Inspiring spaces

Martela

2016

Interim Report

1 January- 30 September 2016

Martela Corporation Interim Report, 1 January – 30 September 2016

The January–September 2016 revenue was on the previous year's level and the operating result improved. Strategy was further refined.

JULY–SEPTEMBER 2016

- Revenue EUR 35.2 million (7–9/2015: 38.7), change -9.1%
- Comparable operating result improved by 18.6% and was EUR 3.6 million (3.0)
- Comparable operating profit per revenue was 10.2 % (7.9 %)
- Result for the period improved by 12.9% and was EUR 2.7 million (2.4)
- Earnings per share amounted to EUR 0.67 (0.59)

JANUARY-SEPTEMBER 2016

- Revenue was on the previous year's level at EUR 94.9 million (95.3), change -0.5%
- Comparable operating result improved by 134.2% and was EUR 4.6 million (2.0)
- Comparable operating profit per revenue was 4.9% (2.1%)
- Result for the period improved by 156.2% and was EUR 2.6 million (1.0)
- Earnings per share amounted to EUR 0.62 (0.24)

OUTLOOK FOR 2016 (NO CHANGE)

The outlook for 2016 has not changed. The Martela Group anticipates that its revenue in 2016 will remain at the previous year's level and its IFRS operating result will show a slight year-on-year improvement. Due to normal seasonal variations, the Group's operating result accumulates mainly during the second half of the year.

KEY FIGURES, MEUR

	2016 7-9	**2015 7-9**	**Change %**	**2016 1-9**	**2015 1-9**	**Change %**	**2015 1-12**
Revenue	35,2	38,7	-9,1	94,9	95,3	-0,5	132,8
Comparable operating result*	3,6	3,0	18,6	4,6	2,0	134,2	4,1
Comparable operating result %*	10,2	7,9		4,9	2,1		3,1
Operating result	3,6	3,0	18,6	4,1	2,0	104,9	4,1
Operating result %	10,2	7,9		4,3	2,1		3,1
Result before taxes	3,5	2,9	23,1	3,6	1,5	150,1	3,4
Result for the period	2,7	2,4	12,9	2,6	1,0	156,2	2,5
Earnings/share, eur	0,67	0,59	13,6	0,62	0,24	158,3	0,61
Return on investment %	42,6	34,9		16,0	7,7		12,1
Return on equity %	46,8	47,1		14,5	6,4		11,6
Equity ratio %				46,3	36,8		40,9
Gearing %				-8,9	41,6		16,6

* Martela applies the European Securities and Markets Authority (ESMA) guidelines on disclosing alternative performance measures. The guidelines took effect on 3 July 2016. Martela discloses alternative performance measures to illustrate the financial performance of its business operations and to improve intra-period comparability. The alternative performance measures should not be considered as substitute for the IFRS performance measures. The reconciliation of the ESMA performance measures with the most directly reconcilable IFRS-based items has been presented in the financial statements information of this interim financial report.

MATTI RANTANIEMI, CEO:

“Our business operations improved positively in the third quarter. The revenue level and improved operating efficiency brought stability to Martela's operations. The cash flow from our operations was also good.

Revenue for January–September was EUR 94.9 million, which is at the previous year’s level (95.3). Consolidated operating result increased by 18.6% in the third quarter and was EUR 3.6 million (3.0). Comparable consolidated operating result for the January–September period was EUR 4.6 million (2.0), which is an improvement of 134.2% on the comparison period. Cash flow from operating activities in January–September came to EUR 8.1 million (-1.0).

With the positive development of Business Unit Finland & Sweden the consolidated revenue for the review period was on the 2015 level. In contrast, under the Business Unit International, Poland’s revenue declined clearly and Norway’s slightly during the review period. The timing of the final major projects in Russia to the third quarter increased the revenue of Russian operations. Other exports grew.

The discontinuation of Martela’s own sales operations in Poland and Russia, announced in June, has proceed according to plan. The Warsaw production and purchasing unit will continue operations and is an integral part of Martela’s Customer Supply Management organisation. The closure of the Bodafors plant and logistics centre in Sweden, which was announced earlier, is nearly completed.

In the review period, we continued to refine the Group’s Lifecycle strategy. Our new strategy corresponds to the way work is changing and is founded on Nordic strengths. Our strategic direction is defined by our new mission “Better working” and our new vision “People-centric workplaces”. Martela provides workplaces designed to meet their users’ needs where the users and their wellbeing are in the core.

The division of responsibilities among the members of the Management Team was adjusted during the period to correspond to the company's strategy.

In the remaining part of this year we will continue to focus on implementing the Lifecycle strategy in the Nordic countries and on improving our profitability. Due to the nature of its business, Martela’s operating result accumulates mainly during the second half of the year. In 2016 this took place in the beginning of the period in question.”

MARKET

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 functional.

The market situation in the third quarter was similar to that of the first part of the year.

On the Finnish market, the need for many companies to adjust their operations to new business realities has generated an often-substantial need to develop working environments. The Martela Lifecycle model responds well to such needs, even when companies are faced with challenging changes in their business. To this end, we have focused on our competence in workplace specification, planning and maintenance services. We can offer even more carefully specified workplaces that are a good fit for customer needs. As a result, the Finnish market has still performed moderately well from Martela’s perspective, despite being challenging.

The positive performance of the Swedish economy offers Martela an opportunity to increase its business there. In addition, in Sweden the Martela Lifecycle model is seen as a good fit with market needs because in the same way as in Finland, Swedish companies also understand the importance of shaping and developing working environments to meet new business needs and challenges.

REVENUE AND RESULT

Revenue and result for July-September 2016

Revenue declined in July–September by 9.1% and was EUR 35.2 million (38.7). The revenue of the Business Unit Finland & Sweden declined by 5.0 % from the previous year. Finnish revenue was on the previous year's level, while in Sweden it declined due to the timing of projects. The revenue of the Business Unit International declined 31% from the previous year. In Poland and Norway revenue declined while in Russia and other international operations it grew.

The consolidated operating result for the third quarter grew by 18.6% and was EUR 3.6 million (3.0).

No costs with impact on comparability were recorded in the third quarter. Costs from the discontinuation of the Polish and Russian operations were recorded in the previous quarter.

Operating result increased due to improvement in efficiency of operations.

Profit for the July–September period was EUR 2.7 million (2.4), and growth was 12.9%.

Revenue and result for January-September 2016

Revenue for January–September was EUR 94.9 million, which is at the previous year's level (95.3). The revenue of the Business Unit Finland & Sweden grew by 5.2% on the previous year. Finnish revenue for the first three quarters was on last year's level while in Sweden the corresponding figure improved year-on-year. The revenue of the Business Unit International declined 29.4% from the previous year. In Poland and Norway revenue declined while in Russia and other international operations it grew.

As a result of the discontinuation of the Polish sales operation revenue has declined in that market and the decline is expected to continue in the fourth quarter. In the Russian market third-quarter performance was strong but as a result of discontinuing sales operations in Russia revenue will fall in the final quarter.

The discontinuation of Martela's own sales operations in Poland and Russia, announced in June, has proceed according to plan. The Warsaw production and purchasing unit will continue operations and is an integral part of Martela's Customer Supply Management organisation. The closure of the Bodafors plant and logistics centre, which was announced earlier, is nearly completed.

Comparable consolidated operating result for the January–September period was EUR 4.6 million (2.0), which is 134.2% better than in the comparison period. EUR 0.6 million was recorded in the second quarter in costs affecting comparability, which arose from the discontinuation of the Polish and Russian sales operations. As a result, the January–September IFRS operating result was EUR 4.1 million (2.0), which is 104.9% better than in the comparison period.

Profit for the July–September period was EUR 2.6 million (1.0), and growth was 156.2%.

SEGMENT FIGURES, MEUR

Revenue by segment	**2016 7-9**	**2015 7-9**	**Change %**	**2016 1-9**	**2015 1-9**	**Change %**	**2015 1-12**
Finland and Sweden	30,6	32,2	-5,0	83,5	79,4	5,2	111,5
International	4,2	6,1	-31,0	10,5	14,9	-29,4	20,1
Other segments	0,3	0,3	3,4	0,8	1,0	-18,9	1,2
Total	35,2	38,7	-9,1	94,9	95,3	-0,5	132,8

Operating result by segment	2 016	2 015	Change	2 016	2 015	Change	2 015
	7-9	7-9	%	1-9	1-9	%	1-12
Finland and Sweden	2,7	3,0	-7,6	5,4	5,0	8,1	7,7
International	-0,1	-0,4	79,2	-2,0	-1,8	-13,4	-2,7
Other	1,0	0,5	88,6	0,7	-1,2	153,3	-1,0
Total	3,6	3,0	18,6	4,1	2,0	104,9	4,1

The business segments are based on the Group's operating structure and internal financial reporting. 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 Business Unit Finland & Sweden is responsible for sales and marketing and for service production in Finland. The Business Unit International consists of Martela's sales operations in Norway, Poland and Russia as well as exports. The most important export countries are Denmark, Estonia, France and the United Arab Emirates (UAE). The item "Other segments" includes the business operations of Kidex Oy, non-allocated Group functions, production units and non-recurring sales gains and losses. The Group's Supply Chain Management unit carries out production and procurement for the business units.

FINANCIAL POSITION

The Group's financial position has improved clearly on the situation at the turn of the year and is stable. Cash flow from operating activities in January–September came to EUR 8,1 million (-1.0). The cash flow was improved by the EBITDA growth and a decline in working capital.

At the end of the period, interest-bearing liabilities stood at EUR 9.4 million (14.8) and net liabilities were EUR -2,2 million (8.7). The gearing ratio at the end of the period was -8.9% (41.6) and the equity ratio was 46.3% (36.8). Net financial expenses were EUR 0.4 million (0.5).

Financing arrangements include covenant clauses in which the ratio between the Group's net debt 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 52.8 million (57.4) at the end of the period.

Capital expenditure

The Group's gross capital expenditure for January–September was EUR 1.4 million (0.6) and was mostly incurred in the IT system project and production replacements.

Personnel

The Group employed an average of 561 (641) persons, which is a year-on-year decrease of 12.5%. The number of employees in the Group was 544 (609) at the end of the period.

Personnel on average	2 016	2 015	Change	2 015
	1-9	1-9	%	1-12
Finland	432	484	-10,7	469
Scandinavia	47	49	-4,1	49
Poland	77	97	-20,6	93
Russia	5	11	-54,5	11
Total	561	641	-12,5	622

MARTELA’S OFFERING

Workplaces for hybrid work

As work roles and duties become increasingly varied and hybrid, workplaces, too, must change. They must support hybrid work. Our strength is in designing and implementing workplaces on the basis of the Martela Lifecycle offering that match companies’ strategic goals and the content of their work. Thanks to this change in the way we work and the use of technology we can design workplace concepts that meet the specific needs of every organisation and can evolve during their lifecycle.

We have continued to actively develop the Martela Dynamic family of products that use smart technology. It includes smart furniture that support employee wellbeing and productivity and tools for optimization which improve the efficiency of workplaces.

Corporate removals expert

We have also focused on developing our removal services. In September, we launched the Muuttovelho (Removals wizard) service on our website. The service offers a tool that meets the needs of every mover and helps to guarantee a successful move. The service further reinforces our strong position as an expert in corporate removals.

The market is ready to make wider use of working and learning environments

In September, we organised a workplace seminar for some 200 guests. The topic of the seminar was the change in how we work and the potential of workplaces in responding to this change. In addition, our experts have given presentations in ten other events on working and learning environments during this autumn. There is a strong demand for our expertise and companies are eager to make the best of what workplaces can offer.

OTHER MATTERS

GROUP STRUCTURE

There were no changes in Group structure during the third quarter.

SHARES

During January–September, 1 635,960 (496,670) of the company's A shares were traded on NASDAQ OMX Helsinki Ltd, corresponding to 46.1 per cent (14.0) of all A shares.

The value of trading turnover was EUR 9.6 million (1.5), and the share price was EUR 3.53 at the end of 2015 and EUR 9.01 at the end of the review period. During January-September the share price was EUR 9,50 at its highest and EUR 3.29 at its lowest. At the end of September, equity per share was EUR 5.90 (5.12).

TREASURY SHARES

The company did not purchase any of its own shares in January-September. On 30 September 2016, Martela owned a total of 47,146 Martela A shares, purchased at an average price of EUR 10.65. Martela’s holding of treasury shares amounts to 1.1 per cent of all shares and 0.3 per cent of all votes. Of the Martela A shares held by the company, a total of 16,001 shares were transferred to recipients of incentives in accordance with the terms of the share-based incentive scheme. Share administration for the share-based incentive scheme has been outsourced to an external service provider.

2016 ANNUAL GENERAL MEETING

Martela Corporation’s Annual General Meeting was held on 8 March 2016. The AGM approved the financial statements for 2015 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 0.25 per share. The dividend was paid on 17 March 2016.

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

DEVELOPMENTS AFTER THE REVIEW PERIOD

After the review period on 19 October 2016, Martela upgraded its financial guidance for 2016.

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 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.

OUTLOOK FOR 2016 (NO CHANGE)

The outlook for 2016 has not changed.

The Martela Group anticipates that its revenue in 2016 will remain at the previous year's level and its IFRS operating result will show a slight year-on-year improvement. Due to normal seasonal variations, the Group's operating result accumulates mainly during the second half of the year.

TABLES

Accounting policies

This interim report has been prepared in accordance with the IAS 34 Interim Financial Reporting standard, as approved by the EU. The calculation methods of the interim report are the same as those applied in the 2015 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.

RECONCILIATION OF KEY FIGURES TO IFRS (1000 EUR)

	7-9 2016	7-9 2015	1-9 2016	1-9 2015	1-12 2015
Items affecting comparability					
Closing costs in Poland´s and Russia's sales activities	0	0	-578	0	0

Operating result	3 604	3 038	4 053	1 978	4 075
Closing costs in Poland´s and Russia's sales activities	0	0	578	0	0
Comparable operating result	**3 604**	**3 038**	**4 631**	**1 978**	**4 075**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (EUR 1 000)

	2016 7-9	2015 7-9	2016 1-9	2015 1-9	2015 1-12
Revenue	**35 174**	**38 676**	**94 854**	**95 318**	**132 820**
Other operating income	35	221	219	405	395
Employee benefits expenses	-6 845	-7 109	-21 493	-23 562	-32 277
Operating expenses	-24 040	-27 887	-67 338	-67 597	-93 446
Depreciation and impairment	-720	-863	-2 189	-2 586	-3 417
Operating profit/loss	**3 604**	**3 038**	**4 053**	**1 978**	**4 075**
Financial income and expenses	-79	-174	-409	-521	-689
Profit/loss before taxes	**3 525**	**2 864**	**3 644**	**1 457**	**3 386**
Income tax	-782	-434	-1 087	-459	-903
Profit/loss for the period	**2 743**	**2 430**	**2 557**	**998**	**2 483**
Other comprehensive income:					
Translation differences	-8	-221	-16	-15	-41
Actuarial gains and losses	0	0	0	0	253
Actuarial gains and losses, deferred taxes	0	0	0	0	-32
Total comprehensive income	**2 735**	**2 209**	**2 541**	**983**	**2 663**
Basic earnings per share, eur	0,67	0,59	0,62	0,24	0,61
Diluted earnings per share, eur	0,67	0,59	0,62	0,24	0,61
Allocation of net profit for the period:					
To equity holders of the parent					
	2 743	2 430	2 557	998	2 483
Allocation of total comprehensive income:					
To equity holders of the parent	2 735	2 209	2 541	983	2 663

GROUP BALANCE SHEET (EUR 1 000)	30.9.2016	30.9.2015	31.12.2015
ASSETS			
Non-current assets			
Intangible assets	5 139	4 929	4 733
Tangible assets	7 270	9 057	8 524
Investments	55	55	55
Deferred tax assets	390	446	381
Investment properties	600	600	600
Total	**13 454**	**15 087**	**14 293**
Current assets			
Inventories	8 717	11 614	10 655
Receivables	19 150	24 664	23 314
Cash and cash equivalents	11 512	6 031	7 724
Total	**39 379**	**42 309**	**41 693**
Total assets	**52 833**	**57 396**	**55 986**
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	-756	-714	-740
Retained earnings	16 460	13 341	15 047
Treasury shares	-502	-673	-673
Share-based incentives	913	909	921
Total	**24 222**	**20 970**	**22 662**
Non-current liabilities			
Interest-bearing liabilities	8 213	11 224	8 388
Deferred tax liabilities	653	696	758
Pension obligations	574	737	574
Total	**9 440**	**12 657**	**9 720**
Current liabilities			
Interest-bearing	569	2 791	2 517
Non-interest bearing	18 602	20 978	21 087
Total	**19 171**	**23 769**	**23 604**
Total liabilities	**28 611**	**36 426**	**33 324**
Equity and liabilities, total	**52 833**	**57 396**	**55 986**

CONSOLIDATED CASH FLOW STATEMENT (EUR 1 000)	2016	2015	2015
	1-9	1-9	1-12
Cash flows from operating activities			
Cash flow from sales	98 247	89 631	129 489
Cash flow from other operating income	201	369	354
Payments on operating costs	-88 684	-90 601	-125 229
Net cash from operating activities before financial items and taxes	**9 764**	**-601**	**4 614**
Interest paid	-188	-169	-422
Interest received	4	7	10
Other financial items	-136	-206	-273
Dividends received	5	0	0
Taxes paid	-1 311	-55	-55
Net cash from operating activities (A)	**8 139**	**-1 024**	**3 874**
Cash flows from investing activities			
Capital expenditure on tangible and intangible assets	-1 318	-537	-626
Proceeds from sale of tangible and intangible assets	18	36	41
Net cash used in investing activities (B)	**-1 300**	**-501**	**-585**
Cash flows from financing activities			
Proceeds from short-term loans		10 932	11 932
Repayments of short-term loans	-1 331	-12 102	-15 262
Proceeds from long-term loans		4 000	4 000
Repayments of long-term loans	-791	-1 279	-2 231
Dividends paid and other profit distribution	-998	-405	-405
Net cash used in financial activities (C)	**-3 119**	**1 146**	**-1 966**
Change in cash and cash equivalents (A+B+C) (+ increase, - decrease)	**3 720**	**-379**	**1 323**
Cash and cash equivalents in the beginning of period	7 724	6 407	6 407
Translation differences	68	3	-6
Cash and cash equivalents at the end of period	**11 512**	**6 031**	**7 724**

STATEMENT OF CHANGES IN EQUITY (EUR 1 000)

Equity attributable to equity holders of the parent

	Share capital	Share premium account	Other reserves	Transl. diff.	Retained earnings	Treasury shares	Total
01.01.2015	7 000	1 116	-9	-699	13 962	-1 050	20 320
Total comprehensive income					998		998
Translation diff.				-15			-15
Dividends					-354		-354
Withholding taxes from dividends					-51		-51
Share-based incentives					-305	377	72
30.09.2015	7 000	1 116	-9	-714	14 250	-673	20 970
01.01.2016	7 000	1 116	-9	-740	15 968	-673	22 662
Total comprehensive income					2 557		2 557
Translation diff.				-16			-16
Dividends					-884		-884
Withholding taxes from dividends					-139		-139
Share-based incentives					-129	171	42
30.9.2016	7 000	1 116	-9	-756	17 373	-502	24 222

TANGIBLE ASSETS 1.1-30.09.2016

	Land areas	Buildings	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	0	102	454	0	2
Decreases	0	-141	-292	0	-11

TANGIBLE ASSETS 1.1-30.09.2015

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

RELATED PARTY AND SHARE-BASED INCENTIVE SCHEME

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

CONTINGENT LIABILITIES	**30.9.2016**	**30.9.2015**	**31.12.2015**
Mortgages and pledges	26 755	26 825	26 905
Other commitments	346	257	597
Rental commitments	8 231	9 010	8 376

DEVELOPMENT OF SHARE PRICE	**2016**	**2015**	**2015**
	1-9	**1-9**	**1-12**
Share price at the end of period, eur	9,01	2,80	3,53
Highest price, eur	9,50	3,40	3,58
Lowest price, eur	3,29	2,75	2,75
Average price, eur	5,86	3,07	3,17

KEY FIGURES/RATIOS

	1-9/2016	1-9/2015	1-12/2015
Comparable operating profit/loss	4 631	1 978	4 075
- in relation to revenue	4,9	2,1	3,1
Operating profit/loss	4 053	1 978	4 075
- in relation to revenue	4,3	2,1	3,1
Profit/loss before taxes	3 644	1 457	3 386
- in relation to revenue	3,8	1,5	2,5
Profit/loss for the period	2 557	998	2 483
- in relation to revenue	2,7	1,0	1,9
Basic earnings per share, eur	0,62	0,24	0,61
Diluted earnings per share, eur	0,62	0,24	0,61
Equity/share, eur	5,90	5,12	5,54
Equity ratio	46,3	36,8	40,9
Return on equity *	14,5	6,4	11,6
Return on investment *	16,0	7,7	12,1
Interest-bearing net-debt, eur million	-2,2	8,7	3,8
Gearing ratio	-8,9	41,6	16,6
Capital expenditure, eur million	1,4	0,6	0,7
- in relation to revenue	1,5	0,7	0,5
Personnel at the end of period	544	609	575
Average personnel	561	641	622
Revenue/employee, eur thousand	169,1	148,7	213,5

Key figures are calculated according to formulae as presented in Annual Report 2015
* When calculating return on equity and return on investment the profit/loss for the period has been multiplied in interim reports.

FORMULAS FOR CALCULATION OF KEY FIGURES

Earnings / share	Profit attributable to the equity holders of the parent Average share issue-adjusted number of shares
Equity / share, EUR	Equity attributable to the equity holders of the parent Share issue-adjusted number of shares at year end
Return on equity, %	Profit/loss for the financial year x 100 Equity (average during the year)
Return on investment, %	(Pre-tax profit/loss + interest expenses + other financial expenses) x 100 Balance sheet total - Non-interest-bearing liabilities (average during year)
Equity ratio, %	Equity x 100 Balance sheet total - advances received
Gearing, %	Interest-bearing liabilities-cash and cash equivalents and liquid asset securities x 100 Equity
Average personnel	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

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 provides people centric workplaces where the users and their wellbeing are in the core. We will focus on the Nordic countries, as the Nordic countries are forerunner in hybrid working environments with common open work culture background and needs.