before financial items and taxes	**-913**	**3 279**	**7 394**
Interest paid	-111	-148	-425
Interest received	5	7	15
Other financial items	-143	-97	-355
Dividends received	0	1	7
Taxes paid	-55	-12	-471
Net cash from operating activities (A)	**-1 217**	**3 029**	**6 165**
Cash flows from investing activities			
Capital expenditure on tangible and intangible assets	-419	-892	-1 484
Proceeds from sale of tangible and intangible assets	32	16	21
Net cash used in investing activities (B)	**-387**	**-876**	**-1 463**
Cash flows from financing activities			
Proceeds from short-term loans	5 500	17 000	33 500
Repayments of short-term loans	-7 549	-16 113	-34 292
Proceeds from long-term loans	4 000	0	0
Repayments of long-term loans	-722	-977	-2 119
Dividends paid and other profit distribution	-405	0	0
Net cash used in financial activities (C)	**824**	**-90**	**-2 911**
Change in cash and cash equivalents (A+B+C) (+ increase, - decrease)	**-780**	**2 063**	**1 791**
Cash and cash equivalents in the beginning of period	6 407	4 857	4 857
Translation differences	127	-18	-241
Cash and cash equivalents at the end of period	**5 754**	**6 902**	**6 407**

SEGMENT REPORTING (EUR 1 000)

Segment revenue	2015 1-6	2014 1-6	2015 4-6	2014 4-6	2014 1-12
Business Unit Finland					
external	42 068	41 249	22 127	21 818	87 469
internal	3 474	2 551	1 716	1 285	6 613
Business Unit Sweden and Norway					
external	6 828	16 790	3 379	6 491	24 886
internal	3	1 225	-391	581	1 425
Business Unit International					
external	7 022	9 499	4 114	5 546	22 357
internal	261	993	232	771	2 709
Other segments					
external	724	594	358	197	1 206
internal	7 865	8 514	3 961	4 407	18 275
Total external revenue	**56 642**	**68 132**	**29 978**	**34 052**	**135 918**

Segment operating profit/loss	2015 1-6	2014 1-6	2015 4-6	2014 4-6	2014 1-12
Business Unit Finland	2 831	618	1 421	998	2 840
Business Unit Sweden and Norway	-1 196	364	-590	275	-398
Business Unit International	-949	-451	-181	205	-312
Other segments	-1 746	-1 529	-409	-1 101	-1 974
Total operating profit/loss	**-1 060**	**-998**	**241**	**377**	**156**

Business Unit International consists of Martela's sales operations in Poland and Russia as well as exports. The item "Other" includes operating activities of Kidex Oy, non-allocated Group functions, production units and non-recurring sales gains and losses.

TANGIBLE ASSETS 1.1-30.6.2015	Land areas	Buildings	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	0	121	337	0	9
Decreases	0	0	-52	0	0

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

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	2015 1-6	2014 1-6	2014 1-12
Operating profit/loss	-1 060	-998	156
- in relation to revenue	-1,9	-1,5	0,1
Profit/loss before taxes	-1 407	-1 304	-597
- in relation to revenue	-2,5	-1,9	-0,4
Profit/loss for the period	-1 432	-1 395	-709
- in relation to revenue	-2,5	-2,1	-0,5
Basic earnings per share, eur	-0,35	-0,34	-0,18
Diluted earnings per share, eur	-0,35	-0,34	-0,18
Equity/share, eur	4,58	4,96	5,02
Equity ratio	35,7	35,4	38,1
Return on equity *	-14,7	-13,4	-3,4
Return on investment *	-6,1	-5,4	0,5
Interest-bearing net-debt, eur million	8,7	8,9	6,8
Gearing ratio	46,3	44,5	33,4
Capital expenditure, eur million	0,5	1,0	1,7
- in relation to revenue	0,8	1,4	1,3
Personnel at the end of period	659	735	670
Average personnel	651	756	742
Revenue/employee, eur thousand	87,0	90,1	183,2

Key figures are calculated according to formulas as presented in Annual Report 2014.
* When calculating return on equity and return on investment the profit/loss for the period has been multiplied in interim reports.

CONTINGENT LIABILITIES	30.6.2015	31.12.2014	30.6.2014
Mortgages and shares pledged	26 892	22 002	22 074
Other commitments	257	287	358
Rental commitments	8 915	10 526	11 937

DEVELOPMENT OF SHARE PRICE	2015	2014	2014
	1-6	1-6	1-12
Share price at the end of period, eur	2,96	3,13	2,91
Highest price, eur	3,40	3,55	3,65
Lowest price, eur	2,85	3,03	2,84
Average price, eur	3,12	3,23	3,20

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