

MARTELA CORPORATION INTERIM REPORT 4 August 2010, 8.30 a.m.

MARTELA CORPORATION INTERIM REPORT, 1 JANUARY - 30 JUNE 2010

Consolidated revenue for January-June amounted to EUR 48.3 million (45.3), a year-on-year increase of 6.6 per cent. Revenue for the second quarter increased to EUR 25.7 million (21.3), a year-on-year increase of 21.0 per cent. Operating profit in January-June was EUR -1.6 million (-0.8). Cash flow from operating activities in January-June came to EUR -2.2 million (7.1). The equity ratio was 54.4 per cent (55.7) and the gearing ratio was -19.7 per cent (-26.4).

Under a deal concluded on 23 June 2010, Martela Corporation acquired Pa-Ri Materia Oy's used furniture business, which has been operating under the name Martela Poistomyynti. With the deal, the Martela Poistomyynti outlets in the Helsinki area and Tampere area to be transferred to Martela. Martela is planning to expand its recycled furniture business to other parts of Finland, too. The revenue of the Pa-Ri Materia Oy business acquired by Martela was about EUR 3.1 million in 2009.

Key figures

	4-6 2010	4-6 2009	1-6 2010	1-6 2009	1-12 2009
EUR million					
Net revenue	25.7	21.3	48.3	45.3	95.3
Change in revenue %	21.0	-36.2	6.6	-34.8	-32.5
Operating profit excluding non-recurring items	-0.5	-0.7	-1.6	-0.8	0.8
Operating profit %	-2.0	-3.3	-3.3	-1.7	0.8
Return on investment, %			-8.1	-2.9	2.3
Return on equity, %			-10.0	-4.9	0.4
Equity to asset ratio, %			54.4	55.7	57.4
Gearing, %			-19.7	-26.4	-33.9
Earnings per share, eur			-0.38	-0.19	0.03
Earnings per share (diluted), eur			-0.38	-0.19	0.03
Average staff			584	645	636
Revenue/employee (EUR 1.000)			82.7	70.2	149.9

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 principles observed in the interim report are the same as in the 2009 financial statements.

Market

There were fewer new starts in office construction in 2009 than in the previous year, and fewer building permits were granted.

Group structure

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

Segment reporting

The segments presented in the interim report comply with the company's segment division. The comparison period figures have also been rendered in the same way. The business segments are based on the Group's internal organisational structure and internal financial reporting.

Sales between segments are reported as part of the segments' revenue. The segments' results are their operating profits, because tax items and financial items are not allocated to the segments. The Group's assets and liabilities are not allocated or monitored by segment in the internal financial reporting. Revenue and the operating result are as recorded in the consolidated financial statements.

Business Unit Finland is responsible for sales, marketing, service production and manufacturing in Finland. Martela has an extensive sales and service network covering the whole of Finland, with a total of 24 sales centres. The Business Unit's logistics centre is in Nummela.

Business Unit Sweden and Norway is responsible for sales in Sweden and Norway, handled through about 70 dealers. In addition, the Business Unit has its own sales and showroom facilities at three locations: Stockholm and Bodafors in Sweden and Oslo in Norway. The Business Unit's logistics centre and order handling are also located in Bodafors.

Business Unit Poland is responsible for the sales and distribution of Martela products in Poland and eastern Central Europe. Sales in Poland are organized via the sales network maintained by the Business Unit. The company has altogether 7 sales centres in Poland. The Business Unit's principal export countries are Ukraine, Hungary, the Czech Republic and Slovakia, in each of which sales are handled by established dealers. Business Unit Poland is based in Warsaw, where it has its logistics centre and administration.

Revenue

Consolidated revenue for January-June amounted to EUR 48.3 million (45.3), a year-on-year increase of 6.6 per cent. The revenue of Business Unit Sweden and Norway was up by 3.2 per cent, while that of Business Unit Poland was down by 28.2 per cent, calculated in local currencies. The overall effect of exchange rate movements on consolidated revenue was approximately +3 percentage points. Second-quarter revenue rose to EUR 25.7 million (21.3), a year-on-year increase of 21.0 per cent.

Revenue by segment
EUR million

	Business unit Finland	Business unit Sweden & Norway	Business unit Poland	Other segments	Total
1.1.2010-30.6.2010					
External Revenue	32.3	8.9	3.3	3.8	48.3
Internal Revenue	0.0	0.6	0.0	7.4	8.0
Total 2010	32.3	9.5	3.3	11.2	
1.1.2009-30.6.2009					
External Revenue	30.9	7.8	4.1	2.5	45.3
Internal Revenue	0.0	0.1	0.0	8.1	8.2
Total 2009	30.9	7.9	4.1	10.6	
External revenue change %	4.6	13.1	-19.3	54.3	6.6

Other Segments includes P.O. Korhonen Oy, Kidex Oy and Business Unit International, which is responsible for export markets.

Change in external revenue and percentage of consolidated revenue

EUR million	1-6 2010	1-6 2009	Change%	Percentage	1-12 2009	Percentage
Business unit Finland	32.3	30.9	4.6	66.9 %	63.9	67.0%
Business unit Sweden & Norway	8.9	7.8	13.1	18.3 %	15.8	16.6 %
Business unit Poland	3.3	4.1	-19.3	6.9 %	9.5	9.9 %
Other segments	3.8	2.5	54.3	7.9 %	6.2	6.5 %
Total	48.3	45.3	6.6	100.0 %	95.3	100.0 %

Consolidated result

Operating profit for the first half-year was EUR -1.6 million (-0.8). The result does not include non-recurring items (2009 and 2010). Second-quarter operating profit was EUR -0.5 million (-0.7).

Profit before taxes was EUR -1.7 million (-0.9), and profit after taxes was EUR -1.5 million (-0.8).

Operating profit excluding non-recurring items was -3.3 per cent of revenue (-1.7).

Operating profit by segment

	1-6 2010	1-6 2009	1-12 2009
EUR million			
Business Unit Finland	0.8	2.0	3.9
Business Unit Sweden & Norway	-0.4	-0.7	-1.0
Business Unit Poland	-0.9	-0.3	-0.7
Other Segments	-0.2	-0.3	-1.0
Other	-0.9	-1.5	-0.4
Total	-1.6	-0.8	0.8

Other Segments includes P.O. Korhonen Oy, Kidex Oy and Business Unit International, which is responsible for export markets. The item 'Others' includes non-allocated Group functions and non-recurring sales gains and losses.

Financial position

The Group's financial position is strong. At the end of June, interest-bearing liabilities were EUR 7.2 million (9.7), and net liabilities were EUR -5.7 million (-8.1). The gearing ratio was -19.7 per cent (-26.4) and the equity ratio was 54.4 per cent (55.7). Net financing costs amounted to EUR -0.1 million (-0.2).

Cash flow from operating activities in January-June came to EUR -2.2 million (7.1).

The balance sheet total at the end of June was EUR 53.2 million (55.6).

Capital expenditure

The Group's gross capital expenditure for January-June was EUR 1.3 million (1.1). The capital expenditure mainly concerned production replacements and IT investments.

Personnel

The Group employed an average of 584 (645) persons, a year-on-year decrease of 9.5 per cent.

Average personnel by region

	1-6 2010	1-6 2009	1-12 2009
Finland	438	491	479
Scandinavia	54	63	62
Poland	89	91	94
Russia	3	0	1
Group total	584	645	636

Related party transactions

Martela Group's related parties are the Managing Director, the members of the Board of Directors, and the Group Management Team. The fees paid to the Board Chairman and collectively to the members of the Board in the first six months of the year totalled EUR 15,000 (15,000) and EUR 34,000 (30,000), respectively. Board membership fees are not paid to those members employed by the company.

The total salaries, fees and other benefits paid to Martela Corporation's Managing Director in January-June came to EUR 93,000 (93,000). In addition, a total of EUR 28,000 (28,000) was paid in share bonuses. The total salaries, fees and other benefits paid to the Group Management Team (excl. the Managing Director's salary) for January-June totalled EUR 494,000 (416,000). In addition, a total of EUR 131,000 (133,000) was paid in share bonuses.

Product development and Martela's collection

Product development and the management of Martela's collection are the responsibility of two Group-level organisations. Brand & Product Portfolio is responsible for management of the collection and brand, and Product Development and Marketing is responsible for the development of innovative products and the Group's marketing communications.

The first half of 2010 saw the launch of some interesting new products. A larger James+ chair was added to the James task chair range. The versatile range of adjustments possible with this task chair, which is designed by Iiro Viljanen, enhance the wellbeing of the chair's user. The MyBox desk and the Book space divider/shelf, previously presented as concepts, are now in production. These new products share the characteristics of versatility and new and innovative thinking. The MyBox desk, designed by Iiro Viljanen, has a lid that can be closed to protect the work items on the desk, with the lid's upper surface at the same time serving as a fresh desk top that can be used for a meeting, for example. Designed by Pekka Toivola, Book combines the characteristics of a space divider and a storage unit in a new way. The overall look and scope can be easily varied by combining the elements in various ways.

In Finland, the service product range was expanded at the beginning of the year with an innovative addition to the services available for office premises. This consisted of a new system for keeping track of office furniture for inventory and other purposes. The system is based on radio frequency identification (RFID) and is a unique way of managing office property. The new system has been very well received by our customers.

Shares

During January-June, 535,720 (455,921) of the company's A shares were traded on the NASDAQ OMX Helsinki Ltd exchange, corresponding to 15.1 per cent (12.8) of all A shares.

The value of trading turnover was EUR 4.0 million (3.0), and the share price was EUR 7.13 at the beginning of the year and EUR 6.63 at the end of the second quarter. During January-June the share price was EUR 8.60 at its highest and EUR 6.53 at its lowest. At the end of June, equity per share was EUR 7.11 (7.59).

Treasury shares

The company did not purchase any Martela shares in January-June. On 30 June 2010, 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 corresponds to 1.6 per cent of all shares and 0.4 per cent of all votes.

Acquisition of shares for the share-based incentive scheme and the management of the scheme have been outsourced to an external service provider, Evli Alexander Management Oy. These shares were entered under equity in the consolidated financial statements for 2009. On 30 June 2010, 57,625 shares under the incentive scheme were still undistributed.

2010 Annual General Meeting

The Annual General Meeting of Martela Corporation was held on Tuesday 16 March 2010. The meeting approved the financial statements for 2009 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 0.45 per share.

Heikki Ala-Ilkka, Tapio Hakakari, Jori Keckman, Heikki Martela, Pekka Martela, Jaakko Palsanen and new member Pinja Metsäranta were elected as members of the Board of Directors. KPMG Oy Ab, Authorised Public Accountants, was elected 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 AGM decided, in accordance with the Board of Directors' proposal, to amend the company's Articles of Association (with respect to delivery of the meeting notice).

The new Board of Directors convened after the Annual General Meeting and elected Heikki Ala-Ilkka as Chairman and Pekka Martela as Vice Chairman.

Short-term risks

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

More information on risks is given in the company's annual report.

Outlook for 2010

Low demand will have an effect on the company's revenue and operating profit in 2010. The company will continue to review its cost structure and to improve the efficiency of its operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (EUR 1000)

	2010 1-6	2009 1-6	2010 4-6	2009 4-6	2009 1-12
Revenue	48.290	45.283	25.727	21.264	95.349
Other operating income	0.149	0.388	0.077	0.257	0.746
Employee benefits expenses	-13.591	-13.914	-7.167	-6.766	-25.988
Operating expenses	-35.078	-31.032	-18.475	-14.728	-66.206
Depreciation and impairment	-1.370	-1.485	-0.684	-0.727	-3.109
Operating profit/loss	-1.600	-0.760	-0.522	-0.700	0.793
Financial income and expenses	-0.109	-0.188	-0.069	-0.078	-0.365
Profit/loss before taxes	-1.709	-0.948	-0.591	-0.778	0.427
Income tax	0.197	0.164	0.064	0.215	-0.291
Profit/loss for the period	-1.512	-0.784	-0.527	-0.563	0.137
Other comprehensive income					
Translation differences	0.130	-0.082	-0.004	0.072	0.077
Total comprehensive income	-1.382	-0.866	-0.531	-0.491	0.214
Basic earnings per share, eur	-0.38	-0.19	-0.13	-0.14	0.03
Diluted earnings per share, eur	-0.38	-0.19	-0.13	-0.14	0.03
Allocation of net profit for the period:					
To equity holders of the parent	-1.512	-0.784	-0.527	-0.563	0.137
Allocation of total comprehensive income					
To equity holders of the parent	-1.382	-0.866	-0.531	-0.491	0.214
GROUP BALANCE SHEET (EUR 1000)	30.6.2010	31.12.2009	30.06.2009		
ASSETS					
Non-current assets					
Intangible assets		1.188	0.716	0.796	
Tangible assets		11.366	11.862	12.210	
Investments		0.034	0.038	0.039	
Deferred tax assets		0.348	0.262	0.294	
Pension receivables		0.197	0.197	0.072	
Investment properties		0.600	0.600	0.600	
Total		13.733	13.675	14.011	
Current assets					
Inventories		9.274	9.408	11.437	
Receivables		17.383	13.210	12.423	
Financial assets at fair value through profit and loss		1.094	1.094	1.073	
Cash and cash equivalents		11.718	18.211	16.658	
Total		39.470	41.923	41.591	
Total assets		53.203	55.598	55.602	

EQUITY AND LIABILITIES

Equity			
Share capital	7.000	7.000	7.000
Share premium account	1.116	1.116	1.116
Other reserves	0.117	0.117	0.117
Translation differences	-0.279	-0.409	-0.568
Retained earnings	21.346	24.672	23.751
Treasury shares	-1.212	-1.200	-1.200
Share-based incentives	0.576	0.466	0.371
Total	28.664	31.762	30.587
Non-current liabilities			
Interest-bearing liabilities	2.699	3.518	6.875
Deferred tax liability	1.033	1.305	1.201
Total	3.732	4.823	8.076
Current liabilities			
Interest-bearing	4.456	5.008	2.796
Non-interest bearing	16.351	14.006	14.143
Total	20.807	19.014	16.939
Total liabilities	24.539	23.837	25.015
Equity and liabilities, total	53.203	55.598	55.602

STATEMENT OF CHANGES IN EQUITY (EUR 1000)

Equity attributable to equity holders of the parent

	Share capital	Share premium account	Other reserves	Trans. diff.	Retained earnings and share-based inc.	Treasury shares	Total
01.01.2009	7.000	1.116	0.117	-0.486	27.605	-1.610	33.742
Tot.compr.income				-0.082	-0.784		-0.866
Dividends					-2.390		-2.390
Share-based inc.					-0.309	0.410	0.101
30.06.2009	7.000	1.116	0.117	-0.568	24.122	-1.200	30.587
1.1.2010	7.000	1.116	0.117	-0.409	25.138	-1.200	31.762
Tot.compr. income				0.130	-1.512		-1.382
Dividends					-1.814		-1.814
Share-based inc.					0.110	-0.012	0.098
30.06.2010	7.000	1.116	0.117	-0.279	21.922	-1.212	28.664

CONSOLIDATED CASH FLOW STATEMENT (EUR 1000)

	2010	2009	2009
	1-6	1-6	1-12
Cash flows from operating activities			
Cash flow from sales	45.251	55.913	104.678
Cash flow from other operating income	0.109	0.247	0.489
Payments on operating costs	-47.042	-47.115	-92.273
Net cash from operating activities before financial items and taxes	-1.682	9.046	12.894
Interest paid	-0.169	-0.313	-0.516
Interest received	0.023	0.135	0.166
Other financial items	0.005	0.013	-0.002
Taxes paid	-0.411	-1.780	-1.780
Net cash from operating activities (A)	-2.235	7.100	10.762
Cash flows from investing activities			
Capital expenditure on tangible and intangible assets	-1.205	-0.894	-1.663
Proceeds from sale of tangible and intangible assets	0.118	0.853	1.004
Net cash used in investing activities (B)	-1.086	-0.042	-0.659
Cash flows from financing activities			
Proceeds from short-term loans	0.000	0.006	0.008
Repayments of short-term loans	-0.352	-0.408	-0.781
Repayments of long-term loans	-1.136	-1.136	-2.273
Dividends paid and other profit distribution	-1.813	-2.389	-2.390
Net cash used in financial activities (C)	-3.302	-3.927	-5.436
Change in cash and cash equivalents (A+B+C) (+ increase, - decrease)	-6.623	3.131	4.667
Cash and cash equivalents at the beginning of period	19.304	14.620	14.620
Translation differences	0.131	-0.020	0.017
Cash and cash equivalents at the end of period	12.812	17.731	19.304

SEGMENT REPORTING (EUR 1 000)

Segment revenue	2010 1-6	2009 1-6	2010 4-6	2009 4-6	2009 1-12
Business unit Finland					
external	32.289	30.855	17.197	13.725	63.898
internal	0.000	0.000	0.000	0.000	0.000
Business unit Sweden and Norway					
external	8.855	7.826	4.829	3.484	15.834
internal	0.648	0.143	0.349	0.099	0.457
Business Unit Poland					
external	3.332	4.131	1.765	2.516	9.465
internal	0.000	0.020	0.000	0.012	0.015
Other segments					
external	3.814	2.471	1.936	1.539	6.151
internal	7.365	8.119	3.759	3.880	16.464
Total external revenue	48.290	45.283	25.727	21.264	95.348
Segment operating profit/loss	2010 1-6	2009 1-6	2010 4-6	2009 4-6	2009 1-12
Business Unit Finland	0.771	1.977	0.586	0.342	3.854
Business Unit Sweden and Norway	-0.426	-0.725	-0.125	-0.514	-0.966
Business Unit Poland	-0.887	-0.271	-0.476	0.009	-0.668
Other segments	-0.153	-0.248	0.084	-0.084	-0.985
Other	-0.905	-1.493	-0.591	-0.453	-0.442
Total operating profit/loss	-1.600	-0.760	-0.522	-0.700	0.793

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

TANGIBLE ASSETS 1.1-30.6.2010

	Land areas	Buildings	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	0.000	0.039	0.453	0.000	0.198
Decreases	0.000	-0.073	-0.005	0.000	0.000

TANGIBLE ASSETS 1.1-30.6.2009

	Land areas	Buildings	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	0.000	0.084	0.670	0.060	0.014
Decreases	-0.023	-0.687	0.000	0.000	0.000

RELATED PARTY AND SHARE-BASED INCENTIVE PROGRAMME

The CEO and the group's management and some key-persons are included in a long-term incentive scheme, extending from 2010 to the end of 2012.

KEY FIGURES/RATIOS

	2010	2009	2009
	1-6	1-6	1-12
Operating profit/loss	-1.600	-0.760	0.793
- in relation to revenue	-3.3	-1.7	0.8
Profit/loss before taxes	-1.709	-0.948	0.427
- in relation to revenue	-3.5	-2.1	0.4
Profit/loss for the period	-1.512	-0.784	0.137
- in relation to revenue	-3.1	-1.7	0.1
Basic earnings per share, eur	-0.38	-0.19	0.03
Diluted earnings per share, eur	-0.38	-0.19	0.03
Equity/share, eur	7.11	7.59	7.88
Equity ratio	54.4	55.7	57.4
Return on equity *	-10.0	-4.9	0.4
Return on investment *	-8.1	-2.9	2.3
Interest-bearing net-debt, eur million	-5.7	-8.1	-10.8
Gearing ratio	-19.7	-26.4	-33.9
Capital expenditure, eur million	1.3	1.1	2.2
- in relation to revenue, %	2.7	2.3	2.3
Personnel at the end of period	590	645	606
Average personnel	584	645	636
Revenue/employee, eur thousand	82.7	70.2	149.9

Key figures are calculated according to formulae as presented in Annual Report 2009.

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

CONTINGENT LIABILITIES

	30.6.2010	31.12.2009	30.6.2009
Mortgages and shares pledged	14.704	14.480	14.329
Other commitments	0.256	0.256	0.347

RENTAL COMMITMENTS

	7.299	7.971	7.757
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DEVELOPMENT OF SHARE PRICE

	2010	2009	2009
	1-6	1-6	1-12
Share price at the end of period, EUR	6.63	7.30	7.13
Highest price, EUR	8.60	7.84	8.00
Lowest price, EUR	6.53	5.21	5.21
Average price, EUR	7.54	6.67	6.98

This interim report has not been audited

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