

MARTELA CORPORATION INTERIM REPORT, 1 January – 31 March 2015

In the first quarter revenue decreased considerably and the operating result remained at the previous year's level

Key figures:

EUR million	1–3 2015	1–3 2014	1–12 2014
- Revenue	26.7	34.1	135.9
- Change in revenue, %	-21.8	7.0	2.7
- Operating result	-1.3	-1.4	0.2
- Operating result, %	-4.9	-4.0	0.1
- Earnings/share, EUR	-0.36	-0.37	-0.18
- Return on investment, %	-15.1	-15.0	0.5
- Return on equity, %	-30.1	-29.1	-3.4
- Equity ratio, %	37.7	37.2	38.1
- Gearing ratio, %	31.3	45.4	33.4

New guidance:

The Martela Group anticipates that its revenue in 2015 will remain at the previous year's level or slightly decrease. The Group's operating result is estimated to show a slight year-on-year improvement. The Group's operating result is weighted towards the second half of the year due to normal seasonal variation, and this weighting was further emphasised by the timing of larger projects during 2015.

Previous guidance:

The Martela Group anticipates that its revenue in 2015 will remain at the previous year's level and its operating result will show a slight year-on-year improvement. The Group's operating result is weighted towards the second half of the year due to normal seasonal variation, and this weighting was further emphasised by the timing of larger projects during 2015.

Market

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. Instead of new offices, demand currently focuses on alteration and enhancement projects, particularly in the Finnish and Swedish markets. This 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 slightly improving the market situation. However, decision-making is being slowed down by the general economic uncertainty and long-term leases. In Russia, despite the slowing down of the property market and the uncertain economic situation, plans seem to have progressed and activity to have recovered in office construction, but decision-making has been particularly slow because of the prevailing situation.

New statistics on office construction in Finland are not available, as Statistics Finland has discontinued its compilation of building and dwelling production data for the time being.

In addition to office construction, general economic development and companies' need to use their office space more efficiently have an essential effect on the demand for Martela's products and services. 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 the volume of the gross domestic product can be regarded as a good indicator of general economic development. In Finland, this change was -0.1% in 2014. According to

most predictions, the change in Finland's gross domestic product is estimated to be near zero or only slightly positive in 2015. Judging from these predictions, strong recovery is not to be expected in the near future.

Consolidated revenue and result

The Group's revenue for January–March was EUR 26.7 million (34.1). Despite the challenging market situation in Finland, the Group's net sales in Finland remained at the previous year's level. The activity-based office solutions provided by Martela, as well as the Martela Lifestyle model, have been well received in Finland. There were no major customer projects in the first quarter in Finland. Instead, the revenue consisted of small and medium-sized deliveries. In Poland, the revenue decreased markedly year-on-year. As in the previous year, there were no major deliveries in Poland in early 2015. For this reason, the revenue generated by Martela's operations in Poland remained low. In Sweden and Norway, Martela had major customer deliveries in the first quarter of 2014. In 2015, major deliveries will take 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 quarter. As a result of this, as well as the decrease in the revenue in Poland and Russia, the Group's revenue showed a downward trend in the first quarter.

The Group's operating result for the first quarter was EUR -1.3 million (-1.4). In autumn 2013, the Group launched a savings programme of EUR 6 million, which was completed in 2014. Approximately one-third of the savings were achieved in 2014, and the rest will be achieved during 2015. For this reason, the Group's fixed costs decreased year-on-year according to plan, due to the adjustment measures implemented. 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 quarter remained at the previous year's level, even though its revenue decreased markedly.

Measures to improve supply chain efficiency continued to be implemented in the first quarter. 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, 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 the demand.

Martela also launched a new savings programme in April, after the review period. The goal is to reduce costs by EUR 4 million a year by the end of 2016, so that the cost savings will take full effect in 2017. Statutory employee negotiations were launched as part of the savings programme, concerning all office employees at Martela Corporation in Finland. The negotiations may result in a reduction of no more than 20 employees as well as temporary lay-offs of no more than 90 days.

To enhance operational efficiency, a decision was made after the review period, on 29 April 2015, to integrate Business Unit Poland into Business Unit International. In future, Business Unit International will consist of sales operations in Poland and Russia as well as export 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 modern 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 (-1.5), and the result after taxes was EUR -1.5 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.

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 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.

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.

Change in segments' external revenue and percentage of consolidated revenue

EUR million	1–3 2015	1–3 2014	Change, %	Share, %	1–12 2014	Share, %
Finland	19.9	19.4	2.6%	74.8%	87.5	64.4%
Sweden & Norway	3.5	10.3	-66.5%	12.9%	24.9	18.3%
Poland	1.9	2.3	-15.9%	7.2%	11.1	8.2%
Other segments	1.3	2.1	-34.7%	5.0%	12.4	9.2%
Total	26.7	34.1	-21.8%	100.0%	135.9	100.0%

Operating result by segment

EUR million	1–3 2015	1–3* 2014	1–12* 2014
Finland	1.4	-0.4	2.8
Sweden & Norway	-0.6	0.1	-0.4
Poland	-0.5	-0.4	-1.6
Other segments	-0.4	-0.5	0.4
Other	-1.2	-0.2	-1.1
Total	-1.3	-1.4	0.2

"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.

- * 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's financial position improved slightly from the situation at the turn of the year and remains stable. The cash flow from operating activities in January–March was EUR 1.4 million (2.8). The cash flow was strengthened by a decline in the working capital during the review period.

At the end of the period, interest-bearing liabilities stood at EUR 13.0 million (15.1) and net liabilities were EUR 5.9 million (9.1). The gearing ratio at the end of the period was 31.3% (45.4) and the equity ratio was 37.7% (37.2). Net financial expenses were EUR 0.1 million (0.2). 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 50.3 million (56.1) at the end of the period.

Capital expenditure

The Group's gross capital expenditure for January–March was EUR 0.3 million (0.7) and was incurred on production replacements.

Personnel

The Group employed an average of 660 people (793), which represents a decrease of 16.8%. The number of employees was 649 (794) at the end of the period.

Average personnel by region

	1–3 2015	1–3 2014	1–12 2014
Finland	490	627	559
Scandinavia	51	60	62
Poland	109	94	110
Russia	10	12	11
Group total	660	793	742

Product development and products

Increased efficiency through the lifecycle approach

In the first quarter, sales and marketing measures focused on the Martela Lifecycle® model. This model decreases customers' facility expenses and increases job satisfaction. In addition to bringing cost savings, it permanently improves productivity. The new specification service, which has been well received in the market, is an important part of the Martela Lifecycle® model. Specifications are always based on identifying the customer's business goals, needs and nature of work. Studies and surveys are conducted to determine what types of facilities best meet the employees' needs. Usage rates are measured to determine the present state and analyse future needs. User-oriented design takes account of changes in working methods caused by modern technology as well as the needs of various types of users. Well-designed facilities increase productivity and well-being at work while also serving as a leadership tool. This serves to ensure that the organisation has a working environment that supports its operations and that is created and maintained responsibly.

Better user experiences through Dynamic solutions

User-oriented activity-based offices significantly reduce companies' need for space while also improving operational efficiency. When offices are divided into zones based on their purpose of use, employees are

able to make more effective use of their resources and potential. Activity-based offices can be supplemented by new, intelligent Dynamic solutions. Dynamic Desk Booking is a new reservation system. Dynamic Storage is a solution for temporary storage needs. Dynamic Meeting Booking is an easy-to-use solution for reserving meeting rooms and locating other available spaces. These solutions make working in an office easier and enable employees to effortlessly locate free workstations, meeting rooms and storage space and to find their colleagues. Reserving desks and spaces is also easy.

Activity-based offices at the Stockholm Furniture Fair

The annual Stockholm Furniture Fair was held in February. Martela showcased an activity-based office divided into four zones, and the solution attracted a great deal of positive attention among visitors. In addition to Dynamic solutions, Martela also showcased new products, such as the stylish Frankie table and the latest additions to the Sola family of chairs. Martela's storage solutions featured at the fair included The Wall, a versatile locker cabinet that is suitable for small businesses and global corporations alike.

Group structure

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

Shares

In January–March, a total of 204,887 (114,572) of the company's A shares were traded on NASDAQ OMX Helsinki, corresponding to 5.8% (3.2) of all A shares.

The value of trading turnover was EUR 0.7 million (0.4), and the share price was EUR 2.91 at the end of 2014 and EUR 3.22 at the end of the review period. During January–March, the share price was EUR 3.37 at its highest and EUR 3.00 at its lowest. At the end of March, equity per share was EUR 4.62 (4.94).

Treasury shares

The company did not purchase any Martela shares in January–March. On 31 March 2015, 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% of all shares and 0.4% of all votes. Of the Martela A shares held by the company, a total of 4,553 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 2015. After this transfer, the company holds a total of 63,147 treasury shares.

Share acquisition for the share-based incentive scheme has been outsourced to an external service provider. These shares were entered under equity in the consolidated financial statements on 31 March 2015. A total of 38,647 shares under the incentive scheme were still undistributed on 31 March 2015. These A shares were transferred to recipients of incentives in accordance with the terms of the share-based incentive scheme on 15 April 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 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 Eero Leskinen as Vice Chairman.

Events after the review period

Martela launched a savings programme and statutory employee negotiations on 8 April 2015. The goal is to reduce costs by EUR 4 million at the annual level by the end of 2016, so that the cost savings will take full effect in 2017. Launched as part of the savings programme, the statutory employee negotiations concern all office employees at Martela Corporation in Finland. The negotiations may result in a reduction of no more than 20 employees as well as temporary lay-offs of no more than 90 days.

On 29 April 2015, a decision was made to integrate Business Unit Poland into Business Unit International. Business Unit International previously included Martela's operations in Russia and exports to countries where Martela does not have a subsidiary. After the changes, Business Unit International will consist of Martela's sales operations in Poland and Russia as well as exports.

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

Short-term risks

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

Outlook for 2015

The Martela Group anticipates that its revenue in 2015 will remain at the previous year's level or slightly decrease. The Group's operating result is estimated to show a slight year-on-year improvement. The Group's operating result is weighted towards the second half of the year due to normal seasonal variation, and this weighting was further emphasised by the timing of larger projects during 2015.

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 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 1-3	2014 1-3	2014 1-12
Revenue	26 664	34 080	135 918
Other operating income	145	529	1 049
Employee benefits expenses	-8 114	-10 101	-36 258
Operating expenses	-19 131	-24 965	-96 789
Depreciation and impairment	-865	-918	-3 764
Operating profit/loss	-1 301	-1 375	156
Financial income and expenses	-149	-163	-753
Profit/loss before taxes	-1 450	-1 538	-597
Income tax	-18	28	-112
Profit/loss for the period	-1 468	-1 510	-709
Other comprehensive income:			
Translation differences	180	-59	-613
Actuarial gains and losses	0	0	-72
Actuarial gains and losses, deferred taxes	0	0	14
Total comprehensive income	-1 288	-1 569	-1 380
Basic earnings per share, eur	-0,36	-0,37	-0,18
Diluted earnings per share, eur	-0,36	-0,37	-0,18
Allocation of net profit for the period:			
To equity holders of the parent	-1 468	-1 510	-709
Allocation of total comprehensive income:			
To equity holders of the parent	-1 288	-1 569	-1 380

GROUP BALANCE SHEET (EUR 1 000)	31.3.2015	31.12.2014	31.3.2014
ASSETS			
Non-current assets			
Intangible assets	5 289	5 481	6 188
Tangible assets	10 123	10 499	11 741
Investments	55	55	55
Deferred tax assets	459	496	379
Investment properties	600	600	600
Total	16 526	17 131	18 963
Current assets			
Inventories	10 558	10 161	11 848
Receivables	16 056	20 538	19 218
Cash and cash equivalents	7 165	6 407	6 039
Total	33 779	37 106	37 105
Total assets	50 305	54 237	56 068
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	-519	-699	-145
Retained earnings	11 304	13 125	12 382
Treasury shares	-1 050	-1 050	-1 050
Share-based incentives	880	837	710
Total	18 722	20 320	20 004
Non-current liabilities			
Interest-bearing liabilities	10 424	6 794	8 928
Deferred tax liabilities	784	813	818
Other liabilities	0	0	3
Pension obligations	737	737	637
Total	11 945	8 344	10 386
Current liabilities			
Interest-bearing	1 867	5 671	5 560
Non-interest bearing	17 771	19 902	20 118
Total	19 638	25 573	25 678
Total liabilities	31 583	33 917	36 064
Equity and liabilities, total	50 305	54 237	56 068

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					-1 510		-1 510
Translation diff.				-59			-59
Dividends					0		0
Share-based incentives					0		0
31.03.2014	7 000	1 116	-9	-145	13 092	-1 050	20 004
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

CONSOLIDATED CASH FLOW STATEMENT (EUR 1 000)	2015	2014	2014
	1-3	1-3	1-12
Cash flows from operating activities			
Cash flow from sales	29 299	39 912	139 896
Cash flow from other operating income	128	513	764
Payments on operating costs	-27 825	-37 500	-133 266
Net cash from operating activities before financial items and taxes	1 602	2 925	7 394
Interest paid	-83	-95	-425
Interest received	2	3	15
Other financial items	-51	-55	-355
Dividends received	0	0	7
Taxes paid	-45	-11	-471
Net cash from operating activities (A)	1 425	2 767	6 165
Cash flows from investing activities			
Capital expenditure on tangible and intangible assets	-297	-676	-1 484
Proceeds from sale of tangible and intangible assets	17	16	21
Net cash used in investing activities (B)	-280	-660	-1 463
Cash flows from financing activities			
Proceeds from short-term loans	4 000	6 000	33 500
Repayments of short-term loans	-7 487	-5 988	-34 292
Proceeds from long-term loans	4 000	0	0
Repayments of long-term loans	-687	-899	-2 119
Dividends paid and other profit distribution	-353	0	0
Net cash used in financial activities (C)	-527	-887	-2 911
Change in cash and cash equivalents (A+B+C) (+ increase, - decrease)	618	1 220	1 791
Cash and cash equivalents in the beginning of period	6 407	4 857	4 857
Translation differences	140	-39	-241
Cash and cash equivalents at the end of period	7 165	6 039	6 407

SEGMENT REPORTING (EUR 1 000)

Segment revenue	2015 1-3	2014 1-3	2014 1-12
Business Unit Finland			
external	19 942	19 432	87 469
internal	1 759	1 267	6 613
Business Unit Sweden and Norway			
external	3 450	10 299	24 886
internal	394	643	1 425
Business Unit Poland			
external	1 932	2 296	11 126
internal	0	0	0
Other segments			
external	1 340	2 053	12 437
internal	3 905	4 107	18 275
Total external revenue	26 664	34 080	135 918
Segment operating profit/loss	2015 1-3	2014 1-3	2014 1-12
Business Unit Finland	1 410	-380	2 840
Business Unit Sweden and Norway	-606	88	-398
Business Unit Poland	-513	-369	-1 618
Other segments	-398	-509	444
Other	-1 194	-205	-1 112
Total operating profit/loss	-1 301	-1 375	156

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

TANGIBLE ASSETS 1.1-31.3.2015	Land areas	Buildings	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	0	81	290	0	0
Decreases	0	0	-41	0	0

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

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 1-3	2014 1-3	2014 1-12
Operating profit/loss	-1 301	-1 375	156
- in relation to revenue	-4,9	-4,0	0,1
Profit/loss before taxes	-1 450	-1 538	-597
- in relation to revenue	-5,4	-4,5	-0,4
Profit/loss for the period	-1 468	-1 510	-709
- in relation to revenue	-5,5	-4,4	-0,5
Basic earnings per share, eur	-0,36	-0,37	-0,18
Diluted earnings per share, eur	-0,36	-0,37	-0,18
Equity/share, eur	4,62	4,94	5,02
Equity ratio	37,7	37,2	38,1
Return on equity *	-30,1	-29,1	-3,4
Return on investment *	-15,1	-15,0	0,5
Interest-bearing net-debt, eur million	5,9	9,1	6,8
Gearing ratio	31,3	45,4	33,4
Capital expenditure, eur million	0,3	0,7	1,7
- in relation to revenue	1,1	2,1	1,3
Personnel at the end of period	649	794	670
Average personnel	660	793	742
Revenue/employee, eur thousand	40,4	43,0	183,2

Key figures are calculated according to formulae 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	31.3.2015	31.12.2014	31.3.2014
Mortgages and shares pledged	26 870	22 002	22 357
Other commitments	274	287	354
Rental commitments	9 776	10 526	13 067
DEVELOPMENT OF SHARE PRICE	2015	2014	2014
	1-3	1-3	1-12
Share price at the end of period, eur	3,22	3,10	2,91
Highest price, eur	3,37	3,55	3,65
Lowest price, eur	3,00	3,03	2,84
Average price, eur	3,19	3,32	3,20

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