



marimekko

Interim Report 1-9/2018

Marimekko Corporation, Interim Report, 1 November 2018 at 8.30 a.m.

Net sales grew by 10 percent and comparable operating profit by 44 percent in the third quarter

The third quarter in brief

- Net sales grew by 10 percent to EUR 29.8 million (Q3/2017: 27.2). Growth was generated primarily by retail and wholesale sales in Finland and by wholesale sales in the Asia-Pacific region. Finnish wholesale sales rose mainly due to nonrecurring promotional deliveries. Last year, the period's net sales in the Asia-Pacific region were boosted by royalties, of which there were none this year.
- Operating profit grew to EUR 6.2 million (4.4). Comparable operating profit was EUR 6.3 million (4.4).
- Earnings were boosted by growth in net sales. Results were also improved by an increase in relative sales margin and reduced depreciation. However, a drag was exerted by lower royalties and higher fixed costs than in the comparison period.

January-September in brief

- Net sales grew by 13 percent and were EUR 82.1 million (1-9/2017: 72.5). Sales rose in all market areas. In Finland, retail sales grew by 11 percent and wholesale sales by 26 percent. Growth in wholesale sales was generated primarily by nonrecurring promotional deliveries. In the Asia-Pacific region, wholesale sales rose by 20 percent.
- Operating profit improved to EUR 16.5 million (6.0) with the capital gain from the sale of the company's head office. Comparable operating profit was EUR 10.6 million (6.2).
- Operating profit was improved by growth in sales, particularly in Finland and the Asia-Pacific region. A drag was exerted on results by a decline in relative sales margin, which was largely due to wholesale sales accounting for a higher proportion of net sales than in the comparison period. In addition, fixed costs were higher and depreciation lower than in the comparison period.

Acceleration of profitable growth, improvement of capital efficiency, additional dividend and revised financial goals

- The sale of Marimekko's head office in spring 2018 strengthened the company's financial position and, during the autumn, the Board of Directors has examined various options to use the funds obtained from the transaction. In its evaluation, the Board has focused on accelerating profitable growth and improving capital efficiency. The Board has decided that part of the funds will be used for development of strategically important business areas and that a proposal for the payment of an additional dividend of EUR 1.25 per share will be made to the Annual General Meeting to be held in spring 2019. At the same time, the Board has examined the company's long-term financial goals and decided to revise the goals related to profitability and capital structure.

Financial guidance for 2018 (as revised on 21 September 2018)

The Marimekko Group's net sales for 2018 are forecast to be higher than in the previous year; comparable operating profit for 2018 is expected to be higher than in the previous year, amounting at the most to approximately EUR 12 million.

In its half-year financial report of 9 August 2018, the company estimated that the Group's net sales for 2018 would be higher than in the previous year and that comparable operating profit would be at the same level as or higher than in the previous year.

KEY FIGURES

(EUR million)	7-9/ 2018	7-9/ 2017	Change, %	1-9/ 2018	1-9/ 2017	Change, %	1-12/ 2017
Net sales	29.8	27.2	10	82.1	72.5	13	102.3
International sales	12.7	12.2	4	36.9	33.2	11	46.6
<i>% of net sales</i>	42	45		45	46		46
EBITDA	6.8	5.2	29	18.4	8.5	117	11.7
Comparable EBITDA	6.9	5.2	32	12.6	8.7	44	11.9
Operating result	6.2	4.4	41	16.5	6.0	176	8.4
Comparable operating result	6.3	4.4	44	10.6	6.2	71	8.6
<i>Operating result margin, %</i>	20.7	16.2		20.1	8.2		8.2
<i>Comparable operating result margin, %</i>	21.2	16.2		12.9	8.6		8.4
Result for the period	4.9	3.3	48	12.8	3.9	224	5.7
Earnings per share, EUR	0.60	0.41	48	1.58	0.49	224	0.70
Cash flow from operating activities	2.8	3.6	-24	6.5	0.9		9.8
<i>Return on investment (ROI), %</i>				48.5	18.3		21.6
<i>Equity ratio, %</i>				73.3	61.9		65.2
Gross investments	0.3	0.3		1.1	0.9	16	1.2
Personnel at the end of the period				421	417	1	446
outside Finland				98	110	-11	122
Brand sales ¹	54.9	49.1	12	197.9	134.7	47	192.7
outside Finland	33.1	29.3	13	139.6	82.3	70	118.6
<i>proportion of international sales, %</i>	60	60		71	61		62
Number of stores				150	166	-10	161

The change percentages in the table were calculated on exact figures before the amounts were rounded to millions of euros. Reconciliation of key figures to IFRS can be found in the table section of this interim report.

¹ Brand sales are given as an alternative non-IFRS key figure. Brand sales, consisting of estimated sales of Marimekko products at consumer prices, are calculated by adding together the company's own retail net sales and the estimated retail value of Marimekko products sold by other retailers. The estimate, based on Marimekko's realised wholesale sales and royalty income, is unofficial and does not include VAT. The key figure is not audited.

TIINA ALAHUHTA-KASKO
President and CEO

“The third quarter was exceptionally strong, as expected. Our net sales grew by 10 percent and our comparable operating profit by 44 percent. We can be very pleased with our recent progress, and this is a good basis for continuing our long-term work by which we seek markedly stronger growth than before. Earlier today, we announced decisions made by Marimekko’s Board of Directors regarding acceleration of profitable growth and improvement of capital efficiency.

“In the July-September period of 2018, our net sales rose to EUR 29.8 million (27.2). Growth in retail and wholesale sales in Finland plus a favourable trend in wholesale sales in the Asia-Pacific region were key factors behind the strong quarter, as was the case also in the second quarter. In Finland, our retail sales growth once again outpaced the overall trend in the sector; wholesale sales grew primarily due to nonrecurring promotional deliveries. Our comparable operating profit was EUR 6.3 million (4.4).

“In the January-September period, our net sales grew by 13 percent and growth was seen in all market areas. Our operating profit rose to EUR 16.5 million (6.0) with the capital gain from the sale of our head office in the second quarter. Our comparable operating profit was EUR 10.6 million (6.2). Our recent favourable trend has certainly been contributed to by a general recovery in Finnish retail trade, but I believe that the greatest impact has been from the effectiveness of the new direction in our collections and our brand.

“On 21 September 2018, we revised our estimate of full-year comparable operating profit. At the same juncture, we estimated that this year most of our earnings will, contrary to the normal situation, be generated during the second and third quarters. According to our estimate, more costs than in 2017 will occur in the fourth quarter. We also reported that, during the second half of the year, a somewhat larger part of wholesale sales will be generated in the third quarter.

“We have earlier today announced that Marimekko’s Board of Directors has now completed its evaluation regarding the use of the funds obtained from the sale of our head office. Through the planned actions, we seek to accelerate profitable growth and to improve capital efficiency. The Board of Directors has decided that part of the funds will be used for the development of strategically important business areas. In addition, the Board has decided to propose to the Annual General Meeting to be held in spring 2019 the payment of an additional dividend as well as to revise our long-term financial goals. Today we also announced that we will arrange a share issue directed to our personnel in Finland – the Board will decide on the detailed terms and conditions as well as schedule of the share issue in early 2019.

“One of the main events of the period under review was the reopening at the end of August of the Marimekko flagship store in the popular Omotesando district of Tokyo after a total makeover. Our Sydney flagship store is currently undergoing a revamp, and it will open in a new location around mid-November. Earlier this year we also revamped our flagship store in Stockholm. These investments in the store network are important as the flagship stores play a central role as the embodiment of our brand in the world. In China, we will enhance our investment in marketing and in raising our brand profile. Our aim is to start online selling of Marimekko products so that we can, together with our local partner, offer our customers an omnichannel experience in this market as well. Also, we must not forget the year’s most important season, holiday sales, the success of which in our sector typically has a vital impact on the full-year results.”



OPERATING ENVIRONMENT

Uncertainty over the global economy continues, due partly to the unpredictability of the political situation. Growth forecasts for the global economy have been cut somewhat and growth is decelerating in almost all economic areas. Anticipatory indicators in Europe have declined gradually in the past few months. In the US, political uncertainty continues but economic growth is expected to continue to be strong for some time. Financial markets are unsteady and fears of recession have grown.

Economic conditions in Finland are generally good, but the outlook is clearly more cautious than before. It is estimated that growth in retail trade has continued during autumn and sales expectations for the next few months are good. Retail trade confidence remained almost unchanged in October and in September it was above the average for the EU countries. Consumer confidence has clearly weakened compared to September. Consumers' expectations for their own finances remained good in October, but the outlook for the Finnish economy was fairly pessimistic.

(Confederation of Finnish Industries EK: Business Tendency Survey, October 2018; Confidence Indicators, October 2018. Statistics Finland: Consumer Survey, October 2018.)

In the January-September period of 2018, the value of retail sales in Finland rose by 2.9 percent and the volume of sales grew by 1.9 percent on the same period last year. In September sales were up by 0.8 percent. (Statistics Finland: Turnover of Trade, September 2018)

NET SALES

Net sales in the third quarter

In the July-September period of 2018, the Group's net sales rose by 10 percent relative to the same period last year and were EUR 29,836 thousand (27,220). Retail sales grew by 8 percent and wholesale sales by 19 percent. Net sales rose in all market areas except North America, where sales declined by 1 percent. Sales in Finland grew by 14 percent and international sales by 4 percent.

Net sales in Finland were EUR 17,174 thousand (15,059). The positive trend seen in retail sales during the second quarter continued. Retail sales rose by 11 percent and comparable retail sales by 9 percent². Wholesale sales grew by 24 percent, primarily due to nonrecurring promotional deliveries. Of the nonrecurring promotional deliveries for the second half of the year, more than half took place in the third quarter.

In the company's second-biggest market, the Asia-Pacific region, net sales grew by 1 percent to EUR 5,516 thousand (5,455). Net sales for the same period in the previous year were boosted by royalties, of which there were none in the review period. Wholesale sales in the region grew by 16 percent. In the most important country of the market area, Japan, wholesale sales rose by 16 percent; successful product range optimisation was one of the factors contributing to the good sales trend. Part of the growth was due to the fact that deliveries for the final quarter were transferred to the period under review. Retail sales (Australia) grew by 4 percent.

Net sales in January-September period

In the January-September period of 2018, the Group's net sales grew by 13 percent to EUR 82,139 thousand (72,483). Retail sales rose by 9 percent and wholesale sales by 21 percent. Sales rose in all market areas. Net sales in Finland grew by 15 percent and international sales by 11 percent.

Net sales in Finland grew to EUR 45,239 thousand (39,297). Retail sales rose by 11 percent and comparable retail sales also by 11 percent². Wholesale sales grew by 26 percent, primarily due to nonrecurring promotional deliveries. Of the full-year nonrecurring promotional deliveries, roughly half took place in the first half of the year and more than half of the deliveries for the second half-year took place in the third quarter.

² Includes both bricks-and-mortar and online sales.

In the Asia-Pacific region, net sales grew by 14 percent to EUR 16,740 thousand (14,668). Wholesale sales in the region rose by 20 percent. In Japan, wholesale sales grew by 19 percent, due partly to successful product range optimisation. Growth was also due to the transfer of part of the deliveries for the fourth quarter to the previous quarter. Retail sales (Australia) were on a par with the same period last year.

NET SALES BY MARKET AREA

(EUR 1,000)	7-9/ 2018	7-9/ 2017	Change, %	1-9/ 2018	1-9/ 2017	Change, %	1-12/ 2017
Finland	17,174	15,059	14	45,239	39,297	15	55,690
Scandinavia	2,290	2,270	1	6,412	5,888	9	8,469
EMEA	2,651	2,216	20	7,538	6,616	14	9,743
North America	2,205	2,221	-1	6,209	6,014	3	8,261
Asia-Pacific	5,516	5,455	1	16,740	14,668	14	20,161
International sales, total	12,662	12,162	4	36,900	33,186	11	46,635
Total	29,836	27,220	10	82,139	72,483	13	102,324

All figures in the table have been individually rounded to thousands of euros, so there may be rounding differences in the totals. A more comprehensive table with breakdown into retail sales, wholesale sales and royalties by market area can be found in the table section of this interim report.

FINANCIAL RESULT

In the July-September period of 2018, the Group's operating profit grew relative to the comparison period and was EUR 6,185 thousand (4,400). Comparable operating profit was EUR 6,324 thousand (4,400). Earnings were boosted in particular by growth in retail and wholesale sales in Finland as well as by growth in wholesale sales in the Asia-Pacific region. Finnish wholesale sales grew primarily due to nonrecurring promotional deliveries. Of the nonrecurring promotional deliveries for the second half of the year, more than half took place in the third quarter. The result was also improved by an increase in relative sales margin, which was largely due to a good trend in retail sales plus growth in regular-priced sales. Furthermore, results were enhanced by lower depreciation than in the comparison period. A drag was exerted on results by reduced royalties and higher fixed costs.

In the January-September period of 2018, the Group's operating profit grew relative to the comparison period and reached EUR 16,484 thousand (5,977). Operating profit included a nonrecurring taxable capital gain of EUR 6,027 thousand on the sale of the company's head office. Operating profit for the same period in 2017 included a restructuring expense of EUR 237 thousand. Comparable operating profit was EUR 10,596 thousand (6,214). Operating profit was improved by growth in retail and wholesale sales in Finland as well as by growth in wholesale sales in the Asia-Pacific region. Growth in wholesale sales in Finland was due mainly to nonrecurring promotional deliveries. Of the full-year nonrecurring promotional deliveries, roughly half took place in the first half of the year and more than half of the deliveries for the second half-year took place in the third quarter. A drag was exerted on results by a decline in relative sales margin, which was largely due to the fact that wholesale sales accounted for a higher proportion of net sales than in the comparison period. In addition, fixed costs were higher and depreciation lower than in the comparison period.

In the January-September period, marketing expenses were EUR 3,660 thousand (3,262), or 4 percent of the Group's net sales (4).

The Group's depreciation and impairments amounted to EUR 1,957 thousand (2,531), or 2 percent of net sales (3).

In the January-September period, operating profit margin was 20.1 percent (8.2) and comparable operating profit margin 12.9 percent (8.6). In the third quarter of the year, operating profit margin was 20.7 percent (16.2) and comparable operating profit margin 21.2 percent (16.2).

Net financial expenses in the January-September period were EUR 207 thousand (1,013), or 0 percent of net sales (1). Foreign exchange changes recorded in net financial items were EUR -127 thousand (-858).

Result for the January-September period before taxes was EUR 16,277 thousand (4,964). Result after taxes was EUR 12,794 thousand (3,949) and earnings per share were EUR 1.58 (0.49).

BALANCE SHEET

The consolidated balance sheet total as at 30 September 2018 was EUR 53,865 thousand (47,163). Equity attributable to the equity holders of the parent company was EUR 39,041 thousand (29,156), or EUR 4.83 per share (3.60).

Non-current assets at the end of September 2018 stood at EUR 5,222 thousand (13,948). The change is due to the sale of the company's head office in the second quarter.

At the end of the period under review, net working capital was EUR 16,539 thousand (21,035). Inventories were EUR 22,495 thousand (22,241).

CASH FLOW AND FINANCING

In the July-September period of 2018, cash flow from operating activities was EUR 2,765 thousand (3,628), or EUR 0.34 per share (0.45). Cash flow before cash flow from financing activities was EUR 2,566 thousand (3,406).

In the January-September period, cash flow from operating activities was EUR 6,455 thousand (882), or EUR 0.80 per share (0.11). Cash flow before cash flow from financing activities was EUR 16,194 thousand (88). This was boosted by the sale of the company's head office in Finland in the second quarter.

The Group's financial liabilities at the end of the period under review were EUR 439 thousand (8,212).

At the end of the review period, the Group's cash and cash equivalents amounted to EUR 17,737 thousand (2,385). In addition, the Group had unused committed long- and short-term credit lines of EUR 13,000 thousand (13,159).

The Group's equity ratio at the end of the period was 73.3 percent (61.9). Gearing was -46.6 percent (20.0).

INVESTMENTS

The Group's gross investments in the January-September period were EUR 1,090 thousand (935), or 1 percent of net sales (1). Most of the investments were devoted to the company's IT systems and store premises.

STORE NETWORK

The Marimekko flagship store in Tokyo reopened with a new look at the end of August. The flagship stores play an important role as the embodiment of the Marimekko brand in the world.

During the review period, retailer-owned Marimekko stores were opened in Japan, South Korea, Taiwan and Thailand. One store in Hong Kong was closed.

The company corrects the number of stores in North America. The floor areas of the 11 shop-in-shops located in the stores of the Canadian home furnishings company EQ3 are below the 30 sqm reporting limit and they are not included in the total number of Marimekko stores. The change has no effect on wholesale sales in North America.

At the end of the period under review, there were 150 Marimekko stores and shop-in-shops and the company's online store reached customers in 30 countries. E-commerce is of growing importance in the company's business. In addition to its own online store, the company also has distribution through other online channels. However, the proportion of online sales is not reported separately, as the integration of e-commerce and in-store retailing is growing constantly with digital service solutions.

STORES AND SHOP-IN-SHOPS

	30.9.2018	30.9.2017	31.12.2017
Finland	65	66	66
Scandinavia	11	12	12
EMEA	1	2	2
North America	6	21	16
Asia-Pacific	67	65	65
Total	150	166	161

A more comprehensive table with breakdown into the company's own retail stores, retailer-owned Marimekko stores and shop-in-shops can be found in the table section of this interim report.

PERSONNEL

In the January-September period of 2018, the number of employees averaged 432 (421). At the end of the period, the Group had 421 employees (417), of whom 98 (110) worked outside Finland. The number of employees working outside Finland was broken down as follows: Scandinavia 37 (45), EMEA 5 (5), North America 32 (34) and the Asia-Pacific region 24 (26). The personnel at company-owned stores totalled 230 (232) at the end of the period.

SHARES AND SHAREHOLDERS

Share capital and number of shares

At the end of the period under review, the company's fully paid-up share capital, as recorded in the Trade Register, amounted to EUR 8,040,000 and the number of shares totalled 8,089,610.

Shareholdings

According to the book-entry register, Marimekko had 7,925 shareholders at the end of the period under review (7,438). Of the shares, 11.6 percent were owned by nominee-registered or non-Finnish holders (11.2).

Marimekko Corporation held 20,000 of its own shares as at 30 September 2018. These shares accounted for 0.25 percent of the total number of the company's shares. Marimekko shares held by the company carry no voting rights and no entitlement to dividends.

Information on the largest shareholders can be found on the company's website at company.marimekko.com under Investors/Share information/Shareholders.

Share trading and the company's market capitalisation

In the January-September period of 2018, a total of 1,094,451 Marimekko shares were traded, representing 13.5 percent of the shares outstanding. The total value of the share turnover was EUR 15,774,588. The lowest price of the share was EUR 9.92, the highest was EUR 20.00 and the average price was EUR 14.41. At the end of the period, the closing price of the share was EUR 19.50. The company's market capitalisation on 30 September 2018 was EUR 157,357,395, excluding the Marimekko shares held by the company (78,469,217).

Authorisations

The Annual General Meeting held on 12 April 2018 authorised the Board of Directors to decide on the acquisition of a maximum of 100,000 of the company's own shares. The authorisation is valid until 12 October 2019. The shares would be acquired with funds from the company's unrestricted equity, which means that the acquisition would reduce funds available for distribution. The shares would be acquired otherwise than in proportion to the shareholdings of the shareholders through public trading on Nasdaq Helsinki Ltd at the market price prevailing at the time of acquisition. The shares would be acquired to be used as a part of the company's incentive compensation program, to be transferred for other purposes or to be cancelled. The authorisation includes the right of the Board of Directors to decide on all of the other terms and conditions of the acquisition of the shares.

In its stock exchange release of 18 May 2018, Marimekko announced that the company's Board of Directors had decided to start acquiring the company's own shares pursuant to the authorisation granted by the Annual General Meeting on 12 April 2018. The company also announced that the maximum number of shares to be acquired would be 20,000, representing about 0.25 percent of the total number of the company's shares. Purchases started on 1 June 2018 and were concluded on 14 August 2018. At the end of the review period, Marimekko held 20,000 of its own shares, representing 0.25 percent of the total number of the company's shares. The shares were acquired through public trading on Nasdaq Helsinki at the market price prevailing at the time of acquisition.

The General Meeting of 12 April 2018 also authorised the Board of Directors to decide on a share issue, against consideration in deviation from the shareholders' pre-emptive right, directed to the company's personnel or other personnel groups designated by the Board, including the company's freelance designers. The authorisation is valid until 12 October 2019. The total number of new shares to be offered for subscription pursuant to the authorisation may not exceed 150,000 shares. The authorisation includes the right of the Board of Directors to decide on all of the other terms and conditions of the share issue.

At the end of the review period, the Board of Directors had no valid authorisations to issue convertible bonds or bonds with warrants.

SUBSIDIARY IN CHINA

Marimekko set up a subsidiary in China in July 2018. The aim is to start online selling of Marimekko products in this market as well.

EVENTS AFTER THE END OF THE REVIEW PERIOD

Changes in management

Päivi Paltola, Marimekko's Chief Marketing Officer and member of the Management Group, left her position on 12 October 2018. During the recruitment process, Marimekko's President and CEO will be heading the company's marketing organisation.

Morten Israelsen started as Marimekko's Chief Sales Officer and member of the Management Group on 29 October 2018. Päivi Lonka has stepped down from her position as Chief Sales Officer and member of the Management Group. She will continue in the company until the end of November 2018 to ensure a smooth transition and, thereafter, she will act as a consultant to Marimekko focusing on strategically important sales development projects.

Board decisions regarding acceleration of profitable growth, improvement of capital efficiency, additional dividend and financial goals

In its half-year financial report published on 9 August 2018, Marimekko stated that the sale of its head office strengthened the company's financial position and that, in the autumn, the Board of Directors will examine various options to use the funds obtained from the transaction. In its stock exchange release of 1 November 2018, the company announced that the Board has focused in its evaluation on accelerating profitable growth and improving capital efficiency. The Board has decided that part of the funds will be used

for development of strategically important business areas and that a proposal for the payment of an additional dividend of EUR 1.25 per share will be made to the Annual General Meeting to be held in spring 2019. At the same time, the Board has examined the company's long-term financial goals and decided to revise the goals related to profitability and capital structure. The new goals are as follows: operating profit margin 15 percent (earlier: 10 percent) and the ratio of net debt to EBITDA at year end max. 2. The goals related to net sales growth and dividends remain unchanged.

Personnel share issue

In its stock exchange release of 1 November 2018, the company announced that Marimekko Corporation's Board of Directors has, pursuant to the authorisation granted by the Annual General Meeting held on 12 April 2018, decided to arrange a personnel share issue in Finland, in which new shares in the company are offered for subscription to the personnel and to designers employed by the company on a freelance basis. The Board will decide on the detailed terms and conditions as well as schedule of the personnel share issue in early 2019.

MAJOR RISKS AND FACTORS OF UNCERTAINTY

Factors of uncertainty over the global economic trend affect the retail trade and consumer confidence in all of the company's market areas. The company's major strategic risks are associated with changes in consumers' purchasing behaviour and buying power, especially in Finland and Japan, which are the company's biggest single countries for business.

Near-term strategic risks include risks related to changes in the company's design, product assortment and product pricing. Digitisation in retail trade and the intensified competition and rapidly changing operating environment that this entails also bring risks. The company's ability to design, develop and commercialise new products that meet consumers' expectations while ensuring effective production, sourcing and logistics has an impact on the company's sales and profitability. International e-commerce increases the options available to consumers and multichannel business is of growing importance in the retail trade. Maintaining competitiveness in a rapidly changing operating environment being revolutionised by digitisation demands agility, efficiency and the constant re-evaluation of operations.

The company's growth is based primarily on opening retailer-owned Marimekko stores and shop-in-shops and expanding e-commerce as well as setting up company-owned stores and concession shop-in-shops in the company's main market areas. The Asia-Pacific region is Marimekko's second-biggest market, and it plays an important role in the company's growth and internationalisation. Changes in distribution channel solutions may impact the company's sales and profitability. Major partnership choices, partnering contracts and other collaboration agreements involve considerable risks. Store lease agreements in Finland and abroad also contain risks.

Intellectual property rights play a vital role in the company's success, and the company's ability to manage these rights may have an impact on the value and reputation of the company. Agreements with freelance designers and fees paid to designers based on these agreements are also an essential part of the management of intellectual property rights.

The company's operational risks prominently include those related to the management and success of modernisation and internationalisation, changes in procurement and logistics processes, and changes in the prices of raw materials and other procurement items. Information system functionality and reliability also involve risks; malfunctions, for example in data communications or in the company's own online store, can disrupt business momentarily. The company primarily uses subcontractors to manufacture its products. Of the sustainability aspects of manufacturing, those related to the supply chain and enhancing its transparency, in particular, are of growing significance to customers. Compliance with sustainable business methods is important in maintaining customers' confidence; any failures or errors in this area will involve reputation risks. Any delays or disturbances in supply, or fluctuations in the quality of products, may have a harmful impact on business. As product distribution is expanded and operations are diversified, risks associated with inventory management also grow. As Marimekko is a small company, ongoing modernisation and development projects increase risks related to key personnel.

Among the company's financial risks, those related to the structure of sales, price trends for factors of production, changes in cost structure, changes in exchange rates (particularly the US dollar, Swedish krona and Australian dollar), taxation, and customers' liquidity may have an impact on the company's financial status.

MARKET OUTLOOK AND GROWTH TARGETS FOR 2018

Uncertainty in the global economy is forecast to continue, partly because of the unpredictability of the political situation. Consumer demand forecasts vary among Marimekko's different market areas.

Finland, Marimekko's important domestic market, represents about half of the company's net sales. Growth in retail trade is forecast to be at a fairly good level. Sales in 2018 are positively impacted by nonrecurring promotional deliveries; about half of the deliveries took place in the first half of the year and more than half of the deliveries for the second half-year took place in the third quarter. In 2017 there were no similarly large deliveries. Marimekko's sales in Finland are expected to grow in 2018.

The Asia-Pacific region, Marimekko's second-biggest market, plays a significant part in the company's internationalisation. Japan is clearly the most important country in this region to Marimekko; the other countries' combined share of the company's net sales is still relatively small, as operations in these markets are in fairly early stages. Japan already has a very comprehensive network of Marimekko stores, and new ones are being opened at a rate of a few stores per year. Sales are supported by enhancing the operations of stores and by optimising the product range. Sales in the Asia-Pacific region this year are forecast to grow. The company sees increasing demand for its products in this area especially in the longer term.

In 2018, the main thrust in expansion remains on openings of retailer-owned Marimekko stores, and continuing growth is expected in the company's own e-commerce and other online sales channels. The aim is to open around 10-15 new Marimekko stores and shop-in-shops. The company will continue the enhancement of the operations of Marimekko stores opened in recent years.

Royalty income is forecast to be roughly on a par with the previous year.

The expenses of marketing operations in 2018 are forecast to be higher than in 2017 (EUR 4.5 million). The total investments are estimated to grow relative to the previous year (EUR 1.2 million).

Due to the seasonal nature of Marimekko's business, the major portion of the company's net sales and earnings are traditionally generated during the last two quarters of the year. In 2018, most the company's earnings are estimated to be generated during the second and third quarters, contrary to the normal situation. More costs than in 2017 are expected to occur in the final quarter of the year. During the latter half of the year, a somewhat larger part of wholesale sales will be generated in the third quarter. The share of holiday sales in particular of the company's net sales for the last quarter is considerable and the outcome of the holiday season has a significant impact on results for the whole year.

FINANCIAL CALENDAR FOR 2019

Marimekko Corporation's financial statements bulletin for 2018 will be issued on Wednesday 27 February 2019 at 8.30 a.m. The financial statements for 2018 will be published in week 13 at the latest. The interim reports and the half-year financial report for 2019 will be issued as follows: January-March on Thursday 16 May 2019 at 8.30 a.m., January-June on Thursday 15 August 2019 at 8.30 a.m., and January-September on Wednesday 6 November 2019 at 8.30 a.m.

The Annual General Meeting is planned to be held on Wednesday 17 April 2019 at 2.00 p.m.

Helsinki, 31 October 2018

Marimekko Corporation
Board of Directors

The quarterly results for 2018 are unaudited. There may be differences in totals due to rounding to the nearest thousand euros.

ACCOUNTING PRINCIPLES

This interim report was prepared in compliance with IAS 34. Marimekko has applied the same accounting principles in this report as were applied in its 2017 financial statements, although at the start of the financial year the company adopted certain new and amended IFRS standards as described in the financial statements for 2017.

The adoption of the IFRS 15 and IFRS 9 standards on 1 January 2018 has had no effect on the Group's revenue recognition principles or, hence, on the figures stated for the financial year.

Marimekko will adopt the IFRS 16 Leases standard for the financial year starting on 1 January 2019. Marimekko has decided to apply a modified retrospective transition approach for leases existing at the date of transition, and information for the comparative financial year will not be restated. Marimekko will apply the standard's allowances to exclude short-term leases and leases where the underlying asset is of low value.

Marimekko is a lessee. Lease contracts include headquarter and printing facilities in Helsinki, retail stores in Finland and other countries where Marimekko operates as well as leasing cars. In general, lease contracts vary from 3 to 15 years

Marimekko is prepared for the implementation of the IFRS 16 standard and has assessed impacts on the financial statements. Adoption of the IFRS 16 standard will impact key ratios which are based on balance sheet such as net debt as it will increase Marimekko's interest-bearing net debt and right-of-use asset, both by approximately EUR 40 million, and improve the Group's EBITDA by approximately EUR 10 million annually. The impact on EPS will not be significant. These figures are preliminary as the assessment of the impacts continues and the figures may still change.

APPENDICES

Consolidated income statement and comprehensive consolidated income statement

Consolidated balance sheet

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CONSOLIDATED INCOME STATEMENT

(EUR 1,000)	7-9/2018	7-9/2017	1-9/2018	1-9/2017	1-12/2017
NET SALES	29,836	27,220	82,139	72,483	102,324
Other operating income	99	89	6,320	322	406
Increase (-) or decrease (+) in inventories of completed and unfinished products	1,280	-766	1,444	1,194	294
Raw materials and consumables	-11,153	-8,954	-31,048	-26,695	-37,401
Employee benefit expenses	-5,998	-5,431	-18,597	-17,787	-24,543
Depreciation and impairments	-575	-835	-1,957	-2,531	-3,308
Other operating expenses	-7,305	-6,923	-21,817	-21,010	-29,413
OPERATING RESULT	6,185	4,400	16,484	5,977	8,360
Financial income	58	20	125	23	39
Financial expenses	-151	-323	-332	-1,036	-1,269
	-93	-303	-207	-1,013	-1,230
RESULT BEFORE TAXES	6,092	4,098	16,277	4,964	7,130
Income taxes	-1,223	-813	-3,483	-1,015	-1,470
NET RESULT FOR THE PERIOD	4,869	3,285	12,794	3,949	5,660
Distribution of net result to equity holders of the parent company	4,869	3,285	12,794	3,949	5,660
Basic and diluted earnings per share calculated on the result attributable to equity holders of the parent company, EUR	0.60	0.41	1.58	0.49	0.70

COMPREHENSIVE CONSOLIDATED INCOME STATEMENT

(EUR 1,000)	7-9/ 2018	7-9/ 2017	1-9/ 2018	1-9/ 2017	1-12/ 2017
Net result for the period	4,869	3,285	12,794	3,949	5,660
Items that could be reclassified to profit or loss at a future point in time					
Change in translation difference	-7	31	-62	126	-71
COMPREHENSIVE RESULT FOR THE PERIOD	4,861	3,316	12,731	4,075	5,589
Distribution of net result to equity holders of the parent company	4,861	3,316	12,731	4,075	5,589

CONSOLIDATED BALANCE SHEET

(EUR 1,000)	30.9.2018	30.9.2017	31.12.2017
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	523	761	1,145
Tangible assets	4,620	13,010	12,107
Available-for-sale financial assets	16	16	16
Deferred tax assets	63	161	66
	5,222	13,948	13,333
CURRENT ASSETS			
Inventories	22,495	22,241	20,921
Trade and other receivables	8,406	8,580	6,647
Current tax assets	6	10	0
Cash and cash equivalents	17,737	2,385	6,212
	48,644	33,216	33,780
ASSETS, TOTAL	53,865	47,163	47,113
(EUR 1,000)	30.9.2018	30.9.2017	31.12.2017
SHAREHOLDERS' EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY			
Share capital	8,040	8,040	8,040
Reserve for invested non-restricted equity	502	502	502
Treasury shares	-315	-	-
Translation differences	-110	150	-47
Retained earnings	30,923	20,464	22,175
Shareholders' equity, total	39,041	29,156	30,669
NON-CURRENT LIABILITIES			
Financial liabilities	-	2,841	-
Finance lease liabilities	228	3,125	3,097
	228	5,966	3,097
CURRENT LIABILITIES			
Trade and other payables	12,750	9,258	12,519
Current tax liabilities	1,618	505	552
Provisions	18	32	32
Financial liabilities	-	2,000	-
Finance lease liabilities	210	246	244
	14,596	12,042	13,347
Liabilities, total	14,825	18,008	16,444
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL	53,865	47,163	47,113

The Group has no liabilities resulting from derivative contracts, and there are no outstanding guarantees or any other contingent liabilities which have been granted on behalf of the management of the company or its shareholders.

CONSOLIDATED CASH FLOW STATEMENT

(EUR 1,000)	1-9/2018	1-9/2017	1-12/2017
CASH FLOW FROM OPERATING ACTIVITIES			
Net result for the period	12,794	3,949	5,660
Adjustments			
Depreciation and impairments	1,957	2,531	3,308
Capital gains on fixed assets	-6,095	-	-
Financial income and expenses	207	1,013	1,230
Taxes	3,483	1,015	1,470
Cash flow before change in working capital	12,345	8,508	11,668
Change in working capital	-3,270	-5,911	416
Increase (-) / decrease (+) in current non-interest-bearing trade receivables	-1,762	-727	1,027
Increase (-) / decrease (+) in inventories	-1,575	-883	437
Increase (+) / decrease (-) in current non-interest-bearing liabilities	66	-4,300	-1,047
Cash flow from operating activities before financial items and taxes	9,075	2,597	12,084
Paid interest and payments on other financial expenses	-300	-337	-433
Interest received	22	23	22
Taxes paid	-2,342	-1,401	-1,863
CASH FLOW FROM OPERATING ACTIVITIES	6,455	882	9,810
CASH FLOW FROM INVESTING ACTIVITIES			
Investments in tangible and intangible assets	-780	-793	-978
Proceeds from sale of tangible and intangible assets	10,508	-	-
Sale of other investments	11	-	-
CASH FLOW FROM INVESTING ACTIVITIES	9 739	-793	-978
CASH FLOW FROM FINANCING ACTIVITIES			
Acquisition of treasury shares	-315	-	-
Short-term loans drawn	-	2,000	2,000
Short-term loans paid	-	-	-2,000
Net change in long-term loans	-	247	-2,594
Finance lease liabilities paid	-310	-198	-273
Dividends paid	-4,045	-3,236	-3,236
CASH FLOW FROM FINANCING ACTIVITIES	-4,670	-1,186	-6,103
Change in cash and cash equivalents	11,524	-1,098	2,730
Cash and cash equivalents at the beginning of the period	6,212	3,482	3,482
Cash and cash equivalents at the end of the period	17,737	2,385	6,212

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(EUR 1,000)		Equity attributable to equity holders of the parent company				
	Share capital	Reserve for invested non-restricted equity	Treasury shares	Translation differences	Retained earnings	Shareholders' equity, total
Shareholders' equity 1 January 2017	8,040	502		24	19,751	28,316
Comprehensive result						
Net result for the period					3,949	3,949
Translation differences				126		126
Total comprehensive result for the period				126	3,949	4,075
Transactions with owners						
Dividends paid					-3,236	-3,236
Shareholders' equity 30 September 2017	8,040	502		150	20,464	29,156
Shareholders' equity 1 January 2018	8,040	502		-47	22,175	30,669
Comprehensive result						
Net result for the period					12,794	12,794
Translation differences				-62		-62
Total comprehensive result for the period				-62	12,794	12,731
Transactions with owners						
Dividends paid					-4,045	-4,045
Acquisition of treasury shares			-315			-315
Shareholders' equity 30 September 2018	8,040	502	-315	-110	30,923	39,041

KEY FIGURES

	1-9/2018	1-9/2017	Change, %	1-12/2017
Earnings per share, EUR	1.58	0.49	224	0.70
Equity per share, EUR	4.83	3.60	34	3.79
Return on equity (ROE), %	42.5	19.6		19.2
Return on investment (ROI), %	48.5	18.3		21.6
Equity ratio, %	73.3	61.9		65.2
Gearing, %	-46.6	20.0		-9.4
Gross investments, EUR 1,000	1,090	935	16	1,210
Gross investments, % of net sales	1	1		1
Contingent liabilities, EUR 1,000	43,753	27,191	61	25,709
Average personnel	432	421	3	425
Personnel at the end of the period	421	417	1	446
Number of shares outstanding at the end of the period	8,069,610	8,089,610		8,089,610
Average number of shares outstanding	8,083,870	8,089,610		8,089,610

RECONCILIATION OF KEY FIGURES TO IFRS

(EUR million)	7-9/ 2018	7-9/ 2017	1-9/ 2018	1-9/ 2017	1-12/ 2017
Items affecting comparability					
Employee benefit expenses	-0.1	-	-0.1	-0.2	-0.2
Other operating income	-	-	6.0	-	-
Items affecting comparability in operating result	-0.1	-	5.9	-0.2	-0.2
EBITDA	6.8	5.2	18.4	8.5	11.7
Items affecting comparability	-0.1	-	5.9	-0.2	-0.2
Comparable EBITDA	6.9	5.2	12.6	8.7	11.9
Operating result	6.2	4.4	16.5	6.0	8.4
Items affecting comparability in operating result	-0.1	-	5.9	-0.2	-0.2
Comparable operating result	6.3	4.4	10.6	6.2	8.6
Net sales	29.8	27.2	82.1	72.5	102.3
Operating result margin, %	20.7	16.2	20.1	8.2	8.2
Comparable operating result margin, %	21.2	16.2	12.9	8.6	8.4

NET SALES BY MARKET AREA

(EUR 1,000)	7-9/ 2018	7-9/ 2017	Change, %	1-9/ 2018	1-9/ 2017	Change, %	1-12/ 2017
Finland	17,174	15,059	14	45,239	39,297	15	55,690
Retail sales	12,553	11,325	11	32,051	28,816	11	40,845
Wholesale sales	4,580	3,687	24	13,051	10,347	26	14,648
Royalties	42	46	-10	137	134	2	197
Scandinavia	2,290	2,270	1	6,412	5,888	9	8,469
Retail sales	1,342	1,439	-7	3,866	3,680	5	5,076
Wholesale sales	948	831	14	2,546	2,208	15	3,393
Royalties	-	-	-	-	-	-	-
EMEA	2,651	2,216	20	7,538	6,616	14	9,743
Retail sales	340	290	17	1,088	780	39	1,139
Wholesale sales	2,232	1,847	21	6,172	5,585	10	8,279
Royalties	79	79	-1	278	251	11	325
North America	2,205	2,221	-1	6,209	6,014	3	8,261
Retail sales	1,360	1,395	-2	3,696	3,892	-5	5,262
Wholesale sales	805	744	8	2,246	1,651	36	2,490
Royalties	40	82	-52	268	471	-43	509
Asia-Pacific	5,516	5,455	1	16,740	14,668	14	20,161
Retail sales	909	876	4	2,690	2,697	0	4,007
Wholesale sales	4,607	3,966	16	13,647	11,357	20	15,540
Royalties	-	614	-100	403	614	-34	614
International sales, total	12,662	12,162	4	36,900	33,186	11	46,635
Retail sales	3,951	3,999	-1	11,340	11,049	3	15,485
Wholesale sales	8,592	7,388	16	24,611	20,802	18	29,702
Royalties	118	775	-85	949	1,335	-29	1,448
Total	29,836	27,220	10	82,139	72,483	13	102,324
Retail sales	16,504	15,324	8	43,391	39,865	9	56,330
Wholesale sales	13,172	11,075	19	37,661	31,149	21	44,350
Royalties	160	821	-81	1,086	1,469	-26	1,644

STORES AND SHOP-IN-SHOPS

	30.9.2018	30.9.2017	31.12.2017
Finland	65	66	66
Company-owned stores	25	25	25
Company-owned outlet stores	12	12	12
Retailer-owned stores	13	16	16
Retailer-owned shop-in-shops	15	13	13
Scandinavia	11	12	12
Company-owned stores	7	8	8
Company-owned outlet stores	-	-	-
Retailer-owned stores	-	-	-
Retailer-owned shop-in-shops	4	4	4
EMEA	1	2	2
Company-owned stores	1	1	1
Company-owned outlet stores	-	-	-
Retailer-owned stores	-	1	1
Retailer-owned shop-in-shops	-	-	-
North America	6	21	16
Company-owned stores	4	4	4
Company-owned outlet stores	1	1	1
Retailer-owned stores	1	1	1
Retailer-owned shop-in-shops	-	15	10
Asia-Pacific	67	65	65
Company-owned stores	4	5	5
Company-owned outlet stores	-	-	-
Retailer-owned stores	51	47	47
Retailer-owned shop-in-shops	12	13	13
Total	150	166	161
Company-owned stores	41	43	43
Company-owned outlet stores	13	13	13
Retailer-owned stores	65	65	65
Retailer-owned shop-in-shops	31	45	40

Includes the company's own retail stores, retailer-owned Marimekko stores and shop-in-shops with an area exceeding 30 sqm. The company's own retail stores numbered 54 at the end of September 2018 (56).

NET SALES BY PRODUCT LINE

(EUR 1,000)	7-9/ 2018	7-9/ 2017	Change, %	1-9/ 2018	1-9/ 2017	Change, %	1-12/ 2017
Fashion	10,953	10,162	8	29,560	27,209	9	36,014
Home	10,906	9,052	20	30,635	24,773	24	37,668
Bags and accessories	7,977	8,005	0	21,944	20,502	7	28,642
Total	29,836	27,220	10	82,139	72,483	13	102,324

QUARTERLY TREND IN NET SALES AND EARNINGS

(EUR 1,000)	7-9/2018	4-6/2018	1-3/2018	10-12/2017
Net sales	29,836	28,213	24,089	29,841
Operating result	6,185	9,145	1,154	2,382
Earnings per share, EUR	0.60	0.90	0.08	0.21

(EUR 1,000)	7-9/2017	4-6/2017	1-3/2017	10-12/2016
Net sales	27,220	22,769	22,495	28,174
Operating result	4,400	698	878	1,767
Earnings per share, EUR	0.41	0.01	0.07	0.19

FORMULAS FOR KEY FIGURES

Comparable EBITDA:

Operating result - depreciation - impairments - items affecting comparability

Comparable operating result:

Operating result - items affecting comparability in operating result

Comparable operating result margin, %

Operating result - items affecting comparability in operating result x 100 / Net sales

Earnings per share (EPS), EUR:

(Profit before taxes - income taxes) / Adjusted number of shares (average for the financial year)

Equity per share, EUR:

Shareholders' equity / Number of shares, 30 September

Return on equity (ROE), %:

Rolling 12 months (Profit before taxes - income taxes) x 100 / Shareholders' equity (average for the financial year)

Return on investment (ROI), %:

Rolling 12 months (Profit before taxes + interest and other financial expenses) x 100 / Balance sheet total - non-interest-bearing liabilities (average for the financial year)

Equity ratio, %:

Shareholders' equity x 100 / (Balance sheet total - advances received)

Gearing, %:

Interest-bearing net debt x 100 / Shareholders' equity

Net working capital:

Inventories + trade and other receivables + current tax assets - tax liabilities - current provisions - trade and other payables