MARTELA CORPORATION INTERIM REPORT 26 October 2012 at 8.30 a.m.

MARTELA CORPORATION INTERIM REPORT, 1 January - 30 September 2012

Consolidated revenue up, operating result lower than previous year

Key figures:

EUR million	7-9 2012	7-9 2011	1-9 2012	1-9 2011	1-12 2011
- Revenue	34.8	33.8	101.9	91.7	130.7
- Change in revenue, %	2.9	29.7	11.1	23.4	20.6
- Operating result	0.6	2.4	-1.2	0.7	2.6
- Operating result ,%	1.7	7.0	-1.2	0.8	2.0
- Earnings per share, EUR	0.07	0.45	-0.49	0.02	0.39
- Return on investment, %	5.5	26.3	-4.4	2.1	6.0
- Return on equity, %	4.0	24.3	-9.1	0.4	5.1
- Equity ratio, %			44.5	55.5	44.7
- Gearing, %			35.9	-4.9	-2.6

The Martela Group expects to post year-on-year revenue growth for 2012, and an operating result around zero or slightly positive.

Market

In the third quarter, the effects of global economic uncertainty started to be reflected in the demand for office furniture in the Nordic countries. Demand was at a good level during the first half in Finland, Sweden and Poland, but after the summer, uncertainty was observed in decision-making for the first time this year. In Denmark, demand has been weak throughout the review period.

Statistics on office construction are available for the first half of 2012, and these also indicate a slowdown in construction. In terms of square metres, the amount of new office space built in Finland in the first half of 2012 was 14 per cent less than in the previous year. In the same period the number of building permits granted was also down by 6 per cent, and there were 9 per cent fewer new office building starts than in 2011.

Consolidated revenue and result

Consolidated revenue for the third quarter was EUR 34.8 million (33.8), an increase of 2.9 per cent on the previous year. Revenue for January-September rose to EUR 101.9 million (91.7), representing growth of 11.1 per cent. This was partly due to the acquisition of the Grundell companies at the end of 2011. Revenue also grew in the normal sales channels in Finland. The situation proved challenging in the other main market areas, as revenue declined in Business Unit Sweden & Norway and Business Unit Poland compared with the corresponding period of 2011. The decline in revenue was especially notable in Business Unit Poland due to revenue from a larger project having been recognized last year. In terms of comparable figures (excluding acquisitions) the Martela Group’s revenue grew in the review period by 6.1 per cent.

The operating profit for the third quarter declined and was EUR 0.6 million (2.4). The operating profit for January-September declined substantially and was EUR -1.2 million (0.7). This year, the Group has continued its investments that were commenced last year to develop and increase its business, which has raised fixed costs. The objective of these investments is particularly to strengthen the Group’s service business and sales channels. As the investments have not yet generated enough return, the Group’s operating result weakened despite the increase in revenue. Moreover, we have not been able to sufficiently compensate for the decrease in revenue that has taken place in our foreign business units by adjusting expenses. Therefore, the operating results of the main business units outside Finland have weakened substantially compared with the previous year.

Codetermination negotiations were initiated during the review period to establish a new service production unit. The purpose of the unit is to improve the efficiency of operations, simplify customer service and ensure high quality. The negotiations were concluded on 20 April 2012 and as a result the number of personnel in the Group will decrease by nine. In addition, six permanent office employees will be transferred to service production as permanent factory employees.

The result before taxes for January-September was EUR -1.9 million (0.2), and the result after taxes was EUR -2.0 million (0.1).

Segment reporting

The segments presented in the interim report comply with the company's segment division. The comparison year's 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 segment results presented are their operating results, because tax items and financial items are not allocated by segment. The Group's assets and liabilities are not allocated or monitored by segment in the internal financial reporting. The revenue and operating result are as recorded in the consolidated financial statements.

Business Unit Finland is responsible for sales and marketing, service production and product manufacturing in Finland. Martela has an extensive sales and service network covering the whole of Finland, with a total of 28 service locations. The Business Unit's logistics centre is in Nummela.

Business Unit Sweden & Norway's sales are handled through 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. 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 organized via the sales network maintained by the Business Unit. The company has altogether 7 sales centres in Poland. Business Unit Poland is based in Warsaw, where it has its logistics centre and administration.

Revenue by segment

EUR million	Finland	Sweden & Norway	Poland	Other segments	Total
1.1.2012-30.9.2012					
External Revenue	71.9	14.1	7.7	8.1	101.9
Internal Revenue	0.0	1.4	0.0	9.9	11.3
Total 2012	71.9	15.5	7.7	18.0	
1.1.2011-30.9.2011					
External Revenue	62.2	14.6	8.9	6.0	91.7
Internal Revenue	0.8	1.1	0.0	9.8	11.7
Total 2011	63.0	15.7	8.9	15.8	
External revenue change %	15.6%	-4.0%	-12.9%	36.5%	11.1%

"Other segments" includes the revenues of Kidex Oy and Business Unit International. The Business Unit is responsible for the Group's other export markets. The revenue of P.O. Korhonen was included in the figures for 'Other segments' until the end of January 2011, but subsequently has not been included, due to changes in the Group structure. Since the beginning of 2012, Business Unit International's revenue has included sales of auditorium furniture. In 2011, this revenue was presented in the figures for Business Unit Finland.

Change in segments' external revenue and percentage of consolidated revenue

EUR million	7-9 2012	7-9 2011	Change-%	1-9 2012	1-9 2011	Change-%	Share-%	1-12 2011	Share-%
Finland	24.7	23.2	6.3%	71.9	62.2	15.6%	70.6 %	88.6	67.8 %
Sweden & Norway	4.7	4.4	7.5%	14.1	14.6	-4.0%	13.8 %	20.6	15.7 %
Poland	2.6	4.0	-35.4%	7.7	8.9	-12.9%	7.6 %	12.9	9.9 %
Other segments	2.8	2.2	28.1%	8.1	6.0	36.5%	8.0 %	8.6	6.6 %
Total	34.8	33.8	2.9%	101.9	91.7	11.1%	100.0 %	130.7	100.0 %

Operating result by segment

EUR million	7-9 2012	7-9 2011	1-9 2012	1-9 2011	1-12 2011
Finland	1.3	2.3	2.7	4.0	6.5
Sweden & Norway	-0.1	0.2	-0.8	0.1	0.3
Poland	-0.4	-0.1	-1.4	-0.6	-0.6
Other Segments	-0.5	-0.4	-1.8	-2.1	-2.3
Other	0.1	-0.3	0.0	-0.6	-1.2
Total	0.6	2.4	-1.2	0.7	2.6

"Other segments" includes the operating results of Kidex Oy and Business Unit International. The revenue of P.O. Korhonen was included in the figures for 'Other segments' until the end of January 2011, but subsequently has not been included in segment reporting, due to changes in the Group structure. The item "Others" includes non-allocated Group functions and non-recurring sales gains and losses.

Financial position

The Group's financial position is stable. Interest-bearing liabilities at the end of the interim period were EUR 15.4 million (5.8) and net liabilities were EUR 9.8 million (-1.4). The gearing ratio at the end of the period was 35.9 per cent (-4.9) and the equity ratio was 44.5 per cent (55.5). Net financing costs amounted to EUR 0.4 million (0.2).

The cash flow from operating activities in January-September was EUR -3.1 million (1.3).

The balance sheet total at the end of the review period was EUR 61.7 million (53.4).

Capital expenditure

The Group's gross capital expenditure for January-September was EUR 3.1 million (2.5) and mainly concerned the ERP project and production replacements.

Personnel

The Group employed an average of 821 (634) persons, a year-on-year increase of 29.5 per cent. The increase is mostly comprised of the personnel of the Grundell companies acquired on 31 December 2011.

Average personnel by region

	1-9 2012	1-9 2011	1-12 2011
Finland	652	457	458
Scandinavia	73	75	77
Poland	86	94	93
Russia	10	8	9
Group total	821	634	637

Product development, products and communications

World Design Capital Helsinki (WDCH) 2012 is coming to an end. As a result of the various joint projects, the year has brought new companies together. The great visibility of WDCH 2012 in the media has been a positive surprise for Martela, and has strengthened its position as a leading Finnish design company.

In September, Martela presented its new Inspiring Spaces concept at its Open Day event. The concept provides practical solutions for modern information employees' working environments. As work becomes more mobile, the entire office functions as a workspace. Various communication areas, quiet areas and areas that encourage social interaction are integral to the Martela Inspiring Spaces concept. The office is divided into functional areas or zones.

With regard to the Martela collection, several new products were launched at the September event in both workstation furniture and surroundings. The desk range will be expanded through two new product families. The "Alku" desk is at the more economical end of the range, and introduces fresh, youthful design to this hotly competed sector. The "Canti" desk is a high-end product that uses "Silence" technology and high-quality, classic materials. With respect to surroundings furniture, the innovative "PodSeat" and "PodSofa" designed for lobby workspaces are a long-awaited continuation to the Diagonal product family.

Martela's two major projects to renew both the website and product information management are nearing completion, and, by the turn of the year, customers will have access to better product information and will be able to enjoy a more modern digital user experience.

Group structure

On 17 January 2011, Artek Oy Ab and Martela Corporation signed an agreement to establish a joint enterprise. The new company then acquired the business of Martela's subsidiary P.O. Korhonen on 1 February 2011. The joint enterprise will focus on the manufacture of products marketed and sold by Martela and Artek. Martela has a 51 per cent stake in the new company, while Artek's holding is 49 per cent. Under the shareholding agreement, Martela does not have control of the company as defined in IFRS 3 and IAS 27. The new company, named P.O. Korhonen, will operate as a contract manufacturer specialising in the production of form-pressed wooden furniture. Regarding the figures for the new company, Martela's consolidated income statement will only include Martela's share of the joint enterprise's profit or loss on the basis of Martela's holding, and this is reported in the consolidated income statement under 'share of result in associated undertakings'.

Under a deal signed on 31 December 2011, Martela Corporation acquired 100% of the share capital of Muuttopalvelu Grundell Oy and Grundell Henkilöstöpalvelut Oy. The acquisition of Grundell, which is a removals company and provider of interior planning services, allows Martela to expand the services it offers and gives customers one-stop access to a wider selection of interior planning services and products.

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

Shares

During January-September 272,826 (561,003) of the company's A shares were traded on NASDAQ OMX Helsinki Ltd, corresponding to 7.7 per cent (15.8) of all A shares.

The value of trading turnover was EUR 1.7 million (4.3), and the share price was EUR 5.79 at the beginning of the period and EUR 5.65 at the end of the period. During January-September the share price was EUR 7.50 at its highest and EUR 5.50 at its lowest. At the end of September, equity per share was EUR 6.74 (7.20).

Treasury shares

The company did not purchase any of its own shares in January-September. On 30 September 2012, Martela owned a total of 67,700 Martela A shares, purchased at an average price of EUR 10.65. Martela's holding of treasury shares amounts to 1.6 per cent of all shares and 0.4 per cent of all votes.

Share acquisition for the share-based incentive scheme and management of the scheme have been outsourced to an external service provider. These shares have been entered under equity in the consolidated financial statements for 30 September 2012. A total of 38,647 shares under the incentive scheme were still undistributed on 30 September 2012.

2012 Annual General Meeting

Martela Corporation's Annual General Meeting was held on 14 March 2012. The AGM approved the financial statements for 2011 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. The dividends were paid on 26 March 2012.

The number of members on the Board of Directors was confirmed as seven, and Heikki Ala-Ilkka, Tapio Hakakari, Heikki Martela, Pekka Martela, Pinja Metsäranta and Jaakko Palsanen were re-elected and Yrjö Närhinen 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 Annual General Meeting and elected Heikki Ala-Ilkka as Chairman and Pekka Martela as Vice Chairman.

Events after the end of the review period

On 17 October 2012 the company issued a stock exchange release regarding a change in the outlook for 2012. No other significant events requiring disclosure have taken place since the January-September period, and operations have continued according to plan.

Short-term risks

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

Outlook for 2012

The Martela Group expects to post year-on-year revenue growth for 2012, and an operating result around zero or slightly positive.

TABLES

Accounting policies

This interim report has been prepared in accordance with IFRS recognition and measurement principles, but not all the IAS34 requirements have been complied with. The interim report should be read in conjunction with the 2011 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)

	2012 1-9	2011 1-9	2012 7-9	2011 7-9	2011 1-12
Revenue	**101 879**	**91 725**	**34 791**	**33 819**	**130 685**
Other operating income	322	425	164	214	417
Employee benefits expenses	-28 627	-22 190	-8 654	-6 763	-30 932
Operating expenses	-72 259	-67 366	-24 802	-24 279	-94 896
Depreciation and impairment	-2 554	-1 870	-921	-627	-2 649
Operating profit/loss	**-1 239**	**724**	**578**	**2 364**	**2 625**
Financial income and expenses	-414	-242	-123	-97	-358
Share of result in associated undertakings	-231	-243	-28	-18	-358
Profit/loss before taxes	**-1 884**	**239**	**427**	**2 249**	**1 909**
Income tax	-108	-149	-137	-414	-343
Profit/loss for the period	**-1 992**	**90**	**290**	**1 835**	**1 566**
Other comprehensive income:					
Translation differences	259	-271	145	-154	-139
Total comprehensive income	**-1 733**	**-181**	**435**	**1 681**	**1 427**
Basic earnings per share, eur	-0,49	0,02	0,07	0,45	0,39
Diluted earnings per share, eur	-0,49	0,02	0,07	0,45	0,39
Allocation of net profit for the period:					
To equity holders of the parent	-1 992	90	290	1 835	1 566
Allocation of total comprehensive income:					
To equity holders of the parent	-1 733	-181	435	1 681	1 427

GROUP BALANCE SHEET (EUR 1 000)	30.9.2012	31.12.2011	30.9.2011
ASSETS			
Non-current assets			
Intangible assets	5 662	4 699	2 840
Tangible assets	13 290	13 652	11 956
Investments	55	97	167
Deferred tax assets	333	315	344
Pension receivables	102	155	250
Receivables	9	104	104
Investment properties	600	600	600
Total	20 051	19 622	16 261
Current assets			
Inventories	14 809	12 988	12 001
Receivables	21 240	25 147	17 890
Financial assets at fair value through profit and loss	0	0	0
Cash and cash equivalents	5 646	11 947	7 258
Total	41 695	50 082	37 149
Total assets	**61 746**	**69 704**	**53 410**
EQUITY AND LIABILITIES			
Equity			
Share capital	7 000	7 000	7 000
Share premium account	1 116	1 116	1 116
Other reserves	117	117	117
Translation differences	23	-236	-368
Retained earnings	19 235	23 049	21 590
Treasury shares	-1 050	-1 050	-1 050
Share-based incentives	837	760	733
Total	27 278	30 756	29 138
Non-current liabilities			
Interest-bearing liabilities	7 735	7 644	1 895
Deferred tax liabilities	1 140	1 366	995
Other liabilities	150	175	175
Total	9 025	9 185	3 065
Current liabilities			
Interest-bearing	7 691	3 490	3 930
Non-interest bearing	17 752	26 272	17 277
Total	25 443	29 762	21 207
Total liabilities	34 468	38 947	24 271
Equity and liabilities, total	**61 746**	**69 704**	**53 410**

Equity attributable to equity holders of the parent

	Share capital	Share premium account	Other reserves	Trans. diff.	Retained earnings	Treasury shares	Total
01.01.2011	7 000	1 116	117	-97	24 243	-1 212	31 167
Total comprehensive income				-271	90		-181
Dividends					-1 834		-1 834
Share-based incentives					-176	162	-14
30.09.2011	7 000	1 116	117	-368	22 323	-1 050	29 138
01.01.2012	7 000	1 116	117	-236	23 809	-1 050	30 756
Total comprehensive income				259	-1 992		-1 733
Dividends					-1 822		-1 822
Share-based incentives					77		77
30.09.2012	7 000	1 116	117	23	20 072	-1 050	27 278

CONSOLIDATED CASH FLOW STATEMENT (EUR 1 000)	2012 1-9	2011 1-9	2011 1-12
Cash flows from operating activities			
Cash flow from sales	105 204	94 156	127 452
Cash flow from other operating income	321	368	219
Payments on operating costs	-107 836	-92 536	-125 790
Net cash from operating activities before financial items and taxes	**-2 311**	**1 988**	**1 881**
Interest paid	-170	-220	-290
Interest received	28	24	41
Other financial items	-62	-53	-122
Taxes paid	-594	-483	-318
Net cash from operating activities (A)	**-3 109**	**1 256**	**1 192**
Cash flows from investing activities			
Capital expenditure on tangible and intangible assets	-2 679	-2 087	-2 627
Proceeds from sale of tangible and intangible assets	1	204	499
Capital expenditure on subsidiary shares	-2 975	0	0
Capital expenditure on other investments	0	-150	-150
Proceeds from sale of other investments	0	145	145
Net cash used in investing activities (B)	**-5 653**	**-1 888**	**-2 133**
Cash flows from financing activities			
Proceeds from short-term loans	6 384	3 000	3 000
Repayments of short-term loans	-728	-1 881	-3 393
Proceeds from long-term loans	0	0	7 000
Repayments of long-term loans	-1 499	-1 582	-2 421
Dividends paid and other profit distribution	-1 822	-1 839	-1 812
Net cash used in financial activities (C)	**2 335**	**-2 302**	**2 374**
Change in cash and cash equivalents (A+B+C) (+ increase, - decrease)	**-6 427**	**-2 934**	**1 433**
Cash and cash equivalents in the beginning of period	11 947	10 249	10 249
Translation differences	126	-57	-41
Cash and cash equivalents at the end of period	**5 646**	**7 258**	**11 639**

Cash and cash equivalents at the end of 2011 do not include cash from acquisition (EUR 309 thousand)

SEGMENT REPORTING (EUR 1 000)

Segment revenue	2012 1-9	2011 1-9	2012 7-9	2011 7-9	2011 1-12
Business Unit Finland					
external	71 928	62 220	24 706	23 245	88 588
internal	2	778	2	469	836
Business Unit Sweden and Norway					
external	14 061	14 640	4 735	4 405	20 553
internal	1 402	1 051	541	336	1 582
Business Unit Poland					
external	7 749	8 900	2 594	4 017	12 897
internal	0	0	0	0	57
Other segments					
external	8 141	5 965	2 756	2 152	8 647
internal	9 863	9 836	3 581	2 906	13 219
Total external revenue	**101 879**	**91 725**	**34 791**	**33 819**	**130 685**

Segment operating profit/loss	2012 1-9	2011 1-9	2012 7-9	2011 7-9	2011 1-12
Business Unit Finland	2 731	3 996	1 345	2 335	6 468
Business Unit Sweden and Norway	-762	83	-58	220	290
Business Unit Poland	-1 426	-597	-356	-66	-635
Other segments	-1 813	-2 135	-473	-402	-2 262
Other	31	-624	120	277	-1 236
Total operating profit/loss	**-1 239**	**724**	**578**	**2 364**	**2 625**

Other segments include 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 1.1-30.9.2012	Land areas	Buildings	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	0	210	965	0	435
Decreases	0	-2	-100	0	0

TANGIBLE ASSETS 1.1-30.9.2011	Land areas	Buildings	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	45	232	1 551	0	-545
Decreases	0	0	-301	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 from 2010 to the end of 2012.

KEY FIGURES/RATIOS	2012 1-9	2011 1-9	2011 1-12
Operating profit/loss	-1 239	724	2 625
- in relation to revenue	-1,2	0,8	2,0
Profit/loss before taxes	-1 884	239	1 909
- in relation to revenue	-1,8	0,3	1,5
Profit/loss for the period	-1 992	90	1 566
- in relation to revenue	-2,0	0,1	1,2
Basic earnings per share, eur	-0,49	0,02	0,39
Diluted earnings per share, eur	-0,49	0,02	0,39
Equity/share, eur	6,74	7,20	7,60
Equity ratio	44,5	55,5	44,7
Return on equity *	-9,1	0,4	5,1
Return on investment *	-4,4	2,1	6,0
Interest-bearing net-debt, eur million	9,8	-1,4	-0,8
Gearing ratio	35,9	-4,9	-2,6
Capital expenditure, eur million	3,1	2,5	6,8
- in relation to revenue	3,0	2,8	5,2
Personnel at the end of period	807	641	791
Average personnel	821	634	637
Revenue/employee, eur thousand	124,1	144,7	205,2

Key figures are calculated according to the formulas as presented in Annual Report 2011.

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

CONTINGENT LIABILITIES	30.9.2012	31.12.2011	30.9.2011
Mortgages and shares pledged	21 649	20 119	14 794
Other commitments	1 728	2 539	233
Rental commitments	21 613	16 751	7 164

DEVELOPMENT OF SHARE PRICE	2012	2011	2011
	1-9	1-9	1-12
Share price at the end of period, eur	5,65	5,69	5,79
Highest price, eur	7,50	8,56	8,56
Lowest price, eur	5,50	5,03	5,03
Average price, eur	6,23	7,61	7,30

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