

2017

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spaces

Martela

Half Year Financial Report

1 January – 30 June, 2017



MARTELA CORPORATION HALF YEAR FINANCIAL REPORT 1 JAN – 30 JUNE 2017

The January-June 2017 revenue and operating result declined from the comparison period.

Decline in revenue and operating result was caused by a lack of big projects, discontinuation of own sales operations in Poland and Russia and somewhat due to challenges related to the implementation of IT system reforms. Expenses were reduced by earlier completed savings programme.

January-June 2017

- Revenue was EUR 50.6 million (59.7), change -15.2 %
- Operating result declined and was EUR -1.5 million (0.4)
- Operating result per revenue was -3.0 % (0.8 %)
- Result for the period declined and was EUR -1.9 million (-0.2)
- Earnings per share amounted to EUR -0.45 (-0.05)

Outlook for 2017 (unchanged, published 16 June 2017)

Martela Group anticipates that its 2017 revenue will decrease and operating result will decrease slightly compared to the previous year. Due to normal seasonal variations, the Group's operating result accumulates mainly during the second half of the year.

Key figures, EUR million

	2017 4-6	2016 4-6	Change %	2017 1-6	2016 1-6	Change %	2016 1-12
Revenue	25.8	31.9	-19.0	50.6	59.7	-15.2	129.1
Operating result	-0.9	0.6	-252.8	-1.5	0.4	-443.6	6.2
Operating result %	-3.5	1.9		-3.0	0.8		4.8
Result before taxes	-1.0	0.4	-355.6	-1.7	0.1	-1 511.7	5.6
Result for the period	-1.2	0.1	- 1 173.2	-1.9	-0.2	- 907.4	3.3
Earnings/share, eur	-0.3	0.03		-0.45	-0.05		0.81
Return on investment %	-10.1	7.3		-8.2	2.8		18.2
Return on equity %	-21.0	2.1		-16.0	-1.7		13.9
Equity ratio %				39.5	41.9		45.3
Gearing %				45.4	-0.9		-18.9

Matti Rantaniemi, CEO:

"The January-June 2017 revenue and operating result declined from the comparison period. Decline in revenue and operating result was caused by a lack of big projects, discontinuation of own sales operations in Poland and Russia and somewhat due to challenges related to the implementation of IT system reforms especially in Finland. Expenses were reduced by earlier completed savings programme.

Revenue for January - June was EUR 50.6 million and declined 15.2 % from the previous year (59.7). Operating result for January - June was EUR -1.5 million (0.4). Cash flow from operating activities in January – June was EUR -11.2 million (5.7).

Compared to the previous year revenue grew in Norway but declined in all other groups. In the previous year the revenue in Sweden included big projects. In Norway comprehensive Martela Lifecycle model deliveries increased from earlier. The discontinuation of own sales operations in Poland and Russia has as expected decreased

revenue. Implementation of the comprehensive Martela Lifecycle – model in Nordics has developed well towards the strategic targets for the year 2018.

The IT system reforms caused somewhat more investments and expenditure than anticipated, but the effects from the earlier completed savings programme resulted in declined personnel and real estate expenditure.

In the first half we continued implementing and further developing the Martela Lifecycle strategy. We added personnel into sales and trained personnel to new operating models aligned with the strategy.

In the second half we will focus on improving the sales volumes, profitability and cash flow as well as on effective utilization of the IT system reforms. IT system reform challenges may still cause delays in deliveries and in accumulation of sales cash inflow despite the corrective actions.”

Market

No material changes took place in the market during the first half. 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 effective management tools

Revenue and operating result

April-June 2017 revenue and operating result

Revenue for April - June declined 19.0 % from the previous year and was EUR 25.8 million (31.9). Revenue declined in Finland by 13.3 % in Sweden by 45.4 %, in Norway by 21.8 % and in Other countries revenue declined by 5.2 %.

Operating result for the second quarter was EUR -0.9 million (0.6). Result before taxes for April – June was EUR -1.0 million (0.4) and result for the April – June was EUR -1.2 million (0.1).

January-June 2017 revenue and operating result

Revenue for January – June was EUR 50.6 million (59.7) and declined by 15.2 %. Revenue declined in Finland by 8.6 %, and in Sweden by 42.6 %. Revenue in Norway grew by 31.4 %. Revenue in group Other areas declined by 22.1 %.

Operating result for January – June was EUR -1.5 million (0.4). Result before taxes for January – June was EUR -1.7 million (0.1) and result for the period was EUR -1.9 million (-0.2).

Revenue by country, EUR million

Revenue by country	2017 4-6	2016 4-6	Change %	2017 1-6	2016 1-6	Change %	2016 1-12
Finland	19.7	22.7	-13.3 %	38.5	42.1	-8.6 %	95.2
Sweden	3.3	6.1	-45.4 %	6.5	11.4	-42.6 %	20.4
Norway	0.5	0.7	-21.8 %	1.9	1.5	31.4 %	3.7
Other	2.3	2.4	-5.2 %	3.6	4.7	-22.1 %	9.8
Revenue total	25.8	31.9	-19.0 %	50.6	59.7	-15.2 %	129.1

As reported earlier, as a result of harmonising and combining processes, the organisation, reporting and systems, the company reports consolidated figures as a single segment and in addition reports revenue by country as of 2017. Revenue will be reported by the location of a customer into following countries: Finland, Sweden, Norway and Other countries.

Financial position

Cash flow from operating activities in January–June was EUR -11.2 million (5.7). The implementation of the IT system reforms caused some delays in deliveries as well as in invoicing that resulted in slower sales cash inflow.

At the end of the period, interest-bearing liabilities stood at EUR 13.9 million (9.9) and net liabilities were EUR 9.9 million (-0.2). At the end of the period, short-term limits of EUR 6.0 million were in use (0.0) and available limits stood at EUR 3.5 million.

The gearing ratio at the end of the period was 45.4 % (-0.9) and the equity ratio was 39.5 % (41.9). Financial income and expenses were EUR -0.1 million (-0.3).

Financing arrangements include covenant clauses in which the ratio between the Group's net liabilities and EBITDA and the Group's equity ratio are calculated. The key figures calculated at the end of the review period fulfilled the covenant clauses.

The balance sheet total stood at EUR 56.1 million (52.9) at the end of the period.

Capital expenditure

The Group's gross capital expenditure for January–June came to EUR 1.8 million (0.9). The majority of the investments concerned the IT system reforms (New Business Platform).

Personnel

The Group employed an average of 508 people (565), which represents a decrease of 57 persons or -10.1 %. The number of employees in the Group was 528 (549) at the end of the review period. Personnel costs in January – June totalled to EUR 14.5 million (14.6).

Personnel on average	2017 1-6	2016 1-6	Change %	2016 1-12
Finland	437	423	3.3	428
Sweden	28	43	-34.9	37
Norway	9	8	12.5	8
Other countries	34	91	-59.2	77
Total	508	565	-10.1	550

The change in personnel in Sweden is related to the closure of the Bodafors assembly and logistic unit and in group Other countries to the discontinuation of Martela's own sales operations in Poland and Russia. The personnel at sales was increased in all sales units in the period.

Martela's offering

Instead of individual changes, Martela Lifecycle offers an approach that covers the entire lifecycle of a workplace. In the Martela Lifecycle model, the maintenance of premises and furniture is continuous and the workplace evolves with changing needs.

OTHER MATTERS

Group structure

The documents concerning the discontinuation of our Russian subsidiary, LLC Martela, were approved by the authorities and the company was closed down. There were no other changes in Group structure during the review period.

Shares

In January–June, a total of 827,029 (1,215,584) of the company's series A shares were traded on the NASDAQ OMX Helsinki exchange, corresponding to 23.3 % (34.2) of the total number of series A shares.

The value of trading turnover was EUR 10.3 million (6.4), and the share price was EUR 11.50 at the end of the period (6.28). During January–June, the highest quotation of the share was EUR 14.0 and the lowest EUR 11.01. At the end of June 2017, equity per share was EUR 5.25 (5.23).

Treasury shares

Martela did not purchase any of its own shares in January–June. After the transfer of treasury shares based on the share-based incentive scheme as reported on 19 April 2017 Martela owned a total of 12,036 Martela A shares and its holding of treasury shares amounted to 0.3 % of all shares and 0.1 % of all votes. Own shares are purchased at an average price of EUR 10.65.

Share-based incentive programme

In the effective share-based incentive programme there are two earning periods, which are 2017–2018 and 2019–2020. The Board of Directors will decide the earning criteria and the goals for each criterion of the programme at the beginning of each earning period.

The target group for the 2017–2018 earning period is the Group's Management Team. The potential reward of the plan from the earning period 2017–2018 is based on the Group's Earnings before Interest and Taxes (EBIT). Fees to be paid of the 2017–2018 earning period correspond to a maximum of approximately 100,000 Martela Corporation series A shares in total and also include the cash portion. Management of the share-based incentive scheme has been outsourced to an external service provider.

Related to the last earning period of the earlier share-based incentive program 35,110 shares were distributed on 19 April 2017. Totally 94,311 shares have been distributed based on the program.

2017 Annual General Meeting

Martela Corporation's Annual General Meeting was held on 14 March 2017. The AGM approved the financial statements for 2016 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 0.37 per share. The dividend was paid on 23 March 2017.

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

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

The AGM approved the Board of Directors' proposals, detailed in the meeting notice, to authorise the Board to acquire and/or dispose of Martela shares. The new Board of Directors convened after the AGM and elected from its members Heikki Martela as Chairman and Eero Leskinen as Vice Chairman.

Administration

Martela Corporation is a Finnish limited liability company that is governed in its decision-making and management by Finnish legislation, especially the Finnish Limited Liability Companies Act, by other regulations concerning public listed companies, and by its Articles of Association. The company complies with the NASDAQ OMX Guidelines for Insiders and the Corporate Governance Code 2015 for Finnish listed companies published by the Securities Market Association. More information on Martela's governance can be found on the company's website.

EVENTS AFTER THE END OF REVIEW PERIOD

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

SHORT-TERM RISKS

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

IT system reform challenges may still cause delays in deliveries and in accumulation of sales cash inflow despite the corrective actions.

OUTLOOK FOR 2017

Martela Group anticipates that its 2017 revenue will decrease and operating result will decrease slightly compared to the previous year. Due to normal seasonal variations, the Group's operating result accumulates mainly during the second half of the year.

TABLES

Accounting policies

This half year financial report has been prepared in accordance with the IAS 34 standard as approved by EU. The calculation methods of the report are the same as those applied in the 2016 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 1000)	2017	2016	2017	2016	2016
	4-6	4-6	1-6	1-6	1-12
Revenue	25 822	31 880	50 607	59 680	129 127
Other operating income	58	34	102	184	464
Employee benefits expenses	-7 630	-7 588	-14 516	-14 647	-29 671
Operating expenses	-18 458	-23 006	-36 403	-43 299	-90 854
Depreciation and impairment	-705	-723	-1 332	-1 469	-2 908
Operating profit/loss	-912	597	-1 543	449	6 158
Financial income and expenses	-107	-198	-137	-330	-540
Profit/loss before taxes	-1 020	399	-1 680	119	5 618
Income tax	-214	-284	-194	-305	-2 302
Profit/loss for the period	-1 234	115	-1 874	-186	3 316
Other comprehensive income:					
Translation differences	-58	-5	-88	8	161
Actuarial gains and losses	0	0	0	0	43
Actuarial gains and losses, def.taxes	0	0	0	0	-41
Other	0	0			-35
Total comprehensive income	-1 292	110	-1 962	-178	3 444
Basic earnings per share, eur	-0,30	0,03	-0,45	-0,05	0,81
Diluted earnings per share, eur	-0,30	0,03	-0,45	-0,05	0,81
Allocation of net profit for the period:					
To equity holders of the parent	-1 234	115	-1 874	-186	3 316
Allocation of total compreh.income:					
To equity holders of the parent	-1 292	110	-1 962	-178	3 444

GROUP BALANCE SHEET (EUR 1 000)	30.6.2017	30.6.2016	31.12.2016
ASSETS			
Non-current assets			
Intangible assets	7 465	4 873	6 321
Tangible assets	5 915	7 758	6 632
Investments	55	55	55
Deferred tax assets	147	374	144
Investment properties	600	600	600
Total	14 182	13 660	13 752
Current assets			
Inventories	10 320	10 762	7 709
Receivables	27 544	18 311	21 351
Cash and cash equivalents	4 013	10 121	13 425
Total	41 877	39 194	42 485
Total assets	56 058	52 854	56 238
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	-667	-748	-579
Retained earnings	13 368	13 717	17 135
Treasury shares	-128	-502	-502
Share-based incentives	1 057	906	1 013
Total	21 737	21 480	25 174
Non-current liabilities			
Interest-bearing liabilities	6 244	8 275	6 283
Deferred tax liabilities	529	677	577
Other non-current liabilities	2	0	0
Pension obligations	521	574	371
Total	7 296	9 526	7 231
Current liabilities			
Interest-bearing	7 111	1 078	2 005
Non-interest bearing	19 915	20 769	21 827
Total	27 026	21 847	23 832
Total liabilities	34 322	31 373	31 063
Equity and liabilities, total	56 058	52 853	56 238

CONSOLIDATED CASH FLOW STATEMENT (EUR 1 000)	2017	2016	2016
	1-6	1-6	1-12
Cash flows from operating activities			
Cash flow from sales	44 540	65 411	129 898
Cash flow from other operating income	98	179	317
Payments on operating costs	-55 257	-58 672	-116 264
Net cash from operating activities before financial items and taxes	-10 619	6 918	13 951
Interest paid	-122	-155	-375
Interest received	1	4	4
Other financial items	-15	-135	-193
Dividends received	-1	3	18
Taxes paid	-441	-905	-1 743
Net cash from operating activities (A)	-11 195	5 730	11 662
Cash flows from investing activities			
Capital expenditure on tangible and intangible assets	-1 759	-829	-2 579
Proceeds from sale of tangible and intangible assets	4	5	146
Net cash used in investing activities (B)	-1 755	-824	-2 433
Cash flows from financing activities			
Proceeds from short-term loans	6 039	0	0
Repayments of short-term loans	-483	-826	-1 395
Proceeds from long-term loans	0	0	0
Repayments of long-term loans	-489	-723	-1 221
Dividends paid and other profit distribution	-1 520	-998	-1 022
Net cash used in financial activities (C)	3 546	-2 547	-3 638
Change in cash and cash equivalents (A+B+C) (+ increase, - decrease)	-9 404	2 357	5 591
Cash and cash equivalents in the beginning of period	13 425	7 724	7 724
Translation differences	-8	39	110
Cash and cash equivalents at the end of period	4 013	10 120	13 425

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
01.01.2016	7 000	1 116	-9	-740	15 968	-673	22 662
Total comprehensive income	0	0	0		-186	0	-186
Translation diff.	0	0	0	-8	0	0	-8
Dividends	0	0	0	0	-884	0	-884
Withholding taxes from dividends	0	0	0	0	-139	0	-139
Share-based incentives	0	0	0	0	-136	171	35
30.06.2016	7 000	1 116	-9	-748	14 623	-502	21 480
01.01.2017	7 000	1 116	-9	-579	18 148	-502	25 174
Total comprehensive income	0	0	0		-1 874	0	-1 874
Translation diff.	0	0	0	-88	0	0	-88
Dividends	0	0	0	0	-1 290	0	-1 290
Withholding taxes from dividends	0	0	0	0	-230	0	-230
Share-based incentives	0	0	0	0	-330	374	44
30.06.2017	7 000	1 116	-9	-667	14 424	-128	21 737

CONTINGENT LIABILITIES

	30.6.2017	30.6.2016	31.12.2016
Mortgages and shares pledged	26 753	26 825	26 781
Other commitments	267	404	329
Rental commitments	6 749	8 643	7 929

DEVELOPMENT OF SHARE PRICE

	2017 1-6	2016 1-6	2016 1-12
Share price at the end of period, eur	11.50	6.28	12.84
Highest price, eur	14.00	6.73	13.50
Lowest price, eur	11.01	3.29	3.29
Average price, eur	12.43	5.27	6.80

KEY FIGURES/RATIOS	2017 1-6	2016 1-6	2016 1-12
Operating profit/loss	-1 543	449	6 158
- in relation to revenue	-3.0	0.8	4.8
Profit/loss before taxes	-1 680	119	5 618
- in relation to revenue	-3.3	0.2	4.4
Profit/loss for the period	-1 874	-186	3 316
- in relation to revenue	-3.7	-0.3	2.6
Basic earnings per share, eur	-0.45	-0.05	0.81
Diluted earnings per share, eur	-0.45	-0.05	0.81
Equity/share, eur	5.25	5.23	6.13
Equity ratio	39.5	41.9	45.3
Return on equity *	-16.0	-1.7	13.9
Return on investment *	-8.2	2.8	18.2
Interest-bearing net-debt, eur million	9.9	-0.2	-4.8
Gearing ratio	45.4	-0.9	-18.9
Capital expenditure, eur million	1.8	0.9	2.9
- in relation to revenue	3.5	1.5	2.2
Personnel at the end of period	528	549	506
Average personnel	508	565	550
Revenue/employee, eur thousand	99.6	105.6	234.8

FORMULAS FOR CALCULATION OF KEY FIGURES

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

Key figures are calculated according to formulas as presented in Annual Report 2016

*) When calculating return % the profit/loss for the period has been multiplied in interim reports.

INFORMATION EVENT

An event for analysts, portfolio managers and media will be held on Wednesday 9 August 2017 from 11:30 to 12:30 at Martela house in address Takkatie 1, Helsinki. The result will be presented by CEO Matti Rantaniemi.

Martela Corporation Board of Directors

Matti Rantaniemi CEO

Further information

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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 focus on the Nordic countries, as the Nordic countries are forerunner in hybrid working environments with common open work culture background and needs.