MARTELA CORPORATION INTERIM REPORT 29 October 2015 at 8.30 a.m.

MARTELA CORPORATION INTERIM REPORT, 1 January – 30 September 2015

Consolidated revenue for January-September declined, operating result slightly better than last year

Key figures:

EUR million	7-9 2015	7-9 2014	1-9 2015	1-9 2014	1-12 2014
- Revenue	38.7	36.5	95.3	104.7	135.9
- Change in revenue, %	5.8	6.5	-8.9	9.7	2.7
- Operating result	3.0	2.2	2.0	1.2	0.2
- Operating result, %	7.9	6.0	2.1	1.2	0.1
- Earnings/share, EUR	0.59	0.44	0.24	0.10	-0.18
- Return on investment, %	34.9	23.7	7.7	4.3	0.5
- Return on equity, %	47.1	33.1	6.4	2.5	-3.4
- Equity ratio, %			36.8	39.8	38.1
- Gearing ratio, %			41.6	39.8	33.4

The Martela Group anticipates that its revenue in 2015 will remain at the previous year's level or that there will be a slight decline. A slight improvement in the operating result is expected.

Market

During the third quarter, the market environment remained as it had been during the first half of the year. The overall demand for office furniture continued to be low in the review period in the Group's main market areas: Finland, Sweden, Poland and Russia. Even though the overall demand continues to be low, the many office alteration projects that are at the planning stage in the Nordic countries are improving the market situation slightly. Martela's Lifecycle model and activity-based office solutions are excellently suited to office alteration and enhancement projects. However, decision-making is being slowed by the general economic uncertainty and the extent of long-term leases. The situation in the Russian market continues to be more challenging than elsewhere.

In addition to office construction, the demand for Martela's products and services is significantly affected by the general economic situation and by the extent to which companies need to use their office space more efficiently. The need to boost efficiency often leads to office alteration projects, which in turn generate demand for Martela's products and services. The annual change in gross domestic product (GDP) can be regarded as a good indicator of general economic development. In Finland, this change was -0.1% in 2014. According to most forecasts, the change in Finland's GDP is estimated to be near zero or even slightly negative in 2015. Thus, a strong recovery is still not likely in the near future.

Consolidated revenue and result

Consolidated revenue for the third quarter was EUR 38.7 million (36.5), an increase of 5.8% on a year-on-year basis. Consolidated revenue for January-September was EUR 95.3 million (104.7), a decrease of 8.9% from the previous year. Despite the challenging market situation in Finland, the Group's revenue in Finland was substantially higher than in the same period last year. Martela's Lifecycle model, which is intended for companies, has been well received in Finland. The model allows companies to make savings in overall costs, while at the same time it provides them with better-functioning work facilities. There were no individual major customer projects in Finland in the review period; instead the revenue was generated by small and medium-sized deliveries. There was a substantial decrease in the revenue of the Business Unit International compared with the previous year. Since 1 May 2015, the unit has been responsible for sales in Poland and Russia and exports to countries where Martela does not have a subsidiary. Russia accounted for most of the decrease, whereas the revenue in Poland was almost at the previous year's level. As expected, there were major customer deliveries in Sweden and Norway during the third quarter and as a result, the revenue in July-September was substantially higher than in the same period the previous year. Despite this, the revenue of the Business Unit Sweden & Norway during the first nine months of the year was well below that of the previous year's levels. As a result of this and the decrease in the revenue in Russia, the consolidated revenue decreased in the review period.

The consolidated operating result for the third quarter was EUR 3.0 million (2.2) and the figure for the first nine months of the year was EUR 2.0 million (1.2). The Group's operating result tends to accumulate more during the second half of the year as a result of normal seasonal fluctuations and this year the trend will be accentuated by the fact that there are large projects taking place during the latter half of the year. Efficiency improvement measures and growth in revenue helped the Business Unit Finland to improve its operating result compared with the same period in 2014. As a result of strong revenue, the operating result of the Business Unit Sweden & Norway was slightly positive in the third quarter. However, the cumulative operating result remained well below zero. In the Business Unit International, both the third quarter operating result and the operating result for the review period were negative. Efficiency improvement measures were initiated in the Business Unit Poland (part of the Business Unit International) in October and the aim of these is to revamp the sales structure and to speed up the process of spreading the word about Martela's Lifecycle strategy.

The Group introduced a number of adjustment and efficiency improvement measures in 2014 and 2015. They have helped the Group to achieve substantial reductions in fixed costs on a year-on-year basis. Furthermore, the sales margin on the Group's products was slightly higher than in 2014. These measures helped the Martela Group to improve its operating result despite a drop in revenue compared with the same period last year.

In April Martela launched a new savings programme with the aim of annually reducing costs by EUR 4 million by the end of 2016, so that the savings will take full effect in 2017. As part the programme, the company launched statutory employee negotiations in April that included all office employees at Martela Corporation. The measures agreed in the negotiations will help to generate annual savings of about EUR 1.2 million by the end of 2016. At the beginning of October, a decision was made to reorganise the sales operations in Poland and these measures are expected to bring savings of about EUR 0.5 million in 2016. During the year under review, Martela has also reorganised its office premises, which will help to reduce annual costs by about EUR 0.6 million. Some of the reorganisation will take place in 2015 and it will have full impact in 2016. Thus, the measures already introduced will allow the Group to achieve EUR 2.3 million of the targeted savings of EUR 4 million. The search for sources of additional savings is continuing.

Over the past year, interest in activity-based office solutions has continued to increase in Martela’s main market areas. The Group has introduced novel solutions suitable for activity-based offices and continues to invest in its ability to provide even more high-quality comprehensive solutions and services in the field of activity-based working. The Group has strengthened its pioneering position as a supplier of comprehensive solutions and as a leading service provider for offices and other working environments.

The result before taxes was EUR 1.5 million (0.7), and the result after taxes was EUR 1.0 million (0.4).

Segment reporting

The business segments are based on the Group’s operating structure and internal financial reporting.

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

The Business Unit Finland is responsible for sales and marketing and for service production in Finland. Martela has an extensive sales and service network covering the whole of Finland, with a total of 27 sales centres.

The Business Unit Sweden & Norway’s sales are mostly handled through dealers. The business unit also has its own sales and showroom facilities in three locations: Stockholm and Bodafors in Sweden and Oslo in Norway. Its administration and order handling are also located in Bodafors. The sales company in Oslo acts as a supporting organisation for Norway’s dealer network.

The Business Unit International is responsible for the sales of Martela products in Poland and Russia and in countries where Martela does not have a subsidiary. The most important export countries are Denmark, Estonia, the Netherlands, Germany and Japan. The unit has its own sales network in Poland and Russia, while in other countries it relies on authorised dealers. The unit is also responsible for managing the Group's key international accounts. There are seven sales centres in Poland and two in Russia.

'Other segments' includes the business activities of Kidex Oy. Non-allocated Group functions, production units and non-recurring sales gains and losses are also reported in the operating result of other segments.

Production and purchasing for the Business Units are the responsibility of the Group's Customer Supply Management unit (formerly Supply Chain Management unit), which has logistics centres in Finland, Sweden and Poland.

Change in segments' external revenue and percentage of consolidated revenue

EUR million	7-9 2015	7-9 2014	Change, %	1-9 2015	1-9 2014	Change, %	Share, %	1-12 2014	Share, %
Finland	25.7	23.1	11.1%	67.7	64.3	5.2%	71.0%	87.5	64.4%
Sweden & Norway	8.7	4.3	104.7%	15.5	21.0	-26.1%	16.3%	24.9	18.3%
International	4.0	8.8	-54.3%	11.0	18.3	-39.6%	11.6%	22.4	16.4%
Other segments	0.3	0.4	-28.6%	1.0	1.0	1.1 %	1.1%	1.2	0.9%
Total	38.7	36.5	5.8%	95.3	104.7	-8.9%	100.0%	135.9	100.0%

Operating result by segment

EUR million	7-9 2015	7-9 2014	1-9 2015	1-9 2014	1-12 2014
Finland	2.6	1.3	5.5	1.9	2.8
Sweden & Norway	0.1	-0.3	-1.1	0.1	-0.4
International	-0.2	1.0	-1.2	0.6	-0.3
Other segments	0.5	0.2	-1.2	-1.3	-2.0
Total	3.0	2.2	2.0	1.2	0.2

'Other segments' includes the business activities of Kidex Oy. Non-allocated Group functions, production units and non-recurring sales gains and losses are also presented under other segments.

* The operating result generated by internal invoicing in the production unit (under 'Other') in 2014 has been adjusted to be comparable to this year. For this reason, the operating results of the various units for 2014 have changed slightly.

Financial position

The Group's financial position is stable. The cash flow from operating activities in January-September totalled EUR -1.0 million (3.6). The weakening was the result of an increase in working capital, large amounts of which were tied to trade receivables as a result of higher invoicing at the end of the review period.

At the end of the period, interest-bearing liabilities stood at EUR 14.8 million (15.3) and net liabilities at EUR 8.7 million (8.7). The gearing ratio at the end of the period was 41.6% (39.8) and the equity ratio 36.8% (39.8). Net financial expenses were EUR 0.5 million (0.5). Financing arrangements include covenant clauses in which the ratio between the Group's net liabilities and EBITDA and the Group's equity ratio are calculated. The key figures calculated at the end of the period fulfil the covenant clauses.

The balance sheet total stood at EUR 57.4 million (55.5) at the end of the period.

Capital expenditure

The Group's gross capital expenditure in January-September was EUR 0.6 million (1.3) and was incurred in production replacements.

Personnel

Matti Rantaniemi was appointed as the new CEO of Martela Corporation on 1 June 2015. He took up his duties on 1 October 2015 and on the same date Heikki Martela, the former CEO, assumed the position of Chairman of the Board of Martela Corporation.

Maija Kaski was appointed as Martela Group's HR director and a member of the Group's Management Team in July. She took up her new duties on 1 September 2015.

The Group employed an average of 641 (750) persons, which is a year-on-year decrease of 14.5%. The number of employees was 609 (683) at the end of the period.

Average personnel by region

	1-9 2015	1-9 2014	1-12 2014
Finland	484	576	559
Scandinavia	49	60	62
Poland	97	105	110
Russia	11	9	11
Group total	641	750	742

Products and services

Martela Lifecycle® model

The Martela Lifecycle® model has been well received in the domestic market and it continued to be the focus of sales and marketing measures in the third quarter. With its Lifecycle model, Martela can specify the customer's workplace requirements, and design, implement and maintain the workplace in accordance with these requirements. In Finland, Martela already has comprehensive services available for each stage of the lifecycle. Now Martela is also able to provide its customers in Poland, Russia, Sweden and Norway with almost full lifecycle services. Martela's product development has focused intensively on the development of lifecycle services.

Great interest in productive environments

Martela's broad range of solutions for offices and learning environments have attracted wide interest. Both the media and our customers are interested in new ways of working. This has generated greater debate in the media on activity-based offices and the way in which they can improve productivity and wellbeing at work. A number of seminars on the topic have been held during the autumn and they have also been attended by Martela's representatives. Groups of customers who want to take a closer look at more efficient and pleasant working environments are also a frequent sight in Martela's own office.

Deskless learning environments for schools have attracted interest for the same reasons. Experience has shown that they help to make the learning process more effective and provide the teachers and students with a more pleasant working environment.

Flow - the new product for the third quarter

An activity-based office must also have the tools for efficient working. To help to overcome this problem, we partnered to create Flow, the perfect presentation solution. It combines a projector and a screen surface in one package that is easy to move from one place to another – Flow is revolutionary because it relies on a single USB connector. When one end of the cable is connected to a computer, it takes just one push of a button to make the computer screen visible to everyone on the Flow screen. Flow is compatible with all operating systems.

Group structure

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

Shares

A total of 496,670 (349,145) of the company's A shares were traded on NASDAQ OMX Helsinki in January-September, which was equivalent to 14.0% (9.8) of the total number of A shares.

The value of trading turnover was EUR 1.5 million (1.1), and the share price was EUR 2.91 at the end of 2014 and EUR 2.80 at the end of the review period. During January-September the share price was EUR 3.40 at its highest and EUR 2.75 at its lowest. At the end of September, equity per share was EUR 5.12 (5.40).

Treasury shares

The company did not purchase any of its own shares in January-September. On 30 September 2015, Martela owned a total of 63,147 Martela A shares, purchased at an average price of EUR 10.65. Martela's holding of treasury shares amounts to 1.5% of all shares and 0.4% of all votes.

Share acquisition for the share-based incentive scheme has been outsourced to an external service provider. The external service provider was not in possession of any undistributed shares at the end of the review period on 30 September 2015.

2015 Annual General Meeting

Martela Corporation's Annual General Meeting was held on 10 March 2015. The AGM approved the financial statements for 2014 and discharged the members of the Board of Directors and the Managing Director from liability. The AGM decided, in accordance with the Board of Directors' proposal, to distribute a dividend of EUR 0.10 per share. The dividend was paid on 19 March 2015.

The number of members on the Board of Directors was confirmed as seven. Heikki Ala-Ilkka, Kirsi Komi, Eero Leskinen, Heikki Martela, Pinja Metsäranta and Yrjö Närhinen were re-elected to the Board, and Eero Martela was elected as a new member. KPMG Oy Ab, Authorised Public Accountants, was 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 Ala-Ilkka as Chairman and Eero Leskinen as Vice Chairman.

Events after the review period

It was announced in October that Martela aims to improve the efficiency of its Polish operations by revamping the sales organisation.

No other significant events requiring reporting have taken place since January-September and operations have continued according to plan.

Short-term risks

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

The risks are explained in more detail in the corporate governance section of the company's annual report.

Outlook for 2015

The Martela Group anticipates that its revenue in 2015 will remain at the previous year's level or that there will be a slight decline. A slight improvement in the operating result is expected.

TABLES

Accounting policies

This interim report has been prepared in accordance with IFRS recognition and measurement principles, but not all the IAS 34 requirements have been complied with. The interim report should be read in conjunction with the 2014 financial statements.

The figures in this release have been rounded, and so the combined sum of individual figures may differ from the sums presented. This report is unaudited.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (EUR 1 000)

	2015	2014	2015	2014	2014
	1-9	1-9	7-9	7-9	1-12
Revenue	**95 318**	**104 675**	**38 676**	**36 543**	**135 918**
Other operating income	405	740	221	182	1 049
Employee benefits expenses	-23 562	-27 475	-7 109	-8 031	-36 258
Operating expenses	-67 597	-73 975	-27 887	-25 564	-96 789
Depreciation and impairment	-2 586	-2 760	-863	-927	-3 764
Operating profit/loss	**1 978**	**1 205**	**3 038**	**2 203**	**156**
Financial income and expenses	-521	-508	-174	-202	-753
Profit/loss before taxes	**1 457**	**697**	**2 864**	**2 001**	**-597**
Income tax	-459	-294	-434	-203	-112
Profit/loss for the period	**998**	**403**	**2 430**	**1 798**	**-709**
Other comprehensive income:					
Translation differences	-15	-167	-221	-50	-613
Actuarial gains and losses	0	0	0	0	-72
Actuarial gains and losses, deferred taxes	0	-18	0	0	14
Total comprehensive income	**983**	**218**	**2 209**	**1 748**	**-1 380**
Basic earnings per share, eur	0,24	0,10	0,59	0,44	-0,18
Diluted earnings per share, eur	0,24	0,10	0,59	0,44	-0,18
Allocation of net profit for the period:					
To equity holders of the parent	998	403	2 430	1 798	-709
Allocation of total comprehensive income:					
To equity holders of the parent	983	218	2 209	1 748	-1 380

GROUP BALANCE SHEET (EUR 1 000)	30.9.2015	31.12.2014	30.9.2014
ASSETS			
Non-current assets			
Intangible assets	4 929	5 481	5 765
Tangible assets	9 057	10 499	10 883
Investments	55	55	55
Deferred tax assets	446	496	381
Investment properties	600	600	600
Total	**15 087**	**17 131**	**17 684**
Current assets			
Inventories	11 614	10 161	11 525
Receivables	24 664	20 538	19 734
Cash and cash equivalents	6 031	6 407	6 580
Total	**42 309**	**37 106**	**37 839**
Total assets	**57 396**	**54 237**	**55 523**
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	-714	-699	-253
Retained earnings	13 341	13 125	14 277
Treasury shares	-673	-1 050	-1 050
Share-based incentives	909	837	766
Total	**20 970**	**20 320**	**21 847**
Non-current liabilities			
Interest-bearing liabilities	11 224	6 794	8 501
Deferred tax liabilities	696	813	846
Pension obligations	737	737	547
Total	**12 657**	**8 344**	**9 894**
Current liabilities			
Interest-bearing	2 791	5 671	6 227
Non-interest bearing	20 978	19 902	17 555
Total	**23 769**	**25 573**	**23 782**
Total liabilities	**36 426**	**33 917**	**33 676**
Equity and liabilities, total	**57 396**	**54 237**	**55 523**

STATEMENT OF CHANGES IN EQUITY (EUR 1 000)

Equity attributable to equity holders of the parent

	Share capital	Share premium account	Other reserves	Trans. diff.	Retained earnings	Treasury shares	Total
01.01.2014	7 000	1 116	-9	-86	14 602	-1 050	21 573
Total comprehensive income					403		403
Translation differences				-167			-167
Introduction of IAS 19R, deferred taxes					-18		-18
Dividends					0		0
Share-based incentives					56		56
30.09.2014	7 000	1 116	-9	-253	15 043	-1 050	21 847
01.01.2015	7 000	1 116	-9	-699	13 962	-1 050	20 320
Total comprehensive income					998		998
Translation differences				-15			-15
Dividends					-354		-354
Withholding tax on dividends					-51		-51
Share-based incentives					-305	377	72
30.09.2015	7 000	1 116	-9	-714	14 250	-673	20 970

CONSOLIDATED CASH FLOW STATEMENT (EUR 1 000)	2015 1-9	2014 1-9	2014 1-12
Cash flows from operating activities			
Cash flow from sales	89 631	108 159	139 896
Cash flow from other operating income	369	460	764
Payments on operating costs	-90 601	-104 397	-133 266
Net cash from operating activities before financial items and taxes	**-601**	**4 222**	**7 394**
Interest paid	-169	-240	-425
Interest received	7	9	15
Other financial items	-206	-194	-355
Dividends received	0	0	7
Taxes paid	-55	-159	-471
Net cash from operating activities (A)	**-1 024**	**3 638**	**6 165**
Cash flows from investing activities			
Capital expenditure on tangible and intangible assets	-537	-1 237	-1 484
Proceeds from sale of tangible and intangible assets	36	17	21
Net cash used in investing activities (B)	**-501**	**-1 220**	**-1 463**
Cash flows from financing activities			
Proceeds from short-term loans	10 932	26 000	33 500
Repayments of short-term loans	-12 102	-25 116	-34 292
Proceeds from long-term loans	4 000	0	0
Repayments of long-term loans	-1 279	-1 529	-2 119
Dividends paid and other profit distribution	-405	0	0
Net cash used in financial activities (C)	**1 146**	**-645**	**-2 911**
Change in cash and cash equivalents (A+B+C) (+ increase, - decrease)	**-379**	**1 773**	**1 791**
Cash and cash equivalents in the beginning of period	6 407	4 857	4 857
Translation differences	3	-50	-241
Cash and cash equivalents at the end of period	**6 031**	**6 580**	**6 407**

SEGMENT REPORTING (EUR 1 000)

Segment revenue	2015 1-9	2014 1-9	2015 7-9	2014 7-9	2014 1-12
Business Unit Finland					
external	67 720	64 347	25 651	23 098	87 469
internal	5 682	4 607	2 208	2 056	6 613
Business Unit Sweden and Norway					
external	15 547	21 050	8 718	4 260	24 886
internal	3	1 251	0	26	1 425
Business Unit International					
external	11 031	18 268	4 009	8 769	22 357
internal	339	2 499	79	1 506	2 709
Other segments					
external	1 020	1 010	297	416	1 206
internal	13 068	13 009	5 202	4 495	18 275
Total external revenue	**95 318**	**104 675**	**38 676**	**36 543**	**135 918**

Segment operating profit/loss	2015 1-9	2014 1-9	2015 7-9	2014 7-9	2014 1-12
Business Unit Finland	5 476	1 886	2 645	1 268	2 840
Business Unit Sweden and Norway	-1 102	92	94	-271	-398
Business Unit International	-1 160	553	-211	1 004	-312
Other segments	-1 236	-1 326	510	202	-1 974
Total operating profit/loss	**1 978**	**1 205**	**3 038**	**2 203**	**156**

Business Unit International consists of Martela's sales operations in Poland and Russia as well as exports.
The item "Other" includes operating activities of Kidex Oy, non-allocated Group functions, production units and non-recurring sales gains and losses.

TANGIBLE ASSETS 1.1-30.9.2015	Land areas	Buildings	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	0	128	460	0	13
Decreases	0	0	-53	0	0

TANGIBLE ASSETS 1.1-30.9.2014	Land areas	Buildings	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	0	176	1 061	0	72
Decreases	0	-29	-35	0	0

RELATED PARTY AND SHARE-BASED INCENTIVE PROGRAMME

The CEO and the group's management are included in a long-term share-based incentive scheme, extending to the end of 2016

KEY FIGURES/RATIOS	2015 1-9	2014 1-9	2014 1-12
Operating profit/loss	1 978	1 205	156
- in relation to revenue	2,1	1,2	0,1
Profit/loss before taxes	1 457	697	-597
- in relation to revenue	1,5	0,7	-0,4
Profit/loss for the period	998	403	-709
- in relation to revenue	1,0	0,4	-0,5
Basic earnings per share, eur	0,24	0,10	-0,18
Diluted earnings per share, eur	0,24	0,10	-0,18
Equity/share, eur	5,12	5,40	5,02
Equity ratio	36,8	39,8	38,1
Return on equity *	6,4	2,5	-3,4
Return on investment *	7,7	4,3	0,5
Interest-bearing net-debt, eur million	8,7	8,7	6,8
Gearing ratio	41,6	39,8	33,4
Capital expenditure, eur million	0,6	1,3	1,7
- in relation to revenue	0,7	1,3	1,3
Personnel at the end of period	609	683	670
Average personnel	641	750	742
Revenue/employee, eur thousand	148,7	139,6	183,2

Key figures are calculated according to formulae as presented in Annual Report 2014
* When calculating return on equity and return on investment the profit/loss for the period has been multiplied in interim reports.

CONTINGENT LIABILITIES	30.9.2015	31.12.2014	30.9.2014
Mortgages and shares pledged	26 825	22 002	22 088
Other commitments	257	287	354
Rental commitments	9 010	10 526	10 710

DEVELOPMENT OF SHARE PRICE	2015	2014	2014
	1-9	1-9	1-12
Share price at the end of period, eur	2,80	3,19	2,91
Highest price, eur	3,40	3,59	3,65
Lowest price, eur	2,75	3,03	2,84
Average price, eur	3,07	3,22	3,20

Martela Corporation
Board of Directors
Matti Rantaniemi
CEO

Additional information
Matti Rantaniemi, CEO, tel. +358 50 465 8194
Markku Pirskanen, CFO, tel. +358 40 517 4606

Distribution
NASDAQ OMX Helsinki
Main news media
www.martela.com