2017

Financial Statements

1 January – 31 December 2017

Inspiring spaces

Martela

MARTELA CORPORATION'S FINANCIAL STATEMENTS 1 JANUARY – 31 DECEMBER

The January–December 2017 revenue and operating result declined clearly on the comparison period. Challenges in implementing the new IT system had an impact on the entire year's revenue, profitability and cash flow.

October–December 2017

- Revenue was EUR 29.6 million (34.3), representing a change of -13.7%
- Operating result declined but was positive at EUR 0.1 million (2.1)
- Operating profit per revenue was 0.3% (6.1%)
- The result was MEUR -0.3 (0.8)
- Earnings per share amounted to EUR -0.07 (0.18)

January–December 2017

- Revenue was EUR 109.5 million (129.1), representing a change of -15.2%
- Operating result declined but was positive at EUR 0.3 million (6.2)
- Operating profit per revenue was 0.2% (4.8%)
- The result for the period declined and was EUR -0.6 million (3.3)
- Earnings per share amounted to EUR -0.15 (0.81)

Outlook for 2018

The Martela Group anticipates that its revenue and operating result in 2018 will improve compared to the previous year. Due to normal seasonal variations, the Group's operating result accumulates during the second half of the year.

Key figures, EUR million

	2017 10-12	**2016 10-12**	**Change %**	**2017 1-12**	**2016 1-12**	**Change %**
Revenue	29.6	34.3	-13.7 %	109.5	129.1	-15.2 %
Operating result	0.1	2.1	-96.4 %	0.3	6.2	-95.8 %
Operating result %	0.3 %	6.1 %		0.2 %	4.8 %	
Result before taxes	0.1	2.0	-93.3 %	0.0	5.6	-99.5 %
Result for the period	-0.3	0.8	-137.4 %	-0.6	3.3	-119.2 %
Earnings/share,eur	-0.07	0.18	-137.0 %	-0.15	0.81	-119.0 %
Return on investment %	2.8	25.0		1.6	18.2	
Return on equity %	-4.7	12.7		-2.7	13.9	
Equity ratio %				40.8	45.3	
Gearning %				29.0	-18.9	

Matti Rantaniemi, CEO:

“The January–December 2017 revenue and operating result declined clearly on the comparison period. Challenges in implementing the new IT system had an impact on the entire year’s revenue, profitability and cash flow.

The impact of the challenges of implementing the new IT system on revenue was greatest in Finland and resulted in a temporary decline in our ability to meet customers’ needs, cancellation of orders and the need to use sales resources in the implementation of the IT system’s functions.

In Sweden, the revenue decline was the result of a lack of major projects and the transformation of the sales channel to match the Martela Lifecycle strategy format, in addition to the IT system issues. In Norway, our revenue increased in line with our strategy. In Other countries, the discontinuation of our own sales operations in Poland and Russia resulted in a decline in revenue, as was expected.

Revenue and operating result for the final quarter in 2017 were lower than was expected. In the final quarter, revenue in Finland did not reach the expected level. Compared to 2016, new orders in Finland grew more than 5%. The operating result of the final quarter was influenced by an increase in credit loss provisions and other sales-related costs. As a result of the improvements to the IT system and new procedures, our delivery reliability exceeded the 2016 level in the fourth quarter.

In addition to a decline in revenue, the 2017 operating result was influenced by increased IT costs, complaint costs and other operating inefficiencies. These amounted to total non-recurring costs of approximately EUR 2 million. The implementation of the new IT system also required more investments than had been anticipated.

Previous cost-cutting measures reduced costs arising from personnel and facilities, for example. Bonus costs based on operating result were less than in 2016 and, to cut costs further, marketing targeting was improved.

The principal reason for the negative cash flow in the financial year was deficiencies in the customer and invoicing information in the new IT system. We have organised more training and provided better resources for the associated functions.

The implementation of the Martela Lifecycle strategy in the Nordic countries has progressed well towards the 2018 strategic goals. Martela’s offering developed well in 2017. In addition to improving the product selection, we have introduced an entirely new service model known as Workplace as a Service. Workplace as a Service is a continuing service through which we develop workplaces that meet the customer company’s needs in collaboration with the company.

We anticipate that revenue and operating result in 2018 will improve compared to the previous year. Our delivery reliability, improved offering, IT system and procedures, as well as better sales resourcing, boost growth in all market areas.”

Market situation

No material changes took place in the market during the period. The demand for Martela’s products and services is fundamentally affected by the general economic situation and by the extent to which companies and the public sector need to use their space more efficiently and make their workplaces more effective management tools.

Revenue and operating result

Revenue and result for October–December 2017

Revenue for October–December declined 13.7% on the previous year and was EUR 29.6 million (34.3). Revenue declined in Finland by 6.9%, in Sweden by 34.4%, in Norway by 15.9% and in Other countries by 61.2%.

The Group's fourth-quarter operating result was EUR 0.1 million (2.1). The October–December result before taxes was EUR 0.1 million (2.0). The October–December result was EUR -0.3 million (0.8).

Revenue and result for January–December 2017

Revenue for January–December was EUR 109.5 million (129.1) and declined by 15.2 % on the previous year. Compared to the previous year, revenue declined in all market areas with the exception of Norway. Revenue declined in Finland by 8.4%, in Sweden by 42.4% and in the group Other countries by 34.5%. Revenue in Norway grew by 10.8%.

Operating result for January–December was EUR 0.3 million (6.2). The January–December result before taxes was EUR 0.0 million (5.6). The January–December result was EUR -0.6 million (3.3).

Revenue by country, EUR million

Revenue by country	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
	10-12	**10-12**	**%**	**1-12**	**1-12**	**%**
Finland	24.8	26.6	-6.9 %	87.3	95.2	-8.4 %
Sweden	3.0	4.5	-34.4 %	11.7	20.4	-42.4 %
Norway	1.2	1.4	-15.9 %	4.1	3.7	10.8 %
Other	0.7	1.8	-61.2 %	6.4	9.8	-34.5 %
Revenue by country	**29.6**	**34.3**	**-13.7 %**	**109.5**	**129.1**	**-15.2 %**

As reported earlier, as a result of harmonising and combining processes, the organisation, reporting and systems, as of 2017 the company reports consolidated figures as a single segment and in addition reports revenue by country. Revenue will be reported by the location of a customer in following countries: Finland, Sweden, Norway and Other countries

Financial position

The cash flow from operating activities in January–December was EUR -7.6 million (11.7). Cash flow from operating activities improved by EUR 0.7 million in the last quarter. After the new IT system was implemented, customer and invoicing information was incomplete, which continued to cause delays in invoicing and resulted in a slowdown of cashflow from payments from sales compared to the previous year.

At the end of the period, interest-bearing liabilities stood at EUR 13.8 million (8.7) and net liabilities were EUR 6.6 million (-4.8). At the end of the period, short-term limits of EUR 6.8 million were in use (0.0) and available limits stood at EUR 2.7 million.

The gearing ratio at the end of the period was 29.0% (-18.9) and the equity ratio was 40.8% (45.3). Financial income and expenses were EUR -0.2 million (-0.5). Exchange rate differences had a positive impact on financial income and expenses.

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 review period fulfilled the covenant clauses. The balance sheet total stood at EUR 56.4 million (56.2) at the end of the period.

Capital expenditure

The Group’s gross capital expenditure for January–December came to EUR 2.1 million (2.9). The majority of the investments concerned the IT system reforms (New Business Platform).

Personnel

The Group employed an average of 508 people (550), which represents a decrease of 42 persons or -7.6%. The number of employees in the Group was 507 (506) at the end of the review period. Personnel costs in January–December totalled EUR 27.1 million (29.7).

Personnel on average	**2017**	**2016**	**Change**
By country	**1-12**	**1-12**	**%**
Finland	435	428	1.6 %
Sweden	27	37	-27.0 %
Norway	10	8	25.0 %
Other	36	77	-53.2 %
Total	508	550	-7.6 %

The change in number of personnel in Sweden is related to the closure of the Bodafors assembly and logistics unit and in group Other countries to the discontinuation of Martela’s own sales operations in Poland and Russia. The personnel in sales was increased in all sales units in the period.

Martela’s offering

Instead of individual changes, Martela Lifecycle offers an approach that covers the entire lifecycle of a workplace. In the Martela Lifecycle model, the maintenance of premises and furniture is continuous and the workplace evolves with changing needs.

OTHER MATTERS

Group structure

The documents concerning the discontinuation of our Russian subsidiary, LLC Martela, were approved by the authorities and the company was closed down in the second quarter. There were no other changes in Group structure during the review period.

Shares

In January–December, a total of 1 950 776 (2 067 817) of the company's series A shares were traded on the NASDAQ OMX Helsinki exchange, corresponding to 54.9% (58.2) of the total number of series A shares.

The value of trading turnover was EUR 19.9 million (14.0), and the share price was EUR 7.47 at the end of the period (12.84). During January–December the share price was EUR 14.00 at its highest and EUR 7.08 at its lowest. At the end of December, equity per share was EUR 5.46 (6.13).

Treasury shares

Martela did not purchase any of its own shares in January–December. After the transfer of treasury shares based on the share-based incentive scheme as reported on 19 April 2017, Martela owned a total of 12 036 Martela A shares and its holding of treasury shares amounted to 0.3% of all shares and 0.1% of all votes. Own shares were purchased at an average price of EUR 10.65

Share-based incentive programme

In the effective share-based incentive programme there are two earning periods, which are 2017–2018 and 2019–2020. The Board of Directors will decide the earning criteria and the goals for each criterion of the programme at the beginning of each earning period.

The target group for the 2017–2018 earning period is the Group's Management Team. The potential reward of the programme from the earning period 2017–2018 is based on the Group´s Earnings before Interest and Taxes (EBIT). Fees to be paid for the 2017–2018 earning period correspond to a maximum of approximately 100 000 Martela Corporation series A shares in total and also include the cash portion. Management of the share-based incentive scheme has been outsourced to an external service provider.

Related to the last earning period of the earlier share-based incentive programme, 35 110 shares were distributed on 19 April 2017. A total of 94 311 shares have been distributed based on the programme.

2017 Annual General Meeting

Martela Corporation's Annual General Meeting was held on 14 March 2017. The AGM approved the financial statements for 2016 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 0.37 per share. The dividend was paid on 23 March 2017.

The number of members on the Board of Directors was confirmed as seven. Kirsi Komi, Eero Leskinen, Eero Martela, Heikki Martela, Yrjö Närhinen and Anni Vepsäläinen were re-elected to the Board, and Minna Andersson 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.

Corporate responsibility and quality

Responsibility forms an integral part of Martela's strategy and operations. We support the responsibility of our customer companies by offering sustainable solutions for the workplace throughout its entire life cycle and by ensuring the responsible recycling of any furniture that is no longer needed. The company's Martela Lifecycle model covers the entire lifecycle of the workplace. The Group has a quality and environmental system certified by an independent certifier, and they guarantee that operations are continuously improved, client expectations met and environmental matters taken into consideration.

Further information on the responsibility of the Group's operations can be found in the annually published responsibility report. Martela's responsibility reporting includes extensive non-financial information (NFI) required by the new accounting legislation. It has been published since 2010. All reports are available on the Martela website. The 2017 responsibility report will be published after the annual report.

Administration

Martela Corporation is a Finnish limited liability company that is governed in its decision-making and management by Finnish legislation, especially the Finnish Limited Liability Companies Act, by other regulations concerning public listed companies, and by its Articles of Association. The company complies with the NASDAQ OMX Guidelines for Insiders and the Corporate Governance Code 2015 for Finnish listed companies published by the Securities Market Association. More information on Martela's governance can be found on the company's website.

EVENTS AFTER THE END OF THE FINANCIAL YEAR

On 19 January 2018, Martela released preliminary information on the 2017 revenue and operating profit.

SHORT-TERM RISKS

The principal risk regarding profit performance relates to the general economic uncertainty and the consequent effects on the overall demand in Martela's operating environment. Due to the project-based nature of the sector, forecasting short-term developments is challenging.

Our operations have normalised and we estimate that we have overcome the main challenges related to the IT system project and that, by the end of the first quarter of 2018, the IT system will fully support our new strategy. It is expected to still cause some non-recurring expenditure.

OUTLOOK FOR 2018

The Martela Group anticipates that its revenue and operating result in 2018 will improve compared to the previous year. Due to normal seasonal variations, the Group's operating result accumulates during the second half of the year.

Our delivery reliability, improved offering, IT system and procedures, as well as better sales resourcing, boost growth in all market areas.

PROPOSAL OF THE BOARD OF DIRECTORS FOR DISTRIBUTION OF PROFIT

The Board of Directors will propose to the AGM that a dividend of EUR 0.32 per share be distributed for 2017.

ANNUAL GENERAL MEETING

Martela Corporation's AGM will be held on 13 March 2018 at 3 p.m. in Martela House, Helsinki. The notice of the Annual General Meeting will be published in a separate release.

TABLES

Accounting policies

Martela Corporation's consolidated financial statements have been prepared in compliance with the IAS 34 standard and the International Financial Reporting Standards (IFRS) valid on 31 December 2017. The figures in the release have been rounded and the total sum of individual figures may differ from the total presented in the release. The annual figures presented in this financial statements release have been audited.

Standard IFRS 15 Revenue from Contracts with Customers

The IFRS 15 Revenue from Contracts with Customers standard is applied in the financial years beginning on 1 January 2018. Martela has assessed the impacts of the implementation of IFRS 15 for different revenue streams and has come to the conclusion that the impact will not be significant. Martela's customer agreements consist mainly of one-off product or service deliveries, combinations of services and products and continuous services. The new standard will have almost no effect on the time of revenue recognition compared to earlier.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
(EUR 1000)				
	2017	**2016**	**2017**	**2016**
	10-12	**10-12**	**1-12**	**1-12**
Revenue	**29 580**	**34 273**	**109 537**	**129 127**
Other operating income	358	245	752	464
Employee benefit expenses	-6 465	-8 179	-27 091	-29 671
Operating expenses	-22 848	-23 515	-80 300	-90 854
Depreciation and impairment	-549	-719	-2 638	-2 908
Operating profit/loss	**76**	**2 105**	**260**	**6 158**
Financial income and expenses	57	-132	-232	-540
Profit/loss before taxes	**133**	**1 973**	**28**	**5 618**
Taxes	-417	-1 214	-664	-2 302
Profit/loss for the period	**-284**	**759**	**-636**	**3 316**
Translation differences	-192	177	-230	161
Actuarial gains and losses	-271	43	-271	43
Acturial gains and losses, deferred taxes	9	-41	9	-41
Other	0	-35	0	-35
Total comprehensive income	**-738**	**903**	**-1 128**	**3 444**
Basic earnings per share, eur	-0,07	0,18	-0,15	0,81
Diluted earnings per share,eur	-0,07	0,18	-0,15	0,81
Allocation of net profit for the period:				
To equity holders of the parent	-284	759	-636	3 316
Allocation of total comprehensive income:				
To equity holders of the parent	-738	903	-1 128	3 444

GROUP BALANCE SHEET (EUR 1000)	31.12.2017	31.12.2016
ASSETS		
Non-current assets		
Intangible assets	7 297	6 321
Tangible assets	5 186	6 632
Investments	53	55
Deferred tax assets	142	144
Investment properties	600	600
Total	**13 278**	**13 752**
Current assets		
Inventories	8 863	7 709
Receivables	27 015	21 351
Cash and cash equivalents	7 283	13 425
Total	**43 161**	**42 485**
Total assets	**56 439**	**56 238**
EQUITY AND LIABILITIES		
Equity		
Share capital	7 000	7 000
Share premium account	1 116	1 116
Other reserves	-9	-9
Translation differences	-810	-579
Retained earnings	14 342	17 135
Treasury shares	-128	-502
Share-based incentives	1 114	1 013
Total	**22 625**	**25 174**
Non-current liabilities		
Interest-bearing liabilities	6 206	6 283
Deferred tax liabilities	491	577
Pension obligations	565	371
Total	**7 262**	**7 231**
Current liabilities		
Interest-bearing	7 065	2 005
Non-interest bearing	19 486	21 827
Total	**26 551**	**23 832**
Total liabilities	**33 814**	**31 063**
Equity and liabilities, total	**56 439**	**56 238**

CONSOLIDATED CASH FLOW STATEMENT	**2017**	**2016**
(EUR 1000)	**1-12**	**1-12**
Cash flows from operating activities		
Cash flows from sales	104 970	129 898
Cash flow from other operating income	515	317
Payments on operating costs	-109 660	-116 264
Net cash from operating activities	**-4 176**	**13 951**
before financial items and taxes		
Interests paid	-294	-375
Interests received	5	4
Other financial items	46	-193
Dividends received	7	18
Taxes paid	-3 209	-1 743
Net cash from operating activities (A)	**-7 622**	**11 662**
Cash flows from investing activities		
Capital expenditure on tangible and intangible assets	-2 165	-2 580
Proceeds from sale of tangible and intangible assets	237	147
Net cash used in investing activities (B)	**-1 928**	**-2 433**
Cash flows from financing activities		
Proceeds from short-term loans	8 723	0
Repayments of short-term loans	-3 740	-1 395
Proceeds from long-term loans	0	0
Repayments of long-term loans	0	-1 221
Dividends paid and other profit distibution	-1 520	-1 022
Net cash used in financial activities (C)	**3 463**	**-3 638**
Change in cash and cash equivalents (A+B+C)	**-6 087**	**5 591**
(+ increase, - decrease)		
Cash and cash equivalents in the beginning of the period	13 425	7 724
Translation differences	-55	110
Cash ad cash equivalents at the end of period	**7 283**	**13 425**

STATEMENT OF CHANGES IN EQUITY	Share	Share	Other	Transl.	Retained	Trasury	Total
(EUR 1000)	capital	premium	resrves	diff	earnings	shares	
Equity attributable to equity holders of the parent		account					
1.1.2016	7 000	1 116	-9	-740	15 968	-673	22 662
Profit/loss for the period					3 316		3 316
Translation diff.				161			161
Other diff.					-35		-35
Items resulting from remeasurement of the net debt related to defined benefit plans					2		2
Dividens					-884		-884
Whitholding taxes from dividends					-139		-139
Share-based incentives					-79	171	92
31.12.2016	7 000	1 116	-9	-579	18 149	-502	25 174
01.01.2017	7 000	1 116	-9	-579	18 148	-502	25 174
Profit/loss for the period					-636		-636
Items resulting from remeasurement of the net debt related to defined benefit plans					-262		-262
Translation diff.				-230			-230
Dividends					-1 290		-1 290
Whitholding taxes from dividends					-230		-230
Share-based incentives					-273	374	101
31.12.2017	7 000	1 116	-9	-810	15 456	-128	22 625

CONTINGENT LIABILITIES	31.12.2017	31.12.2016
Mortgages and shares pledged	22 485	26 781
Other commitments	243	329
Rental commitments	8 591	7 929

DEVELOPMENT OF SHARE PRICE	2017	2016
	1-12	1-12
Share price at the end of period, eur	7.47	12.84
Highest price, eur	14.00	13.50
Lowest price, eur	7.08	3.29
Average price, eur	10.22	6.80

KEY SHARE-RELATED FIGURES	**2017**	**2016**
	1-12	**1-12**
Number of shares at the end of period, thousands	4155,6	4155,6
Basic earnings/share, eur	-0.15	0.81
Diluted earnings/share, eur	-0.15	0.81
Price/Earnings, P/E	-48.6	15.9
Equity/share, eur	5.46	6.13
Dividend/share, eur (2017 Board proposal)	0.32	0.37
Dividend/earnings per share %	-208.4	45.8
Effective dividend yield %	4.3 %	2.9 %
Price of A-share at the end of period, eur	7.47	12.84

The number of registered Martela Corporation shares was 4 155 600 on 31 December 2017. The shares are divided into A and K shares. Each A share carries 1 vote and each K share carries 20 votes at a general meeting of shareholders. Information on major shareholders can be found from corporation's web pages.

Members of the company's Board of Directors held a total of 6.2 % of the shares and 14.0 % of the votes. The company's CEO held 6,667 Martela Corporation shares on 31 December 2017.

KEY FIGURES/RATIOS	**2017**	**2016**
	1-12	**1-12**
Operating profit/loss, EUR thousand	260	6 158
-% in relation to revenue	0.2	4.8
Profit/loss before taxes, EUR thousand	28	5 618
-% in relation to revenue	0.0	4.4
Profit/loss for the period, EUR thousand	-636	3 316
-% in relation to revenue	-0.6	2.6
Basic earnings per share, eur	-0.15	0.81
Diluted earnings per share, eur	-0.15	0.81
Equity/share, eur	5.46	6.13
Equity ratio %	40.8	45.3
Return on equity %	-2.7	13.9
Return on investment %	1.6	18.2
Interest-bearing net-debt, EUR million	6.6	-4.7
Gearing %	29.0	-18.9
Capital expenditure, EUR million	2.1	2.9
-% in relation to revenue	2.0	2.2
Personnel at the end of period	507	506
Personnel on average	508	550
Revenue/employee, EUR thousand	215.6	234.8

Formulas for Calculation of Key Figures

Earnings / share	=	$\frac{\text{Profit attributable to the equity holders of the parent}}{\text{Average share issue-adjusted number of shares}}$
Price / earnings multiple (P/E)	=	$\frac{\text{Share issue-adjusted share price at year end}}{\text{Earnings / share}}$
Equity / share, EUR	=	$\frac{\text{Equity attributable to the equity holders of the parent}}{\text{Share issue-adjusted number of shares at year end}}$
Dividend / share, EUR	=	$\frac{\text{Dividend for the financial year}}{\text{Share issue-adjusted number of shares at year end}}$
Dividend / earnings, %	=	$\frac{\text{Dividend / share x 100}}{\text{Earnings / share}}$
Effective dividend yield, %	=	$\frac{\text{Share issue-adjusted dividend / share x 100}}{\text{Share issue-adjusted share price at year end}}$
Return on equity, %	=	$\frac{\text{Profit/loss for the financial year x 100}}{\text{Equity (average during the year)}}$
Return on investment, %	=	$\frac{\text{(Pre-tax profit/loss + interest expenses + other financial expenses) x 100}}{\text{Balance sheet total - Non-interest-bearing liabilities (average during year)}}$
Equity ratio, %	=	$\frac{\text{Equity x 100}}{\text{Balance sheet total - advances received}}$
Gearing, %	=	$\frac{\text{Interest-bearing liabilities-cash and cash equivalents and liquid asset securities x 100}}{\text{Equity}}$
Personnel on average	=	Month-end average calculation of the number of personnel in active employment
Interest-bearing net debt	=	Interest-bearing debt - cash and other liquid financial assets

BRIEFING

A briefing for analysts, portfolio managers and the media will take place on 2 February 2018 from 11.30 a.m. to 12.30 p.m. at Martela House at Takkatie 1, Helsinki. The results will be presented by Matti Rantaniemi, CEO.

The Martela 2017 Annual Report will be published on the company's website during the week 9/2018.

Martela Corporation
Board of Directors

Matti Rantaniemi
CEO

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Our strategic direction is defined by our mission “Better working” and our vision “People-centric workplaces”. Martela supplies user-centric workplaces where the users and their wellbeing are what matter most. We focus on the Nordic countries because, based on our common open work culture and needs, the Nordic countries are leaders in hybrid workplaces.