

MARTELA CORPORATION INTERIM REPORT 3 August 2012 at 8.30 a.m.

MARTELA CORPORATION INTERIM REPORT, 1 January - 30 June 2012

Consolidated revenue up, operating result slightly lower than previous year

Key figures:

EUR million	4-6	4-6	1-6	1-6	1-12
	2012	2011	2012	2011	2011
- Revenue	35,1	30,5	67,1	57,9	130,7
- Change in revenue %	15,0	18,6	15,9	19,9	20,6
- Operating result	-0,9	-0,9	-1,8	-1,6	2,6
- Operating result %	-2,6	-2,8	-2,7	-2,8	2,0
- Earnings per share, EUR	-0,29	-0,21	-0,56	-0,43	0,39
- Return on investment, %	-10,4	-12,0	-9,9	-10,4	6,0
- Return on equity, %	-16,5	-11,9	-15,9	-11,9	5,1
- Equity ratio, %			44,4	54,2	44,7
- Gearing, %			29,3	-4,2	-2,6

The Martela Group expects to post year-on-year revenue growth for 2012, and an operating result at or above the previous year's level.

Market

The uncertainties affecting the global economy have not had a significant impact on the demand for office furniture in the Nordic countries. In fact, the demand remained at a reasonably good level in Finland, Sweden and Poland during the year. In Denmark, however, demand is still weak.

Statistics on office construction are available for the first quarter of 2012, and according to these, 24 per cent more office space was built in Finland in terms of square metres in the first quarter of 2012 than in the first quarter of 2011. There were 15 per cent more new office building starts than in 2011, but at the same time significantly fewer building permits were granted (-41%).

Consolidated revenue and result

Consolidated revenue for the second quarter was EUR 35.1 million (30.5), an increase of 15.0 per cent on the previous year. Consolidated revenue for January-June was EUR 67.1 million (57.9), an increase of 15.9 per cent on the previous year. The acquisition of the Grundell companies at the end of 2011 increased revenue. Revenue also grew substantially in the traditional sales channels in Finland, and it grew slightly in Poland. However, revenue began to decline in Business Unit Sweden and Norway. The comparable revenue growth without acquisitions in the review period was 10.6 per cent.

The operating result for the second quarter was EUR -0.9 million (-0.9). The operating result for January-June fell slightly short of the previous year and was EUR -1.8 million (-1.6). The Group has continued its investments that were commenced last year to develop and increase its business, which has raised fixed costs. Fixed costs were also raised by the Grundell acquisition executed at the turn of the year. The objective of these investments is particularly to strengthen the Group's service business and sales channels. Due to the investments carried out, the Group's operating result declined despite the increase in revenue. The Group's fixed costs are not anticipated to increase from the current level in the latter half of the year.

Codetermination negotiations were initiated during the review period to establish a new service production unit. The purpose of the unit is to improve the efficiency of operations, simplify customer service and ensure high quality. The negotiations were concluded on 20 April 2012 and as a result the number of personnel in the Group will decrease by nine. In addition, six permanent office employees will transfer to service production as permanent factory employees.

The result before taxes was EUR -2.3 million (-2.0), and the result after taxes was EUR -2.3 million (-1.7).

Segment reporting

The segments presented in the interim report comply with the company's segment division. The comparison year's figures have also been rendered in the same way. The business segments are based on the Group's internal organisational structure and internal financial reporting.

Sales between segments are reported as part of the segments' revenue. The segment results presented are their operating results, because 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 as recorded in the consolidated financial statements.

Business Unit Finland is responsible for sales and marketing, service production and product manufacturing in Finland. Martela has an extensive sales and service network covering the whole of Finland, with a total of 28 sales centres. The Business Unit's logistics centre is in Nummela.

Business Unit Sweden & Norway is responsible for sales in Sweden and Norway, handled through about 70 dealers. In addition, the Business Unit has its own sales and showroom facilities at three locations: Stockholm and Bodaors in Sweden and Oslo in Norway. The Business Unit's logistics centre and order handling are also located in Bodaors.

Business Unit Poland is responsible for the sales and distribution of Martela products in Poland and eastern Central Europe. Sales in Poland are organized via the sales network maintained by the Business Unit. The company has altogether 7 sales centres in Poland. Business Unit Poland is based in Warsaw, where it has its logistics centre and administration.

Revenue by segment

EUR million	Finland	Sweden & Norway	Poland	Other segments	Total
1.1.2012-30.6.2012					
External Revenue	47.2	9.3	5.2	5.4	67.1
Internal Revenue	0.0	0.9	0.0	6.3	7.1
Total 2012	47.2	10.2	5.2	11.7	
1.1.2011-30.6.2011					
External Revenue	39.0	10.2	4.9	3.8	57.9
Internal Revenue	0.3	0.7	0.0	6.9	8.0
Total 2011	39.3	10.9	4.9	10.7	
External revenue change %	21.2%	-8.9%	5.2%	41.2%	15.9%

"Other segments" includes the revenues of Kidex Oy and Business Unit International. The Business Unit is responsible for the Group's other export markets. The revenue of P.O. Korhonen was included in the figures for 'Other segments' until the end of January 2011, but subsequently has not been included, due to changes in the Group structure. Since the beginning of 2012, Business Unit International's revenue has included sales of auditorium furniture. In 2011, this revenue was presented in the figures for Business Unit Finland.

Change in segments' external revenue and percentage of consolidated revenue

EUR million	4-6	4-6	Change-%	1-6	1-6	Change-%	share-%	1-12 2011	share-%
	2012	2011		2012	2011				
Finland	25.5	20.5	24.2%	47.2	39.0	21.2%	70.4 %	88.6	67.8 %
Sweden & Norway	4.5	5.6	-20.3%	9.3	10.2	-8.9%	13.9 %	20.6	15.7 %
Poland	2.4	2.6	-7.5%	5.2	4.9	5.6%	7.7 %	12.9	9.9 %
Other segments	2.8	1.9	50.0%	5.4	3.8	41.2%	8.0 %	8.6	6.6 %
Total	35.1	30.5	15.0%	67.1	57.9	15.9%	100.0 %	130.7	100.0 %

Operating result by segment

EUR million	4-6	4-6	1-6	1-6	1-12
	2012	2011	2012	2011	2011
Finland	1.2	0.7	1.4	1.7	6.5
Sweden & Norway	-0.5	0.1	-0.7	-0.1	0.3
Poland	-0.6	-0.2	-1.1	-0.5	-0.6
Other Segments	-0.5	-0.7	-1.3	-1.7	-2.3
Other	-0.5	-0.6	-0.1	-0.9	-1.2
Total	-0.9	-0.9	-1.8	-1.6	2.6

"Other segments" includes the operating results of Kidex Oy and Business Unit International. The revenue of P.O. Korhonen was included in the figures for 'Other segments' until the end of January 2011, but subsequently has not been included in segment reporting, due to changes in the Group structure. The item "Others" includes non-allocated Group functions and non-recurring sales gains and losses.

Financial position

The Group's financial position is strong. Interest-bearing liabilities at the end of the period amounted to EUR 11.7 million (4.6) and net liabilities were EUR 7.9 million (-1.2). The gearing ratio at the end of the period was 29.3 per cent (-4.2), and the equity ratio was 44.4 per cent (54.2). Due to the acquisition of Grundell companies at the end of 2011 the gearing ratio and the equity ratio have weakened. Net financial expenses were EUR 0.3 million (0.1).

Cash flow from operating activities in January-June was EUR -2.1 million (0.2).

The balance sheet total at the end of the year was EUR 61.0 million (51.4).

Capital expenditure

The Group's gross capital expenditure for January-June was EUR 1.6 million (1.8), and this was mainly on the ERP project and production replacements.

Personnel

The Group employed an average of 825 (631) persons, a year-on-year increase of 30.7 per cent. The increase is mostly comprised of the personnel of the Grundell companies acquired on 31 December 2011.

Average personnel by region

	1-6 2012	1-6 2011	1-12 2011
Finland	648	455	458
Scandinavia	75	75	77
Poland	92	95	93
Russia	10	6	9
Group total	825	631	637

Products and communications

Helsinki is the World Design Capital (WDCH 2012) in 2012. The theme of WDCH 2012 is Open Helsinki. Martela is one of the main partners. The year has a full programme of projects and events. During the spring the first places where people can go to be quiet or work were opened at Helsinki-Vantaa Airport as a part of the Suvanto cooperation project. This project and the WDC year have created new types of collaboration between companies. The Suvanto concept was developed by Martela's design team, which also developed Suvanto products for the project.

Sales of the COOP chair designed by Karim Rashid began at the beginning of summer. COOP has attracted much attention among designers. In the international Stylepark portal, COOP is the 10th most popular product among thousands, measured based on the number of views of the product. Stylepark is a channel which enables companies to present their products – especially new ones – to a large number of people through an electronic channel.

Martela will also continue to invest heavily in the digital channel. During the spring, a renewed photo gallery was opened, and the product search was made more user-friendly. An extensive website renewal project is also progressing according to plan.

Group structure

On 17 January 2011, Artek Oy Ab and Martela Corporation signed an agreement to establish a joint enterprise. The new company then acquired the business of Martela's subsidiary P.O. Korhonen on 1 February 2011. The joint enterprise will focus on the manufacture of products marketed and sold by Martela and Artek. Martela has a 51 per cent stake in the new company, while Artek's holding is 49 per cent. Under the shareholding agreement, Martela does not have control of the company as defined in IFRS 3 and IAS 27. The new company, named P.O. Korhonen, will operate as a contract manufacturer specialising in the production of form-pressed wooden furniture. Regarding the figures for the new company, Martela's consolidated income statement will only include Martela's share of the joint enterprise's profit or loss on the basis of Martela's holding, and this is reported in the consolidated income statement under 'share of result in associated undertakings'.

Under a deal signed on 31 December 2011, Martela Corporation acquired 100% of the share capital of Muuttopalvelu Grundell Oy and Grundell Henkilöstöpalvelut Oy. The acquisition of Grundell, which is a removals company and provider of interior planning services, allows Martela to expand the services it offers and gives customers one-stop access to a wider selection of interior planning services and products.

There were no other changes in Group structure during the review period or during the same period the previous year.

Shares

During January-June, 173,905 (448,831) of the company's A shares, or 4.9 per cent (12.6) of the company's A shares, were traded on NASDAQ OMX Helsinki.

The value of trading turnover was EUR 1.1 million (3.6), and the share price was EUR 5.79 at the beginning of the period and EUR 5.62 at the end of the period. During January-June, the share price was EUR 7.50 at its highest and EUR 5.52 at its lowest. At the end of June, equity per share was EUR 6.62 (6.78).

Treasury shares

Martela did not purchase any of its own shares in January-June. On 30 June 2012, Martela owned a total of 67,700 Martela A shares, purchased at an average price of EUR 10.65. Martela's holding of treasury shares amounts to 1.6 per cent of all shares and 0.4 per cent of all votes.

Share acquisition for the share-based incentive scheme and management of the scheme have been outsourced to an external service provider. These shares have been entered under equity in the consolidated financial statements for 30 June 2012. A total of 38,647 shares under the incentive scheme were still undistributed on 30 June 2012.

2012 Annual General Meeting

Martela Corporation's Annual General Meeting was held on 14 March 2012. The AGM approved the financial statements for 2011 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 0.45 per share. The dividends were paid on 26 March 2012.

The number of members on the Board of Directors was confirmed as seven, and Heikki Ala-Ikkka, Tapio Hakakari, Heikki Martela, Pekka Martela, Pinja Metsäraanta and Jaakko Palsanen were re-elected and Yrjö Närhinen was elected as a new member. KPMG Oy Ab, Authorised Public Accountants, was appointed again as the company's auditor.

The AGM also 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 Annual General Meeting and elected Heikki Ala-Ikkka as Chairman and Pekka Martela as Vice Chairman.

Events after the end of the review period

No significant reportable events have taken place since the January-June period, and operations have continued according to plan.

Short-term risks

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

Outlook for 2012

The Martela Group expects to post year-on-year revenue growth for 2012, and an operating result at or above the previous year's level.

TABLES

Accounting policies

This interim report has been prepared in accordance with IAS 34, Interim Financial Reporting, as approved by the EU. The calculation methods of the interim report are the same as those applied in the 2011 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)

	2012 1-6	2011 1-6	2012 4-6	2011 4-6	2011 1-12
Revenue	67 088	57 906	35 088	30 524	130 685
Other operating income	158	211	-55	61	417
Employee benefits expenses	-19 973	-15 427	-10 344	-7 881	-30 932
Operating expenses	-47 457	-43 087	-24 816	-22 924	-94 896
Depreciation and impairment	-1 633	-1 243	-798	-638	-2 649
Operating profit/loss	-1 817	-1 640	-925	-858	2 625
Financial income and expenses	-291	-145	-169	-71	-358
Share of result in associated undertakings	-203	-225	-110	-190	-358
Profit/loss before taxes	-2 311	-2 010	-1 204	-1 119	1 909
Income tax	29	265	14	250	-343
Profit/loss for the period	-2 282	-1 745	-1 190	-869	1 566
Other comprehensive income:					
Translation differences	114	-117	9	-61	-139
Total comprehensive income	-2 168	-1 862	-1 181	-930	1 427
Basic earnings per share, eur	-0,56	-0,43	-0,29	-0,21	0,39
Diluted earnings per share, eur	-0,56	-0,43	-0,29	-0,21	0,39
Allocation of net profit for the period:					
To equity holders of the parent	-2 282	-1 745	-1 190	-869	1 566
Allocation of total comprehensive income:					
To equity holders of the parent	-2 168	-1 862	-1 181	-930	1 427

GROUP BALANCE SHEET (EUR 1 000)	30.6.2012	31.12.2011	30.6.2011
ASSETS			
Non-current assets			
Intangible assets	5 377	4 699	2 690
Tangible assets	12 970	13 652	12 114
Investments	55	97	185
Deferred tax assets	327	315	366
Pension receivables	155	155	250
Receivables	9	104	105
Investment properties	600	600	600
Total	19 493	19 622	16 310
Current assets			
Inventories	14 726	12 988	12 818
Receivables	22 900	25 147	16 485
Financial assets at fair value through profit and loss	0	0	0
Cash and cash equivalents	3 847	11 947	5 784
Total	41 473	50 082	35 087
Total assets	60 966	69 704	51 397
EQUITY AND LIABILITIES			
Equity			
Share capital	7 000	7 000	7 000
Share premium account	1 116	1 116	1 116
Other reserves	117	117	117
Translation differences	-122	-236	-214
Retained earnings	18 945	23 049	19 755
Treasury shares	-1 050	-1 050	-1 050
Share-based incentives	811	760	717
Total	26 817	30 756	27 441
Non-current liabilities			
Interest-bearing liabilities	6 919	7 644	2 175
Deferred tax liabilities	1 224	1 366	943
Other liabilities	150	175	178
Total	8 293	9 185	3 296
Current liabilities			
Interest-bearing	4 791	3 490	2 443
Non-interest bearing	21 065	26 272	18 217
Total	25 856	29 762	20 660
Total liabilities	34 149	38 947	23 955
Equity and liabilities, total	60 966	69 704	51 397

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
01.01.2011	7 000	1 116	117	-97	24 243	-1 212	31 167
Total comprehensive income				-117	-1 745		-1 862
Dividends					-1 834		-1 834
Share-based incentives					-192	162	-30
30.06.2011	7 000	1 116	117 	-214	20 472	-1 050	27 441
01.01.2012	7 000	1 116	117	-236	23 809	-1 050	30 756
Total comprehensive income				114	-2 282		-2 168
Dividends					-1 822		-1 822
Share-based incentives					51		51
30.06.2012	7 000	1 116	117 	-122	19 756	-1 050	26 817

CONSOLIDATED CASH FLOW STATEMENT (EUR 1 000)	2012 1-6	2011 1-6	2011 1-12
Cash flows from operating activities			
Cash flow from sales	69 608	61 348	127 452
Cash flow from other operating income	158	155	219
Payments on operating costs	-71 415	-60 817	-125 790
Net cash from operating activities before financial items and taxes	-1 649	686	1 881
Interest paid	-112	-146	-290
Interest received	23	17	41
Other financial items	-70	-23	-122
Taxes paid	-320	-293	-318
Net cash from operating activities (A)	-2 128	241	1 192
Cash flows from investing activities			
Capital expenditure on tangible and intangible assets	-1 710	-1 276	-2 627
Proceeds from sale of tangible and intangible assets	0	349	499
Capital expenditure on subsidiary shares	-2 975	0	0
Capital expenditure on associated undertaking	0	-150	-150
Proceeds from sale of other investments	0	0	145
Net cash used in investing activities (B)	-4 685	-1 077	-2 133
Cash flows from financing activities			
Proceeds from short-term loans	2 375	0	3 000
Repayments of short-term loans	-688	-421	-3 393
Proceeds from long-term loans	0	0	7 000
Repayments of long-term loans	-1 211	-1 361	-2 421
Dividends paid and other profit distribution	-1 822	-1 839	-1 812
Net cash used in financial activities (C)	-1 346	-3 621	2 374
Change in cash and cash equivalents (A+B+C)	-8 159	-4 457	1 433
(+ increase, - decrease)			
Cash and cash equivalents in the beginning of period	11 947	10 249	10 249
Translation differences	59	-8	-41
Cash and cash equivalents at the end of period	3 847	5 784	11 639

Cash and cash equivalents at the end of 2011 do not include cash from acquisition (EUR 309 thousand)

SEGMENT REPORTING (EUR 1 000)

Segment revenue	2012 1-6	2011 1-6	2012 4-6	2011 4-6	2011 1-12
Business Unit Finland					
external	47 222	38 975	25 475	20 538	88 588
internal	0	309	0	74	836
Business Unit Sweden and Norway					
external	9 326	10 235	4 458	5 604	20 553
internal	861	715	384	346	1 582
Business Unit Poland					
external	5 155	4 883	2 371	2 563	12 897
internal	0	0	0	-8	57
Other segments					
external	5 385	3 813	2 784	1 819	8 647
internal	6 282	6 930	3 043	3 894	13 219
Total external revenue	67 088	57 906	35 088	30 524	130 685
 Segment operating profit/loss	 2012 1-6	 2011 1-6	 2012 4-6	 2011 4-6	 2011 1-12
Business Unit Finland	1 386	1 662	1 188	637	6 468
Business Unit Sweden and Norway	-704	-137	-470	68	290
Business Unit Poland	-1 070	-531	-649	-255	-635
Other segments	-1 340	-1 733	-468	-687	-2 262
Other	-89	-901	-526	-621	-1 236
Total operating profit/loss	-1 817	-1 640	-925	-858	2 625

Other segments include Kidex Oy and Business Unit International, which is responsible for export markets. The item "Other" includes non-allocated Group functions and non-recurring sales gains and losses.

TANGIBLE ASSETS 1.1-30.6.2012	Land areas	Buildings & equipment	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	0	87	464	0	94
Decreases	0	-6	-22	0	0

TANGIBLE ASSETS 1.1-30.6.2011	Land areas	Buildings & equipment	Machinery & equipment	Other tangibles	Work in progress
Acquisitions	45	88	1 161	0	-245
Decreases	0	0	-296	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 from 2010 to the end of 2012.

KEY FIGURES/RATIOS	2012 1-6	2011 1-6	2011 1-12
Operating profit/loss	-1 817	-1 640	2 625
- in relation to revenue	-2,7	-2,8	2,0
Profit/loss before taxes	-2 311	-2 010	1 909
- in relation to revenue	-3,4	-3,5	1,5
Profit/loss for the period	-2 282	-1 745	1 566
- in relation to revenue	-3,4	-3,0	1,2
Basic earnings per share, eur	-0,56	-0,43	0,39
Diluted earnings per share, eur	-0,56	-0,43	0,39
Equity/share, eur	6,62	6,78	7,60
Equity ratio	44,4	54,2	44,7
Return on equity *	-15,9	-11,9	5,1
Return on investment *	-9,9	-10,4	6,0
Interest-bearing net-debt, eur million	7,9	-1,2	-0,8
Gearing ratio	29,3	-4,2	-2,6
Capital expenditure, eur million	1,6	1,8	6,8
- in relation to revenue	2,4	3,2	5,2
Personnel at the end of period	866	655	791
Average personnel	825	631	637
Revenue/employee, eur thousand	81,3	91,8	205,2

Key figures are calculated according to formulas as presented in Annual Report 2011.

* When calculating return on equity and return on investment the profit/loss for the period has been multiplied in interim reports.

CONTINGENT LIABILITIES	30.6.2012	31.12.2011	30.6.2011
Mortgages and shares pledged	20 173	20 119	14 824
Other commitments	2 202	2 539	199
Rental commitments	15 263	16 751	7 883
 DEVELOPMENT OF SHARE PRICE	 2012	 2011	 2011
	1-6	1-6	1-12
Share price at the end of period, eur	5,62	7,30	5,79
Highest price, eur	7,50	8,56	8,56
Lowest price, eur	5,52	6,56	5,03
Average price, eur	6,59	8,03	7,30

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