2019

Interim Report

1 January – 31 March 2019

Inspiring spaces

Martela

MARTELA CORPORATION'S INTERIM REPORT 1 JANUARY – 31 MARCH

The January–March 2019 revenue increased slightly compared to previous year and operating result decreased. Operating result decreased due to the tightened competition, which led to a decreased sales margin.

January–March 2019

- Revenue was EUR 25.6 million (25.3), representing a change of 1.4 %
- Operating result was EUR -1.9 million (-0.9)
- Operating profit per revenue was -7.4 % (-3.6 %)
- The result for the period declined and was EUR -2.0 million (-1.1)
- Earnings per share amounted to EUR -0.49 (-0.27)

Outlook

Outlook for 2019

The Martela Group anticipates that its revenue and operating result in 2019 will improve slightly compared to the previous year. Traditionally Group's operating result accumulates during the second half of the year.

Key figures, EUR million

	2019	2018	Change	2018
	1-3	1-3	%	1-12
Revenue	25,6	25,3	1,4 %	103,1
Operating result	-1,9	-0,9		-2,1
Operating result %	-7,4 %	-3,6 %		-2,0 %
Result before taxes	-2,1	-1,1		-2,5
Result for the period	-2,0	-1,1		-2,4
Earnings/share, eur	-0,49	-0,27		-0,57
Return on investment %	-23,4	-9,5		-4,9
Return on equity %	-46,2	-20,3		-11,4
Equity ratio %	32,4	44,3	-26,9 %	39,2
Gearing %	39,4	27,2	44,8 %	0,7

Matti Rantaniemi, CEO:

"The January–March 2019 revenue was EUR 25.6 million representing an increase of 1.4% compared to previous year. Our revenue increased in Sweden 38.3% and in Norway 41.6 % compared to same period in previous year. Revenue decreased in Finland 3.2% and in Other countries 26.2 % compared to same time previous year. Decrease in Finland was impacted by postponement of frame agreement negotiations in the public sector and due that decreased demand. Excluding the public sector, we were able to grow in all other customer segments in Finland.

The change in the sales channel in Norway and in Sweden is progressing according to the plan and both revenue and new orders increased in both countries compared to same time previous year.

Operating result decreased compared to last year and was EUR -1.9 million (-0.9). This was mainly influenced by a toughened competition, which resulted to a lower sales margin. Actions done last year to streamline internal processes and further centralize support functions to Finland have positively impacted to company’s operating result, but this was not enough to compensate the impact of decreased margins. We have started actions to improve our sales margin and to decrease our fixed expenses. Impact of these actions will clarify during the second quarter this year. Operating cash flow improved and was EUR 1.0 million (-0.3). Delivery accuracy has remained on an excellent level.

Despite the challenges in market conditions have decreased our revenue and operating result in the short term, we strongly believe that basis for our strategy remains. Transformation in working and learning environments will continue, get stronger and expand. Working and learning environments will have to be able to adapt faster as needs and circumstances keep constantly changing. This will require capabilities to follow and understand the use of space, and needs of the users and to be able to renew and optimize the space according to those needs. Martela has expanded the strategically important Pod family by introducing several new products into it. These are specifically planned to meet the requirements of constantly growing need of flexible spaces.

We believe that market conditions will remain challenging. In addition to this, postponement of frame agreement negotiations in the Finnish public sector will cause uncertainty in the short term. Positive development in other customer segments is supported by several new Nordic wide frame agreements. We will be focusing on increasing the sales volumes and to improve our profitability.”

Market situation

There has not been any major changes in the private sector market conditions. However, demand for Finnish public sector will temporarily be affected negatively by postponement of frame agreement negotiations. The demand for Martela’s products and services is fundamentally affected also by the general economic situation and by the extent to which companies and the public sector need to strengthen the utilisation of their spaces and make their workplaces more effective as management tools.

Revenue and operating result

Revenue and result for January–March 2019

Revenue for January–March was EUR 25.6 million (25.3) and increased by 1.4 % from the previous year. Compared to the previous year, revenue increased in Norway by 41.6 % and Sweden by 38.3 %. In Finland revenue declined by 3.2 % and in Other countries by 26.1 %.

Operating result for January–March was EUR -1.9 million (-0.9).

The January–Mach result before taxes was EUR -2.1 million (-1.1). The January–March net result was EUR -2.0 million (-1.1).

Revenue by country, EUR million

	2019	2018	Change	2018
	1-3	1-3	%	1-12
Finland	20,1	20,8	-3,2 %	86,2
Sweden	2,8	2,0	38,3 %	7,0
Norway	1,9	1,3	41,6 %	5,2
Other	0,9	1,2	-26,1 %	4,6
Revenue total	**25,6**	**25,3**	**1,4 %**	**103,1**

Financial position

The cash flow from operating activities in January–March was EUR 1.0 million (-0.3). The transferal of rental expenses into cash flow from financing activities under IFRS 16 improved the cash flow from operating activities by EUR 0.6 million.

At the end of the period, interest-bearing liabilities stood at EUR 17.2 million including EUR 6.6 million lease liabilities according to IFRS 16. At the end of comparison period the interest bearing liabilities stood at EUR 12.9 million. Net liabilities were EUR 6.6 million (5.8). At the end of the period, short-term limits of EUR 5.0 million were in use (6.0) and available limits stood at EUR 1.8 million.

The gearing ratio at the end of the period was 39.4 % (27.2) and the equity ratio was 32.4 % (44.3). Financial income and expenses were EUR -0.2 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 examined. At the end of the review period the EBITDA covenant was not fulfilled. Company is discussing with the financial institutions to get the matter sorted. The balance sheet total stood at EUR 52.1 million (49.3) at the end of the period.

Capital expenditure

The Group's gross capital expenditure for January– March was EUR 0.3 million (0.2).

Personnel

The Group employed an average of 492 people (508), which represents a decrease of 16 persons or 3.1 %. The number of employees in the Group was 498 (509) at the end of the review period. Personnel costs in January– March totaled EUR 7.0 million (7.0).

Personnel on average by country	2019 1-3	2018 1-3	Change %	2018 1-12
Finland	421	428	-1,6 %	432
Sweden	22	29	-24,1 %	28
Norway	10	11	-9,1 %	11
Other	39	40	-2,5 %	39
Total	492	508	-3,1 %	492

Martela's offering

In line with its Lifecycle strategy Martela creates high-quality services for workplaces and learning environments along the full lifecycle. Our offering includes workplace and learning environment specification and planning, implementation and furnishing as well as continuous measurement and optimization.

To add to the traditional way of purchasing Martela has introduced two new service models, Workplace as a Service and Learning environment as a Service. The monthly service fees can include everything from one to all of the lifecycle phases.

In early 2019 Martela expanded the Pod product family by introducing the PodBooth.

OTHER MATTERS

Changes in Management Team

VP, People and Sustainability Maija Kaski left the company to move to the next stage in her career. She left her duties on January 8, 2019. The change has been announced in the stock exchange release on November 30, 2018.

Group structure

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

Shares

In January–March, a total 236 594 (419 453) of the company's series A shares were traded on the NASDAQ OMX Helsinki exchange, corresponding to 6.7 % (11.8) of the total number of series A shares.

The value of trading turnover was EUR 0.7 million (3.0), and the share price was EUR 3.16 at the end of the period (7.66). During January–March, the share price was EUR 3.35 at its highest and EUR 2.79 at its lowest. At the end of March, equity per share was EUR 4.01 (5.17).

Treasury shares

Martela did not purchase any of its own shares in January–March. Martela owns 13 082 Martela A shares and its holding of treasury shares amounted to 0.3% of all shares and 0.1% of all votes. Out of the shares 12 036 were purchased at an average price of EUR 10.65 and 1 046 were transferred from Martela Corporation's joint account to the treasury shares reserve based on the decision by AGM on March 13, 2018.

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 and 2019-2020 earning periods is the Group's Management Team. The potential reward of the programme from the earning period 2017–2018 was based on the Group´s Earnings before Interest and Taxes (EBIT) and from the earning period 2019-2020 based on the Group's revenue and Earnings before Interest and Taxes (EBIT). No incentives will be paid for the earning period 2017–2018. The potential reward for the earning period 2019-2020 will be paid in one transaction as shares and a cash portion in year 2021.The cash portion is aimed to cover taxes and other costs related to the reward. The shares paid as reward may not be transferred during an approximate one-year restriction period established for the shares. For shares earned from the performance period 2019—2020, the restriction period will end on 30 April 2022. Management of the share-based incentive scheme has been outsourced to an external service provider.

2019 Annual General Meeting

Martela Corporation's Annual General Meeting was held on Thursday, March 14, 2019. The Meeting approved the Financial Statements and discharged the members of the Board of Directors and CEO from liability for the year of 2018. The Board of Directors proposal for a dividend of EUR 0.10 per share was approved. The record date for dividend payments was March 18, 2019 and the dividend was paid on April 17, 2019.

The Annual General Meeting confirmed that the Board of Directors will consist of seven members and Ms. Minna Andersson, Mr. Eero Leskinen, Mr. Eero Martela, Mr. Heikki Martela, Ms. Katarina Mellström and Ms. Anni Vepsäläinen be re-elected as members of the Board of Directors and Mr. Jan Mattsson elected as a new member of the Board of Directors.

KPMG Oy Ab, Authorised Public Accountants, was reappointed as the company's auditor.

The Annual General Meeting authorized the Board in accordance with the proposal of the Board of Directors to decide on the repurchase of own shares, issuance of own shares and/or to dispose of the own shares held by the Company.

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.

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

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

SHORT-TERM RISKS

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

Outlook

Outlook for 2019

The Martela Group anticipates that its revenue and operating result in 2019 will improve slightly compared to the previous year. Traditionally Group's operating result accumulates during the second half of the year.

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 March 2019. 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 figures presented in this release have not been audited.

IFRS 16

Through the implementation of the IFRS 16 Martela recognized EUR 6 115 thousand of right-of-use-assets and EUR 6 174 thousand of Lease liabilities to the opening balance sheet of 1.1.2019. Martela implemented the standard using the modified retrospective method without recalculation of comparative figures. Martela used retrospective approach in calculating the right of use assets book values for some office space leases using the borrowing rate of 1.1.2019, for other leases the calculations were made from 1.2.2019 onwards. The rental period of the lease contracts is either the period in lease agreement or an estimated rental period. Estimated rental periods are used for open-ended agreements. The estimated rental periods are 2 years for rented offices and sales facilities and 1 year for warehouses. Martela does not apply IFRS 16 to leases for which the lease term ends within 12 months and are not offices or warehouses in use by Martela. The expenses from such short-term leases are recognized as expenses in other operating expenses.

Reconciliation between operating lease obligations in the financial statements and lease liabilities	
1 000 €	
Operating lease obligations per 31.12.2018	7 785
Value added tax included in operating lease obligations 31.1.2.2018	-1 149
Expenses related to short term leases	-151
Effect of estimated lease durations	980
Nominal value of lease liabilities 1.1.2019	7 466
Present value of lease liabilities	**6 174**

The lease liabilities have been discounted at the borrowing rate as at 1 January 2019.
The weighted average discount rate is 2,6 %

The lease agreements are included in the balance sheet of 31.3.2019 as follows	
1 000 €	
Tangible assets	
Right of use assets - Buildings	5 790
Right of use assets - Machinery and equipment	711
Total	**6 501**
Non current liabilities	
Lease liabilities	4 150
Current liabilities	
Lease liabilities	2 440
Liabilities total	**6 590**

The lease agreements are included in the income statement of 31.3.2019 as follows	
1 000 €	
Other operating expenses	
Vehicles	-91
IT	-3
Real estate	-545
Other expenses	-3
Depreciation and impairment	
Depreciation and impairment	615
Financial expenses	
Interest expenses on lease liabilities	43
Currency translation losses on lease liabilities	13

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(EUR 1000)

	2019 1-3	**2018 1-3**	**2018 1-12**
Revenue	**25 598**	**25 251**	**25 598**
Other operating income	99	699	99
Employee benefit expenses	-6 997	-7 020	-6 997
Operating expenses	-19 378	-19 197	-19 378
Depreciation and impairment	-1 204	-636	-1 204
Operating profit/loss	**-1 882**	**-903**	**-1 882**
Financial income and expenses	-193	-181	-193
Profit/loss before taxes	**-2 075**	**-1 084**	**-2 075**
Taxes	27	-34	27
Profit/loss for the period	**-2 048**	**-1 118**	**-2 048**
Translation differences	-76	-189	-130
Actuarial gains and losses	0	0	113
Acturial gains and losses, deferred taxes	0	0	-25
Total comprehensive income	**-2 124**	**-1 307**	**-2 090**
Basic earnings per share, eur	-0,49	-0,27	-0,57
Diluted earnings per share,eur	-0,49	-0,27	-0,57
Allocation of net profit for the period:			
To equity holders of the parent	-2 048	-1 118	-2 048
Allocation of total comprehensive income:			
To equity holders of the parent	-2 124	-1 307	-2 090

GROUP BALANCE SHEET (EUR 1000)	**31.3.2019**	**31.3.2018**	**31.12.2018**
ASSETS			
Non-current assets			
Intangible assets	6 773	7 111	6 776
Tangible assets	10 852	4 928	4 581
Investments	53	53	53
Deferred tax assets	149	144	122
Total	**17 826**	**12 236**	**11 531**
Current assets			
Inventories	8 140	9 480	8 544
Receivables	15 495	20 532	19 326
Cash and cash equivalents	10 627	7 043	10 594
Total	**34 262**	**37 055**	**38 464**
Total assets	**52 088**	**49 292**	**49 995**
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	-1 015	-999	-939
Retained earnings	8 644	13 224	10 738
Treasury shares	-128	-128	-128
Share-based incentives	1 028	1 216	1 013
Total	**16 635**	**21 420**	**18 791**
Non-current liabilities			
Interest-bearing liabilities	8 082	6 141	3 956
Deferred tax liabilities	366	471	383
Other non-current liabilities	0	0	0
Pension obligations	442	565	442
Total	**8 890**	**7 177**	**4 781**
Current liabilities			
Interest-bearing	8 664	6 172	6 319
Non-interest bearing	17 899	14 522	20 105
Total	**26 563**	**20 694**	**26 424**
Total liabilities	**35 453**	**27 872**	**31 204**
Equity and liabilities, total	**52 088**	**49 292**	**49 995**

CONSOLIDATED CASH FLOW STATEMENT	**2019**	**2018**	**2018**
(EUR 1000)	**1-3**	**1-3**	**1-12**
Cash flows from operating activities			
Cash flows from sales	28 919	29 384	110 436
Cash flow from other operating income	94	85	397
Payments on operating costs	-27 522	-30 386	-104 114
Net cash from operating activities before financial items and taxes	**1 492**	**-916**	**6 718**
Interests paid	-71	-43	-242
Interests received	1	1	3
Other financial items	-101	-118	-142
Dividends received	0	0	4
Taxes paid	-219	774	1 056
Net cash from operating activities (A)	**1 102**	**-301**	**7 397**
Cash flows from investing activities			
Capital expenditure on tangible and intangible assets	-343	-192	-975
Proceeds from sale of tangible and intangible assets	5	1 213	1 213
Proceeds from sale of other investments	0	0	0
Net cash used in investing activities (B)	**-338**	**1 021**	**238**
Cash flows from financing activities			
Proceeds from short-term loans	0	6 000	6 000
Repayments of short-term loans	-94	-6 958	-8 984
Repayments of lease liabilities	-640	0	0
Proceeds from long-term loans	0	0	0
Dividends paid and other profit distribution	0	0	-1 326
Net cash used in financial activities (C)	**-734**	**-958**	**-4 309**
Change in cash and cash equivalents (A+B+C) (+ increase, - decrease)	**30**	**-239**	**3 326**
Cash and cash equivalents in the beginning of the period	10 594	7 283	7 283
Translation differences	3	-2	-16
Cash and cash equivalents at the end of period	**10 627**	**7 043**	**10 594**

STATEMENT OF CHANGES IN EQUITY

(EUR 1000) Equity attributable to equity holders of the parent	Share capital	Share premium account	Other reserves	Translation diff	Retained earnings	Treasury shares	Equity total
1.1.2018	**7 000**	**1 116**	**-9**	**-810**	**15 456**	**-128**	**22 625**
Profit/loss for the period					-1 118		-1 118
Translation diff.				-189			-189
Other change					0		0
Items resulting from remeasurement of the net debt related to defined benefit plans				0			0
Dividends					0		0
Withholding taxes from dividends					0		0
Share-based incentives					102	0	102
31.3.2018	**7 000**	**1 116**	**-9**	**-999**	**14 440**	**-128**	**21 420**
01.01.2019	**7 000**	**1 116**	**-9**	**-939**	**11 751**	**-128**	**18 791**
Profit/loss for the period					-2 048		-2 048
Other change					-47		-47
Items resulting from remeasurement of the net debt related to defined benefit plans					0		0
Translation diff.				-76			-76
Dividends					0		0
Withholding taxes from dividends					0		0
Share-based incentives					15	0	15
31.3.2019	**7 000**	**1 116**	**-9**	**-1 015**	**9 672**	**-128**	**16 635**

CONTINGENT LIABILITIES	**31.3.2019**	**31.3.2018**	**31.12.2018**
Mortgages and shares pledged	21 818	21 855	21 859
Other commitments	308	219	308
Rental commitments	7 355	8 037	7 785

DEVELOPMENT OF SHARE PRICE	**2019 1-3**	**2018 1-3**	**2018 1-12**
Share price at the end of period, eur	3,16	5,96	2,96
Highest price, eur	3,35	8,48	8,48
Lowest price, eur	2,79	5,82	2,91
Average price, eur	3,11	7,09	5,18

KEY FIGURES/RATIOS	**2019 1-3**	**2018 1-3**	**2018 1-12**
Operating profit/loss, EUR thousand	-1 882	-903	-2 070
-% in relation to revenue	-7,4	-3,6	-2,0
Profit/loss before taxes, EUR thousand	-2 075	-1 084	-2 451
-% in relation to revenue	-8,1	-4,3	-2,4
Profit/loss for the period, EUR thousand	-2 048	-1 118	-2 367
-% in relation to revenue	-8,0	-4,4	-2,3
Basic earnings per share, eur	-0,49	-0,27	-0,57
Diluted earnings per share, eur	-0,49	-0,27	-0,57
Equity/share, eur	4,02	5,17	4,54
Equity ratio %	32,4	44,3	39,2
Return on equity %	-46,2	-20,3	-11,4
Return on investment %	-23,4	-9,5	-4,9
Interest-bearing net-debt, EUR million	6,6	5,8	0,1
Gearing %	39,4	27,2	0,7
Capital expenditure, EUR million	0,3	0,2	1,7
-% in relation to revenue	1,3	0,8	1,6
Personnel at the end of period	498	509	501
Personnel on average	492	508	510
Revenue/employee, EUR thousand	52,0	49,7	202,2

Formulas for Calculation of Key Figures

Earnings / share	=	<u>Profit attributable to the equity holders of the parent</u> Average share issue-adjusted number of shares
Equity / share, EUR	=	<u>Equity attributable to the equity holders of the parent</u> Share issue-adjusted number of shares at year end
Return on equity, %	=	<u>Profit/loss for the financial year x 100</u> Equity (average during the year)
Return on investment, %	=	<u>(Pre-tax profit/loss + interest expenses + other financial expenses) x 100</u> Balance sheet total - Non-interest-bearing liabilities (average during year)
Equity ratio, %	=	<u>Equity x 100</u> Balance sheet total - advances received
Gearing, %	=	<u>Interest-bearing liabilities-cash and cash equivalents and liquid asset securities x 100</u> 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 Thursday 25th of April, 2019 from 11.30 a.m. to 12.30 p.m. EET at Martela House at Takkatie 1, Helsinki. The results will be presented by Matti Rantaniemi, CEO.

Martela Corporation
Board of Directors

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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.