MARTELA CORPORATION INTERIM REPORT 29 April 2016 at 8.30 a.m.

MARTELA CORPORATION INTERIM REPORT, 1 January – 31 March 2016

During the first quarter, the revenue and the operating result improved slightly on last year.

Key figures:

EUR million	1–3 2016	1–3 2015	1–12 2015
- Revenue	27.8	26.7	132.8
- Change in revenue, %	4.3	-21.8	-2.3
- Operating result	-0.1	-1.3	4.1
- Operating result, %	-0.5	-4.9	3.1
- Earnings/share, EUR	-0.07	-0.36	0.61
- Return on investment, %	-1.7	-15.1	12.1
- Return on equity %	-5.5	-30.1	11.6
- Equity-to-assets ratio %	42.8	37.7	40.9
- Gearing ratio, %	3.9	31.3	16.6

The Martela Group anticipates that its revenue and operating result for 2016 will remain at the previous year's level. Due to normal seasonal variations, the Group's operating result accumulates mainly during the second half of the year.

Market

The market situation prevailing at the end of 2015 continued into the first quarter of 2016. Finland's general economic environment remains challenging, although some recovery was discernible late in 2015 with a slight upturn in GDP. The Russian economy continues to be weak. In contrast, the national economies of Sweden and Poland continued to develop favourably.

The weak Finnish economy on the one hand and the need for companies to rapidly adjust their operations to the new business realities on the other have generated an often-substantial need to develop working environments. The Martela Lifecycle model can respond to companies' needs to effectively develop their working environments even when they are faced with significant changes in their business. As a result, the Finnish market has still performed moderately well from Martela's perspective, despite being challenging.

While the Swedish and Polish markets have fared considerably better in recent times than that of Finland, change and efficiency projects are usually given precedence there, too. Quicker development of working environments to meet new business needs and objectives has gained a key role also in Sweden and Poland.

The demand for Martela's products and services has been fundamentally affected by the general economic situation and by the extent to which companies need to use their office space more efficiently and make their working environments more functional. The annual change in gross domestic product (GDP) can be regarded as a good indicator of the general economic trend. In Finland, the change in GDP was slightly positive in 2015. Most GDP forecasts for 2016 indicate a similar trend, which would mean that the Finnish economy will see a continued, slow recovery. It is true, however, that prognoses concerning this recovery have become more uncertain in the past quarter.

Consolidated revenue and result

Consolidated revenue for January-March was EUR 27.8 million (26.7). However, the revenue in Finland – which was generated mainly by small and medium-sized deliveries – showed a slight decline on 2015. In contrast, revenue increased significantly in Sweden. Two major customer deliveries were made in Sweden in the review period and, as a result, good growth was attained in this market area. Thanks to the success in Sweden, the overall revenue of the Business Unit Finland & Sweden increased 8.3 per cent on last year. During the review period, Poland's revenue under the Business Unit International declined substantially, however. And while the other countries in this Business Unit were able to increase their revenue somewhat, it was not enough to prevent the overall revenue of Business Unit International from decreasing by 17.8%. Nevertheless, the positive performance of Business Unit Finland & Sweden meant that the consolidated revenue grew slightly.

The Group's operating result for the first quarter was EUR -0.1 million (-1.3). The operating result was boosted by the slight increase in revenue and the significant reduction in the Group's fixed costs as a result of the savings programmes implemented. At the same time, the sales margin of the Group's products was slightly lower than a year earlier, due to the composition of the revenue in the review period. Measures implemented during the two preceding review periods were successful particularly in improving the result of the Group's production units.

Measures to improve supply chain efficiency continued to be implemented in the first quarter. In March Martela initiated co-determination negotiations at its Bodafors facility in Sweden concerning improvements to the efficiency of operations at the Martela Ab logistics centre in Bodafors. The negotiations were completed after the end of the review period in April and a decision was made to reduce the staff at the logistics centre in Bodafors by 16 persons. The purpose of the measures is to create a more flexible supply chain in response to the changed and more varied customer demand and to implement the Martela Lifecycle strategy more effectively. In addition to improving the supply chain, the planned measures target a EUR 0.5 million reduction in annual costs. The savings are part of the EUR 4.0 million savings programme Martela announced in April 2015. With the measures to be implemented in Sweden, the entire programme has now been completed. About one third of the savings were achieved in 2015 and about half will be achieved in 2016, with the remainder being realised during 2017.

User-oriented activity-based offices are an increasingly popular solution for corporate offices. Martela has introduced many new solutions for activity-based office environments and continues to focus on developing modern solutions and services. The Group has also invested heavily on the competence in specification, design and maintenance of working environments. This helps it to offer even more carefully specified working environments that are a good fit for customer needs. With proper specification and design customer companies can create cost-efficient working environments that increase job satisfaction.

The result before taxes was EUR -0.3 million (-1.4), and the result after taxes was EUR -0.3 million (-1.5).

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, 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.

The Business Unit Finland & Sweden 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 service locations, and in Sweden the unit has its own sales and showroom facilities in Stockholm and Bodafors.

Business Unit International is responsible for the sales of Martela products in Norway, 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 Norway, Poland and Russia, while in other countries it relies on authorised importers. It has a total of two sales centres in Norway, seven in Poland and two in Russia

”Other segments” includes 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 sourcing for the Business Units are the responsibility of the Group's Customer Supply Management unit (formerly Supply Chain Management), which has logistics centres in Finland, Sweden and Poland.

Change in segment revenue and the share of consolidated revenue by segment

EUR million	1–3 2016	1–3 2015	Change %	Share	1–12 2015	Share
Finland & Sweden	24.4	22.5	8.3%	87.9%	111.5	84.0%
International	3.1	3.8	-17.8%	11.1%	20.1	15.2%
Other segments	0.3	0.4	-20.5%	1.0%	1.2	0.9%
Total	27.8	26.7	4.3%	100.0%	132.8	100.0%

Operating result by segment

EUR million	1–3 2016	1–3 2015	1–12 2015
Finland & Sweden	0.9	1.0	7.7
International	-0.8	-0.9	-2.7
Other segments	-0.2	-1.3	-1.0
Total	-0.1	-1.3	4.1

Business Unit International consists of Martela's sales operations in Norway, Poland and Russia as well as exports.
The item "Other segments" includes the business operations of Kidex Oy, non-allocated Group functions, production units and non-recurring sales gains and losses. There were no non-recurring sales gains or losses during the review period.

Financial position

The Group's financial position improved on the situation at the turn of the year and is stable. The cash flow from operating activities in January-March was EUR 3.9 million (1.4). The cash flow was strengthened by a decline in working capital during the review period.

At the end of the period, interest-bearing liabilities stood at EUR 10.6 million (13.0) and net liabilities at EUR 0.8 million (5.9). The gearing ratio at the end of the period was 3.9% (31.3) and the equity ratio 42.8% (37.7). Net financial expenses were EUR 0.1 million (0.1). 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 50.8 million (50.3) at the end of the period.

Capital expenditure

The Group's gross capital expenditure for January-March was EUR 0.2 million (0.3) and was incurred on production replacements.

Personnel

The Group employed an average of 570 people (660), which represents a decrease of 13,6 %. The number of employees in the Group was 559 (649) at the end of the period.

Average personnel by region

	1–3 2016	1-3 2015	1-12 2015
Finland	428	490	469
Scandinavia	48	51	49
Poland	86	109	93
Russia	8	10	11
Group total	570	660	622

Product development and products

Working environment lifecycle model

In the first quarter of 2016, the Martela Lifecycle® model continued to be the focus of sales and marketing measures. With the Lifecycle model, Martela can specify the customer's workplace requirements, and design, implement and maintain the working environment in accordance with these requirements. The Martela Lifecycle model considers working environments from a holistic point of view, covering office space, furniture and people. Developing a user-oriented specification service has been a special focus in product development. All users of a space are engaged in its specification stage. We have developed workshops and other participatory research methods for this stage. This new approach to workplace design has been well-received by companies and also by the public sector. Demands for greater efficiency are at the forefront of today's public debate, and municipal finances in particular are under great pressure.

Martela's Finnish design wins recognition

Martela's distinguished design services and products were awarded the Design from Finland label in February. The Association for Finnish Work awards the label for unique Finnish design, thus acknowledging a company's trailblazing contribution to Finnish design. In addition, Martela's services and selected products were granted the Key Flag mark in recognition of its Finnish-made products and the jobs it creates in Finland. The Key Flag mark was granted to all Martela Lifecycle services and many Martela products, such as the new Beatbox seating stand.

New from Martela at the Stockholm Furniture Fair

Martela took part in the Stockholm Furniture & Light Fair in 9–13 February with an impressive display of its products and services. The Fair is the world's largest event showcasing Scandinavian design. Martela displayed its services widely at the fair and also its new products launched this spring. Among them was Iiro Viljanen's Scoop sofa table. Scoop is an easy to move and very versatile range of tables with a simple Scandinavian design and a relaxed feel. The tables in the range come in two different heights and there are six different tabletop options. Antti Kotilainen's Sola and Nooa series, also shown at the fair, are also perfect examples of comfortable office furniture. Framery Q, an insulated work space for two people was launched at the fair and attracted considerable interest.

Individual furniture purchases cover only a small part of companies' needs. Martela's comprehensive approach to workplaces is inspiring and enhances efficiency. It is centred on the user-oriented specification of workplace needs and four key areas of work: Collaboration, Concentration, Communication and Chill Out which allow for different ways of working. At Martela's stand, fair-goers experienced all four key areas and how they nourish creativity instead of restricting it by setting up unnecessary barriers.

Group structure

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

Shares

In January-March, a total of 736,042 (204,887) of the company's A shares were traded on NASDAQ OMX Helsinki, corresponding to 20.6% (5.8) of all A shares.

The value of trading turnover was EUR 3.6 million (0.7), and the share price was EUR 3.53 at the end of 2015 and EUR 5.04 at the end of the review period. During January-March, the share price was EUR 5.88 at its highest and EUR 3.29 at its lowest. At the end of March, equity per share was EUR 5.22 (4.62).

Treasury shares

The company did not purchase any Martela shares in January-March. On 31 March 2016, 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 per cent of all shares and 0.4 per cent of all votes. Of the Martela A shares held by the company, a total of 16,001 shares were transferred to recipients of incentives in accordance with the terms of the share-based incentive scheme after the review period, on 15 April 2016. After this transfer, the company holds a total of 47,146 treasury shares. Share acquisition for the share-based incentive scheme has been outsourced to an external service provider.

2016 Annual General Meeting

Martela Corporation's Annual General Meeting was held on 8 March 2016. The AGM approved the financial statements for 2015 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 0.25 per share. The dividend was paid on 17 March 2016

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

The AGM 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 Martela as Chairman and Eero Leskinen as Vice Chairman.

Developments after the reporting period

On 11 April 2016 Martela concluded its negotiations under the Swedish Co-Determination at Work Act concerning improvements to the efficiency of operations at the Martela Ab logistics centre in Bodafors and the possible impact this will have on the personnel. The purpose of the planned measures is to create a more flexible supply chain in response to the changed and more varied customer demand and to implement the Martela Lifecycle strategy more effectively. As a result of the negotiations a decision was made to reduce the staff at the logistics centre in Bodafors by 16 persons.

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 regarding profit performance relates to the general economic uncertainty and the consequent effects on the overall demand for office furniture.

Outlook for 2016

The Martela Group anticipates that its revenue in 2016 will remain at the previous year's level. Due to normal seasonal variation, the Group's operating result accumulates mainly during 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 2015 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)

	2016	2015	2015
	1-3	1-3	1-12
Revenue	**27 800**	**26 664**	**132 820**
Other operating income	150	145	395
Employee benefits expenses	-7 060	-8 114	-32 277
Operating expenses	-20 291	-19 131	-93 446
Depreciation and impairment	-746	-865	-3 417
Operating profit/loss	**-147**	**-1 301**	**4 075**
Financial income and expenses	-132	-149	-689
Profit/loss before taxes	**-279**	**-1 450**	**3 386**
Income tax	-22	-18	-903
Profit/loss for the period	**-301**	**-1 468**	**2 483**
Other comprehensive income:			
Translation differences	13	180	-41
Actuarial gains and losses	0	0	253
Actuarial gains and losses, deferred taxes	0	0	-32
Total comprehensive income	**-288**	**-1 288**	**2 663**
Basic earnings per share, eur	-0,07	-0,36	0,61
Diluted earnings per share, eur	-0,07	-0,36	0,61
Allocation of net profit for the period:			
To equity holders of the parent	-301	-1 468	2 483
Allocation of total comprehensive income:			
To equity holders of the parent	-288	-1 288	2 663

GROUP BALANCE SHEET (EUR 1 000)	31.3.2016	31.12.2015	31.3.2015
ASSETS			
Non-current assets			
Intangible assets	4 618	4 733	5 289
Tangible assets	8 094	8 524	10 123
Investments	55	55	55
Deferred tax assets	373	381	459
Investment properties	600	600	600
Total	**13 740**	**14 293**	**16 526**
Current assets			
Inventories	10 270	10 655	10 558
Receivables	16 971	23 314	16 056
Cash and cash equivalents	9 799	7 724	7 165
Total	**37 040**	**41 693**	**33 779**
Total assets	**50 780**	**55 986**	**50 305**
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	-727	-740	-519
Retained earnings	13 748	15 047	11 304
Treasury shares	-673	-673	-1 050
Share-based incentives	904	921	880
Total	**21 359**	**22 662**	**18 722**
Non-current liabilities			
Interest-bearing liabilities	8 346	8 388	10 424
Deferred tax liabilities	716	758	784
Pension obligations	574	574	737
Total	**9 636**	**9 720**	**11 945**
Current liabilities			
Interest-bearing	1 720	2 517	1 867
Non-interest bearing	18 063	21 087	17 771
Total	**19 783**	**23 604**	**19 638**
Total liabilities	**29 419**	**33 324**	**31 583**
Equity and liabilities, total	**50 780**	**55 986**	**50 305**

STATEMENT OF CHANGES IN EQUITY (EUR 1 000)

Equity attributable to equity holders of the parent

	Share capital	Share premium account	Other reserves	Transl. diff.	Retained earnings	Treasury shares	Total
01.01.2015	7 000	1 116	-9	-699	13 962	-1 050	20 320
Total comprehensive income					-1 467		-1 467
Translation diff.				180			180
Dividends					-354		-354
Share-based incentives					43		43
31.03.2015	7 000	1 116	-9	-519	12 184	-1 050	18 722
01.01.2016	7 000	1 116	-9	-740	15 968	-673	22 662
Total comprehensive income					-301		-301
Translation diff.				13			13
Dividends					-998		-998
Share-based incentives					-17		-17
31.03.2016	7 000	1 116	-9	-727	14 652	-673	21 359

CONSOLIDATED CASH FLOW STATEMENT (EUR 1 000)	2016	2015	2015
	1-3	1-3	1-12
Cash flows from operating activities			
Cash flow from sales	33 544	29 299	129 489
Cash flow from other operating income	148	128	354
Payments on operating costs	-29 649	-27 825	-125 229
Net cash from operating activities before financial items and taxes	**4 043**	**1 602**	**4 614**
Interest paid	-54	-83	-422
Interest received	0	2	10
Other financial items	-34	-51	-273
Dividends received	3	0	0
Taxes paid	-26	-45	-55
Net cash from operating activities (A)	**3 934**	**1 425**	**3 874**
Cash flows from investing activities			
Capital expenditure on tangible and intangible assets	-200	-297	-626
Proceeds from sale of tangible and intangible assets	2	17	41
Net cash used in investing activities (B)	**-198**	**-280**	**-585**
Cash flows from financing activities			
Proceeds from short-term loans	0	4 000	11 932
Repayments of short-term loans	-782	-7 487	-15 262
Proceeds from long-term loans	0	4 000	4 000
Repayments of long-term loans	-55	-687	-2 231
Dividends paid and other profit distribution	-859	-353	-405
Net cash used in financial activities (C)	**-1 696**	**-527**	**-1 966**
Change in cash and cash equivalents (A+B+C) (+ increase, - decrease)	**2 040**	**618**	**1 323**
Cash and cash equivalents in the beginning of period	7 724	6 407	6 407
Translation differences	35	140	-6
Cash and cash equivalents at the end of period	**9 799**	**7 165**	**7 724**

SEGMENT REPORTING (EUR 1 000)

Segment revenue	2016 1-3	2015 1-3	2015 1-12
Business Unit Finland and Sweden	24 424	22 544	111 505
Business Unit international	3 087	3 757	20 131
Other	289	363	1 183
Total external revenue	**27 800**	**26 664**	**132 820**

Segment operating profit/loss	2016 1-3	2015 1-3	2015 1-12
Business Unit Finland and Sweden	912	976	7 744
Business Unit international	-816	-937	-2 707
Other	-243	-1 340	-962
Total operating profit/loss	**-147**	**-1 301**	**4 075**

Business Unit international include sales in Norway, Poland and Russia and also export to other countries. Other segments include Kidex Oy and non-allocated Group functions, production units and non-recurring sales gains and losses.

TANGIBLE ASSETS 1.1-31.3.2016

	Land areas	Buildings	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	0	58	118	0	0
Decreases	0	-6	-6	0	0

TANGIBLE ASSETS 1.1-31.3.2015

	Land areas	Buildings	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	0	81	290	0	0
Decreases	0	0	-41	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	2016 1-3	2015 1-3	2015 1-12
Operating profit/loss	-147	-1 301	4 075
- in relation to revenue	-0,5	-4,9	3,1
Profit/loss before taxes	-279	-1 450	3 386
- in relation to revenue	-1,0	-5,4	2,5
Profit/loss for the period	-301	-1 468	2 483
- in relation to revenue	-1,1	-5,5	1,9
Basic earnings per share, eur	-0,07	-0,36	0,61
Diluted earnings per share, eur	-0,07	-0,36	0,61
Equity/share, eur	5,22	4,62	5,54
Equity ratio	42,8	37,7	40,9
Return on equity *	-5,5	-30,1	11,6
Return on investment *	-1,7	-15,1	12,1
Interest-bearing net-debt, eur million	0,8	5,9	3,8
Gearing ratio	3,9	31,3	16,6
Capital expenditure, eur million	0,2	0,3	0,7
- in relation to revenue	0,8	1,1	0,5
Personnel at the end of period	559	649	575
Average personnel	570	660	622
Revenue/employee, eur thousand	48,8	40,4	213,5

Key figures are calculated according to formulae as presented in Annual Report 2015

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

CONTINGENT LIABILITIES	31.3.2016	31.12.2015	31.3.2015
Mortgages and shares pledged	26 893	26 905	26 870
Other commitments	421	597	274
Rental commitments	7 965	8 376	9 776

DEVELOPMENT OF SHARE PRICE	2016	2015	2015
	1-3	1-3	1-12
Share price at the end of period, eur	5,04	3,22	3,53
Highest price, eur	5,88	3,37	3,58
Lowest price, eur	3,29	3,00	2,75
Average price, eur	4,85	3,19	3,17

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