Martela

annual report

1998

Martela 1998

The year in brief

		1998	1997
Turnover	FIM million	895,7	686,0
Growth in turnover	%	30,6	13,2
Operating profit	FIM million	78,7	54,4
- as a ratio of turnover	%	8,8	7,9
Profit before extraordinary items, reserves and taxes	FIM million	71,7	48,5
- as a ratio of turnover	%	8,0	7,1
Return of investment	%	23,5	18,0
Balance sheet total	FIM million	470,9	416,1
Equity ratio	%	47,9	45,6
Earning/share	FIM	24,7	18,4
Equity /share	FIM	107,7	89,5
Dividend/share	FIM	7,5 *)	5,0
Capital expenditure	FIM million	36,4	27,8
Personnel, average		942	830

*) *Proposal of the Board of Directors*

Managing Director´s Survey

For Martela, 1998 was a profitable year. We became one of the ten biggest office furniture manufacturers in Europe. Of these ten, we are among the most rapidly growing companies. In Finland, we maintained our position as a strong market leader, and Scandinavia became our home market. In Europe, Martela utilised an increasing amount of growth potential.

We operate in a field that vigorously correlates with economic development. The growth of the economy has continued strongly in our main market area, keeping the demand for office furniture high.

Strong Growth, Good Result

Since the end of the recession, Martela has flourished. In our line of business, economic conditions have been favourable. Our operating model and business concept have also proved functioning. Our growth has been faster than the general development in the field.

We do not only supply office furniture but also working environmental solutions that support the activities of our customers producing added value for them. In the European market, we have chosen our own segment. We concentrate on customers who want individual and comprehensive solutions that support their work. We make flexible ergonomic working environments that easily adapt to the latest requirements. We have also invested in our demanding customer service concept: we are capable of managing major projects with the same efficiency as minor orders.

Martela's business philosophy was profitable in 1998. Last year, the Group's turnover increased by 31 per cent.

The turnover amounted to FIM 896 million. Due to the unexpectedly strong growth, the Group's profit was further improved amounting to FIM 72 million whereas, in 1997, it was FIM 48 million. The yield of invested capital was 24 per cent, exceeding the target level. Our equity ratio approached the 50 per cent target level.

International Progress

Martela's progress was particularly strong in our future growth areas in Scandinavia and Europe. Our sales in Finland have increased vigorously for several consecutive years.

In Scandinavia, Martela's growth was exceptionally strong, with invoicing going up by more than 40 per cent. The progress was partly based on a corporate acquisition in 1995, which was made to reinforce Martela's position in the field. The biggest growth was experienced in Norway, where invoicing increased by even as much as 135 per cent when compared to the previous year. The Storebrand and Kreditkassen deliveries in Norway were Martela's biggest projects during the financial year.

Outside Scandinavia, the Group's invoicing went up by 40 per cent. The business concept development and marketing activities implemented in Germany and Great Britain were profitable, enabling Martela to make significant progress in both markets. However, in the former CIS area, invoicing went down substantially due to the internal problems in Russia.

In the future, one of our potential growth areas will be Poland, where our sales network was reinforced by the acquisition of an important local company. In Poland, invoicing tripled but the result was impaired by the company acquisition.

Development of the Core of Our Business Philosophy

According to Martela's customer-oriented business philosophy, each customer is provided with an opportunity for an individual working environmental solution, always according to the agreed schedule. In accordance with the Group's differentiation strategy, we want to be the best in our main areas of operation. This is our goal especially in customer service, and also in the speed and reliability of delivery.

Swift and reliable deliveries require information systems that function in all conditions. We have been examining the problems resulting from the change of the millennium since 1997. Last year, most of our ADP equipment was inspected and found to be Year 2000 compatible. The aim of the entire Group is to be ready for the next millennium this summer.

Based on our customer requirements, we concentrated on developing our service concept. Last year, major investments were made in further enhancing the special expertise of our personnel. In Sweden, the entire personnel took part in a training programme relating to the improvement of customer service and the development of activities. In Finland, we trained all our assemblers. In addition, we focused on the development of sales service and logistics.

Our reliability of delivery can be further developed. However, when it comes to speed of delivery, we are already the world champions in certain sectors; we can supply our customer with an individually designed furniture solution within three days.

Economic growth in our main market areas is estimated to slow down this year. This will also have an impact on the demand for office furniture. However, on the basis of available data, it seems possible that the result for 1999 will also be good. We operate in a world of networks and, therefore, we will be able to flexibly and rapidly adapt to reasonable changes in demand.

I want to thank our customers for their co-operation and all shareholders for the confidence they have shown in Martela. I also want to thank our personnel for a good year's work.

Helsinki, February 1999

Risto Koskimäki

Managing Director

Martela in Finland

Martela Oyj

Martela Oyj is the parent company of the Group. The company's production plants are located in Nummela and Kitee, Finland. The manufacture of office furniture is based on major component subcontracts and own assembly. The plant in Kitee manufactures wooden components for cupboards and pedestals, as well as tabletops of free design. The production lines are highly automated, and the plant employs 156 people. The finishing plant and furniture and chair factories are based in Nummela. The furniture factory's assembly lines assemble cabinets, pedestals, tables and screens. The factory building also houses the Control Centre for logistics operations. The production and logistics process is order-controlled and it is based on pull system. The Nummela factories employ 313 people. The objective of the production process is high customer satisfaction achieved by continuously assessing and improving product quality, productivity and the reliability of deliveries. The product development and research centre are located in Nummela, and they employ 14 people. The aim of Martela's research and development activities is to be a frontrunner in the development of offices and work environments. In addition to long-term product development, Martela also carries out more hectic development projects related to demanding customer applications. The research centre examines and tests the raw materials and components used, as well as the structures of finished products to ensure that they meet the valid international quality requirements. In Finland, Martela has long been the market leader with approximately 45 % market share. Sales are handled through ten Regional Centres owned by Martela, based in the biggest cities. The service network is complemented by nine so-called Martela Centres, which only sell Martela products and are run by entrepreneurs. Products are exported through Martela's subsidiaries and local retailers, and also as direct project sales. Martela's sales and the Martela Centres have the use of highly advanced information systems integrated into the production process, by means of which an alternative tailored furniture solution can be rapidly provided to meet the customer's specified requirements. In December 1997, the company was granted the Quality Certificate ISO 9001. The company's Head Office, with accompanying showroom, is located in Helsinki.

	1998	1997	change %
Turnover, FIM million	**593,6**	485,2	+22,3
Average personnel	**613**	571	+7,4

P.O. Korhonen Oy

The company is a subsidiary of Martela Oyj, and it is based in Raisio, Finland. Its factory makes wooden furniture based on moulding technology. The main raw materials are birch and beech veneer.

Furniture by P.O. Korhonen are mainly used in conference and club facilities, auditoriums, kindergartens, day-care centres, homes for senior citizens, service centres and schools. In Finland, a major part of the products are sold through the parent company Martela Oyj and the Martela Centres. Exports account for nearly one half of the company's invoicing.

	1998	1997	change %
Turnover, FIM million	**32,3**	22,8	+41,7
Average personnel	**62**	56	+10,7

Thorough planning precedes every action we take. There are dozens of factors that have to be considered. We sort out the architect's viewpoints and the management objectives. We contemplate how to make the workplace into an effective and economic entity; flexible and cosy.

But, above all, we deliberate on how the working environment could best support our customers' business activities and provide them with added value.

At Martela, we have contemplated these issues thousands of times. Often enough, we have given the right answer.

As the Finnish market leader, we contribute to almost every major office premises' design and construction project. Each plan and order represents substantial capital; detailed information on different working environments.

In the course of time, we have compiled a considerable amount of data, and we have had better opportunities to acquire it than anyone else.

We also want our special expertise to be utilised.

We know our line of business, and we are proud of it.

Martela in Scandinavia

Martela AB

Martela AB is a fully-owned subsidiary of Martela Oyj. As its parent company, it designs, markets and manufactures furniture for offices and public premises. The production plant is located in Bodafors, Smoland, and it employs 142 people. Its main products are workstation furniture, school furniture and movable interior wall elements. Martela AB's production is based on extensive subcontracting and order-controlled production. In 1995, the company made a business acquisition as a result of which it has managed to achieve a prominent position in the Swedish, Norwegian and Danish markets. In recent years, the company has made substantial investments in production lines and information systems. In Sweden, Norway and Denmark, products are mainly sold through retailers. The company also has direct sales premises and a showroom in Stockholm. Due to the above-mentioned business acquisition, Martela AB is among the three biggest office furniture manufacturers in Sweden.

	1998	1997	change %
Turnover, FIM million	**232,9**	163,8	+42,2
Average personnel	**165**	148	+11,5

Aski Inredningscenter AB

Aski Inredningscenter AB is a sales company operating in southern Sweden. Its offices are based in Malmö and Helsingborg. In addition to Group products, the company's product range comprises of products related to the overall furnishing of offices.

	1998	1997	change %
Turnover, FIM million	**28,4**	26,3	+8,0
Average personnel	**20**	21	-4,8

Martela A/S

Martela A/S operates as a support organisation for the Norwegian sales network. The company's showroom is located in Oslo. The sale of products is handled through a retailer network that covers the whole country. At the turn of the year, the company employed six people. Due to large-scale project deliveries, the company's invoicing has been growing strongly. The invoicing of the Norwegian market, FIM 93.3 million (FIM 39.7 million), is included in the figures of Martela AB and Martela Oyj.

High-Quality Design, Ergonomics and Flexibility. Scandinavianism represents properties and characteristics that every company would be proud of. The word has a good reputation throughout the world.

In addition to high class and quality, Scandinavianism stands for a specific way of operation. A Scandinavian organisation is equal: it has freedom of action and thought, and democracy of labour. The working environment is open and pleasant while simultaneously being an efficient entity.

The Scandinavianism of Martela is based on fundamental research and design. We provide our clientele with furniture solutions that improve working due to their functionality and ergonomics. We develop working environments that are flexible and easily adaptable to new trends while meeting the customer specifications. In design, we focus on lightness, functionality and simplicity; the end result is always elegant, but also a functioning whole.

In Europe, Martela is a Scandinavian company. We make Scandinavian decisions, in a Scandinavian way.

Martela in Europe

Martela GmbH

Martela GmbH is a sales company based in Nürtingen, Germany and employs nine people. Products are sold both directly to large customers and through retailers. The company provides its customers with swiftly produced, tailored furniture solutions, as well as design and installation services.

	1998	1997	change %
Turnover, FIM million	**12,1**	6,3	+92,1
Average personnel	**9**	8	+12,5

Martela Plc

Martela Plc has been operating in the UK market since 1978, and it is currently employing 14 people. The company and its showroom are based in Milton Keynes. Products are mainly sold directly through the company's own sales organisation. Customers are offered a comprehensive service including the tailored furniture solutions characteristic of the Group, as well as design and installation services.

	1998	1997	change %
Turnover, FIM million	**22,8**	15,9	+43,4
Average personnel	**14**	14	+0,0

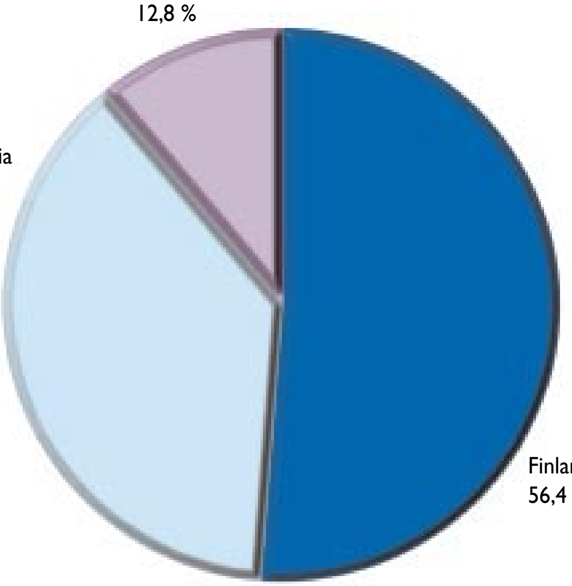
Martela Design Center Sp. z o.o.

The company's business activities began in Warsaw, Poland, in February 1996 under the name of Martela Polska Sp.z o.o. At first, the company imported Martela furniture and components and assembled the furniture. Marketing and sales were handled by its long-term co-operation partner MDC Sp. z o.o. As a result of the business acquisition made in April 1998, the business activities and name of MDC passed to Martela, and its number of personnel rose to 55. In addition to Warsaw, the company has offices in three other cities, and has a retail network that covers the whole country.

	1998	1997	change %
Turnover, FIM million	**30,4**	7,8	+289,7
Average personnel	**55**	8	+587,5

Other Export Operations

Other well-established export markets are Russia, the Baltic Countries, Hungary, Bulgaria, the Czech Republic and Slovakia. In these markets, sales are handled partly by established local co-operation partners and partly as direct project sales. In addition, project export deliveries are occasionally made to more distant countries, such as Japan and the USA.



Group invoicing by areas 1998

	1998		1997	
	FIM (million)	**%**	FIM (million)	%
Finland	**509,3**	**56,4**	418,3	59,9
Scandinavia	**277,9**	**30,8**	198,0	28,4
Europe	**115,1**	**12,8**	82,0	11,7
Total	**902,3**	**100,0**	698,3	100,0

Today, Martela is one of the ten biggest office furniture manufacturers in Europe. We have grown quickly in both Finland and Scandinavia, in addition to which we have made rapid progress in the European market. The development of our business concept and marketing activities have produced results in Germany and Great Britain, and our latest growth area is Poland.

Martela's progress in Europe is based on a conscious choice. We do not balance in international markets between serial and luxury products. We have found our own profile and segment where we want to be the best. We provide our customers with individual overall solutions, Scandinavian quality and reliability. Our own segment in the European market is still small, but quite sufficient, even for major growth.

On the other hand, we have made progress with Finnish companies at an international level. We make sure that a big Finnish company operating abroad is supplied with a domestic working environment as swiftly and reliably as in Finland. We ensure that their office always has the correct image – both in Finland and abroad.

Report of the Board of Directors 1 Jan.-31 Dec. 1998

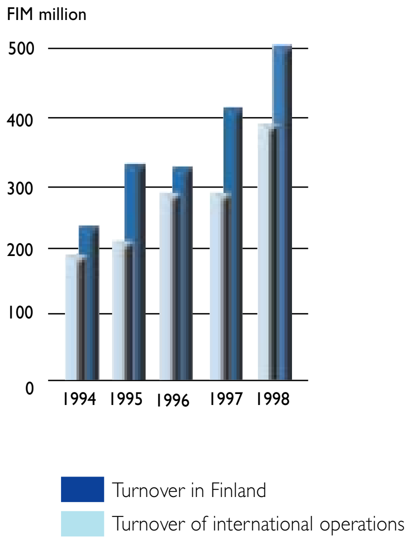
Due to the strong economic growth in the Group's main market areas, the demand for office furniture remained high throughout the year. Turnover grew by 31 %, substantially improving the result. Profit before extraordinary items, reserves and taxes was good, amounting to FIM 71.7 million. Return on investment was 23.5 %. The Board proposes to the Annual General Meeting that, for the year 1998, a dividend of FIM 7.5 per share be paid, equalling 30.3 % of the net profit per share.

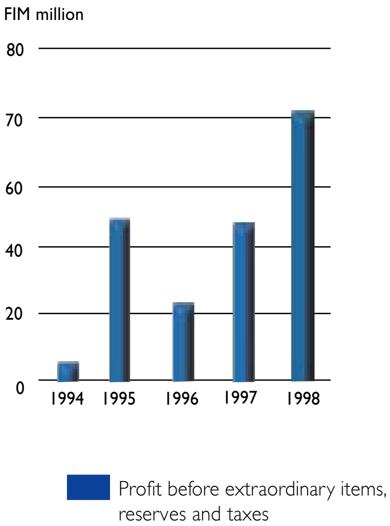
Turnover and Invoicing

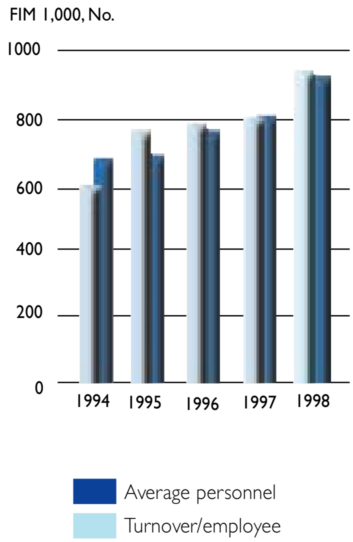
Consolidated turnover increased by 31 %, amounting to FIM 895.7 million (FIM 686.0 million). Invoicing had already begun to grow in the autumn of 1997, and it remained at a high level throughout 1998. In the Finnish market, invoicing rose vigorously for the second year running, amounting to FIM 509.3 million (FIM 418.4 million). In 1998, the growth was 21.7 % and in 1997, 23.4 %.

In other Nordic Countries, the increase in invoicing was exceptionally high; 40.4 %, amounting to a total of FIM 277.9 million (FIM 197.9 million). The growth was based on a company acquisition made in 1995 to reinforce Martela AB's position, especially in Sweden, Norway and Denmark. In the Swedish market, invoicing rose by 16.3 %, amounting to FIM 165.6 million (FIM 142.5 million). In Norway, invoicing has grown substantially in recent years. During the financial year, invoicing totalled FIM 93.3 million (FIM 39.7 million), representing an increase of 135.2 %. During the financial year, we received a few major project orders in Norway, which partly account for the strong growth. In the Danish market, invoicing amounted to FIM 19.0 million (FIM 15.8 million), representing a growth of 20.0 %.

In the Group's other market areas, invoicing amounted to a total of FIM 115.1 million (FIM 82.0 million), also representing an exceptionally high increase of 40.3 %. The marketing activities of the subsidiaries in Germany and Great Britain were profitable, resulting in a substantial increase in both markets. In Great Britain, invoicing amounted to FIM 18.1 million (FIM 14.3 million) and, in Germany, FIM 12.9 million (FIM 7.5







million). In the Polish market, invoicing tripled, amounting to FIM 31.4 million (FIM 9.2 million). The growth was due to a company acquisition made in April. The internal problems in Russia resulted in a considerable decrease in invoicing. During the financial year, invoicing in the Russian market amounted to FIM 14.2 million (FIM 24.6 million). The proportion of this specific market area of consolidated invoicing is now less than 2 %. However, this decline was somewhat compensated by the growth experienced in other East European countries.

Result

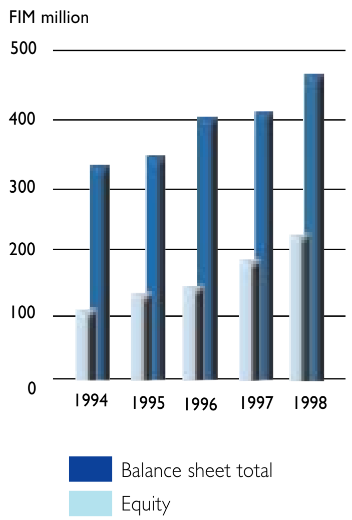
Due to the vigorous growth, consolidated profit before extraordinary items, reserves and taxes totalled FIM *71.7* million (FIM 48.5 million). All group companies improved their result and made a profit, except for the subsidiary in Poland, the financial result of which was impaired by non-recurring expenses resulting from the company acquisition and exchange rate losses. Consolidated return on investment improved when compared to the previous year, and it was *23.5* % (18.0 %). Profit for the financial year was FIM 51.4 million (FIM 36.2 million).

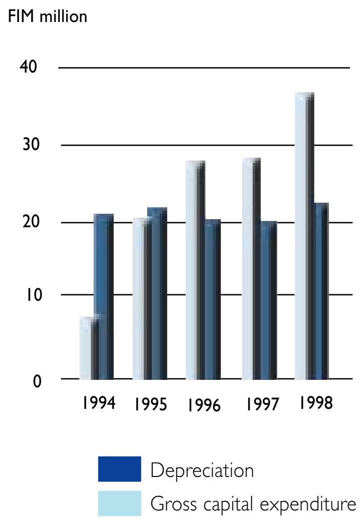
Company Acquisition in Poland

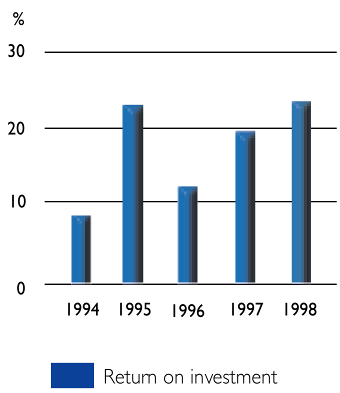
The Polish subsidiary, which is fully owned by Martela Oyj, bought the entire office furniture, carpet and floor-covering business of its retailer, MDC Sp. z o.o. in April. As a result of the purchase, Martela significantly reinforced its sales network in the Polish market. The company now has its own service centres in Warsaw, Gdansk, Katowice and Wroclav, and a retail network that covers other towns. In 1998, the invoicing of the Polish subsidiary amounted to FIM 30.4 (FIM 7.8 million), the result for the financial year being negative.

Capital expenditure

Consolidated capital expenditure grew when compared to the previous year, amounting to FIM 36.4 million (FIM 27.8 million). The Parent Company's proportion of investments was FIM 28 million, mainly relating to production machines and equipment, as well as information technology. Martela AB's investments, also made in production lines and information technology,







totalled FIM 3 million. The purchase price of the Polish company was FIM 3 million.

Consolidated research and development costs totalled FIM 8.9 million (FIM 9.3 million), equalling 1.0 % (1.4 %) of the turnover.

Personnel

As a result of the strong growth and the structural change, the number of personnel employed by the Group grew by *110*. At the turn of the year, the Group employed a total of 969 (859) people, the average number of personnel being *942* (830). The growth was substantial in the Parent Company Martela Oyj, where the number of personnel rose by 27 and, in Martela AB, where the increase was 23 people. In Poland, the number of personnel rose by 47 mainly as a result of the business acquisition. At the turn of the year, 696 (661) people were employed by the Group in Finland and 273 (198) abroad. By the end of the financial year, the Parent Company Martela Oyj employed a total of *632* (605) people.

Financing

Consolidated net financial expenses totalled FIM 7.0 million (FIM 5.9 million), including unrealized net loss of FIM 0.5 million on foreign exchange. The growth in investments and working capital diminished the cash flow which amounted to FIM *14.0* million (FIM 19.7 million) before financing. From the beginning of the year, net interestbearing liabilities decreased by FIM 3.5 million, amounting to FIM *129.4* million (FIM 132.9 million) at the turn of the year. By the end of the year, liquid assets totalled FIM *55.8* million (FIM 56.6 million). As a result of the good profit development, the consolidated balance sheet structure has now been reinforced for several years running. 1998 was no exception and, at the turn of the year, the equity ratio rose to 47.9 % (45.6 %). At the same time, the gearing ratio also improved and was *32.6* % (40.8 %). The balance sheet total went up to FIM 470.9 million (FIM 416.1 million).

Outlook for 1999

Already last year, there were indications that the economic growth of our main market areas was slowing down. It has commonly been anticipated that in 1999 economic growth will be more modest than last year. According to our estimate, this will also have an impact on the demand for office furniture; the overall markets are not expected to grow further. The Group's invoicing is estimated to remain at the same level as last autumn, in which case, it seems possible also to achieve a good result in 1999. However, the economic growth of our main market areas involves many known factors of uncertainty, which may further impair the growth and affect the demand for office furniture. In these conditions, the Group's invoicing may begin to fall even quite abruptly, according to our own experience.

Euro

The euro will not cause any major changes in our operation. Most of our domestic customers continue to pay in Finnish marks. Of the Group's foreign activities, less than 3 % is directed to other euro markets. Under these circumstances, it has been decided that the home currency of the Parent Company Martela Oyj will continue to be the Finnish mark. The group companies have facilities to make offers and write invoices in euros.

Year 2000 Readiness

As we know, the turn of the millennium may cause problems in the operation of information and real estate systems, as well as production equipment. To ensure flawless operation, potential problem areas have been surveyed in all group companies and the necessary activities for their elimination have been launched. In recent years, the Group has invested heavily in the development of information technology. As a result, the year 2000 readiness already exists as for the main operation control, economic and reporting systems. On the basis of the survey, the information systems of a single sales company will be renewed, several microcomputers will be purchased and upgraded, real estate systems will be replaced, and certain programs will be updated. The intention is that all the corrective actions that require an overall investment of max FIM 2 million will be carried out during the first half of the year.

At the table from left: Pekka Martela, Asko Piekkola, Iiro Viinanen, Valto Nousiainen, Sirpa Suominen.
Behind: Jaakko Palsanen, Risto Koskimäki, Matti T. Martela, Heikki Martela.

INFORMATION ON THE ACTIVITIES OF THE BOARD OF DIRECTORS

The Annual General Meeting elects the members of the Board of Directors each year. According to the Articles of Association, the minimum number of board members is three and the maximum number is nine. The maximum number of deputy members is five. The Board elects from among its members the Chairman and the Vice Chairman for a period terminating on the closing of the next Annual General Meeting. The Managing Director of the Parent Company Martela Oyj acts as Secretary of the Board. The personnel of Martela Oyj has one representative and a deputy member on the Board. The members of the personnel elect their representative for a three-year period, and the Annual General Meeting decides on the election each year.

The Chairman of the Board was Mr. Matti T. Martela, who acted as full-time chairman till his retirement on 14 January 1999. The Vice Chairman was Mr. Pekka Martela.

In its activities, the Board of Directors complies with an annual programme agreed upon in advance. According to the programme, the meetings normally have a special theme in addition to the actual supervision activities carried out on a regular basis. In 1998, the Board assembled eleven times. During the meetings, the Board dealt with e.g. the strategy, budget and operating plan prepared by the Company Management; the Group's strategic processes and the development of business activities in the Polish market.

The Board set up a Salary Working Party which, authorised by the Board, decides on the salaries and fees of the Managing Director and the members of Group Management. The members of the Working Party are Mr. Matti T. Martela and Mr. Jaakko Palsanen.

Board of Directors 1998

Chairman of the Board

Martela Matti T, born in 1939, M.Sc. (Econ.)
Chairman of the Board of Martela Oyj since 1986,
Managing Director 1976-1986.
Chairman of the Board:
ATK-Väline Oy,
J&M Martela Oy.
Member of the Supervisory Board:
Enterprise-Fennia Mutual Insurance Company.
Owns 29.128 series K shares and 64.291 series A shares of Martela Oyj.

Vice Chairman

Martela Pekka, born in 1950, B.Sc. (Econ.)
At Martela since 1971,
Product Development Manager since 1998.
Managing Director:
ATK-Väline Oy.
Owns 24.753 series K shares and 22.120 series A shares of Martela Oyj.

Members

Martela Heikki, born in 1956, B.Sc. (Econ.)
At Martela since 1993;
responsible for the business operation of Martela´s business unit Scandinavia and the Group´s product development process since 1998, Managing Director of Martela AB and Aski Inredningscenter AB.
Member of the Board:
ATK-Väline Oy
Owns 16.178 series K shares and 24.479 series A shares of Martela Oyj.

Palsanen Jaakko, born in 1944, M.Sc. (Eng)
Vice President, Business Development:
UPM-Kymmene Oyj;
Vice Chairman of the Board:
Sterol Technologies Oy;
Owns 2000 series K shares and 17.084 series A shares of Martela Oyj.

Piekkola Asko, born in 1952, M.Sc. (Econ.)
Managing Director:
AG-Partners Corporate Finance Oy
Member of the Board:
Gordion Talousohjaus Oy, Netbooking Oy.
Does not own any shares of Martela Oyj.

Viinanen Iiro, born in 1944, M.Sc. (Eng)
President:
Pohjola Group Insurance Corporation.
Member of the Board:
Nokia Oyj, Oy Lahden Polttimo Ab, UPM-Kymmene Oyj.
Member of the Supervisory Board:
Finnair Oyj, Huhtamäki Oyj, Instrumentarium Oyj, Kone Oyj, Orion Corporation Oyj, YIT Corporation Oyj.
Minister of Finance: 1991-1996
Member of Parliament: 1983-1996
Managing Director: Konevalmistamo Oy: 1967-1983
Does not own any shares of Martela Oyj.

Personnel Representative

Suominen Sirpa, born in 1949,
Commercial College Graduate.
At Martela since 1981,
System Designer
Owns 100 series A shares of Martela Oyj.

Deputy member of the Board and Personnel Representative

Nousiainen Valto, born in 1952, Machine Carpenter
At Martela since 1975 , Industrial safety Delegate 1984-1992, Chief Trustee 1984-1994, Deputy Chief Trustee since 1995.
Does not own any shares of Martela Oyj.

Secretary of the Board

Koskimäki Risto, born in 1946, M.Sc. (Eng)
Managing Director of Martela Oyj since 1989
Member of the board:
Incap Furniture Oy, Cerberus Oy.
Does not own any shares of Martela Oyj.

Proposal of the Board of Directors for the Distribution of Profit

The Parent Company's distributable equity is FIM 165.234.376.32.
The Consolidated distributable equity is FIM 155.663.806 after the deduction from the Consolidated non-restricted equity of the items transferred from optional reserves and depreciation difference to shareholders equity.

The Board of Directors proposes to the Annual General Meeting that dividend totalling FIM 15,583,500,00 be paid.

Helsinki, 1 March 1999

Matti T. Martela Chairman of the Board	Heikki Martela	Pekka Martela Vice Chairman
Jaakko Palsanen	Asko Piekkola	Sirpa Suominen
Iiro Viinanen	Risto Koskimäki Managing Director	

Income Statement *(FIM thousand)*

	Ref.	Group **1.1.-31.12.1998**	Group 1.1.-31.12.1997	Parent company **1.1.-31.12.1998**	Parent company 1.1.-31.12.1997
Turnover	1	**895 703**	685 967	**593 613**	485 229
Change in manufacturing inventories		**936**	114	**863**	1 161
Production for own use		**1 419**	199	**1 396**	174
Other income from operations	2	**4 353**	5 568	**1 526**	2 404
Materials and services	3	**-610 793**	-458 929	**-389 451**	-316 353
Personnel expenses	4	**-189 963**	-157 939	**-124 949**	-106 878
Depreciation and reduction in value	5	**-22 944**	-20 544	**-15 153**	-13 521
Operating profit		**78 709**	54 436	**67 845**	52 217
Financial income and expenses	6	**-7 025**	-5 933	**-5 041**	-18 004
Profit before extraordinary items		**71 685**	48 503	**62 804**	34 213
Extraordinary items	7	**0**	-6 000	**0**	0
Profit before appropriations and taxes		**71 685**	42 503	**62 804**	34 213
Appropriations	8	**0**	3 844	**-825**	2 243
Income taxes	9	**-20 319**	-10 191	**-19 728**	-9 947
Profit for the financial year		**51 366**	36 156	**42 251**	26 509

Statement of Source and Application of Funds *(FIM thousand)*

	Group		Parent company	
	1998	1997	**1998**	1997
OPERATIONS				
Funds generated from operations				
Operating profit	**78 709**	54 436	**67 845**	52 217
Depreciation	**22 944**	20 544	**15 153**	13 521
Financial income and expenses	**-7 025**	-5 933	**-5 041**	-4 297
Taxes	**-20 319**	-10 191	**-19 728**	-9 947
Total funds generated from operations	**74 311**	58 856	**58 229**	51 494
Change in working capital				
Inventories	**-14 361**	-11 247	**-7 794**	-10 294
Short-term trade receivables	**-31 727**	-4 503	**-24 566**	9 605
Non-interest bearing short-term liabilities	**20 553**	-94	**19 704**	-5 151
Change in working capital, total	**-25 536**	-15 843	**-12 655**	-5 840
Cash flow from operations	**48 774**	43 014	**45 574**	45 654
CAPITAL EXPENDITURE				
Investments in fixed assets	**-36 393**	-27 757	**-31 093**	-45 466
Sales of fixed assets	**1 637**	4 435	**363**	411
Cashflow from capital expenditure	**-34 756**	-23 323	**-30 730**	-45 055
Cash flow before financing	**14 019**	19 690	**14 844**	599
FINANCING				
Change in long-term liabilities	**0**	0	**1 540**	-297
New long term loans	**13 514**	19 823	**13 500**	11 195
Repayments on long-term loans	**-26 887**	-35 376	**-20 171**	-20 530
Change in short-term loans	**9 800**	1 055	**5 318**	5 330
Dividends	**-10 389**	-6 233	**-10 389**	-6 233
Financing, total	**-13 961**	-20 732	**-10 202**	-10 535
Increase in liquid funds	**58**	-1 042	**4 642**	-9 936
according to the statement 1)				
Adjustment items 2)	**-858**	-4 611	**0**	0
Change in liquid funds				
according to the balance sheet	**-800**	-5 654	**4 642**	-9 936

1. Liquid funds include cash, bank receivables and other shares and equities

2. The Group liquid funds include foreign exchange difference

Balance sheet *(FIM thousand)*

	Ref.	Group 31.12.1998	Group 31.12.1997	Parent company 31.12.1998	Parent company 31.12.1997
ASSETS					
FIXED ASSETS AND OTHER NON-CURRENT INVESTMENTS	10				
Intangible assets					
Intangible rights		**1 341**	1 341	**1 204**	1 204
Other long-term expenditure		**19 220**	14 358	**13 950**	12 032
		20 561	15 699	**15 155**	13 236
Tangible assets					
Land and water areas		**21 002**	21 524	**1 300**	1 300
Buildings and constructions		**74 183**	79 564	**36 302**	36 991
Machinery and equipment		**53 009**	40 760	**39 095**	28 019
Other tangible assets		**132**	126	**104**	99
Advance payments and construction in progress		**1 645**	3 376	**1 645**	3 376
		149 971	145 349	**78 447**	69 784
Investments					
Shares in subsidiaries	18	**0**	0	**41 679**	36 634
Shares and participations in associated companies	18	**133**	133	**133**	133
Other shares and participations	18	**13 723**	13 773	**13 676**	13 726
Loan receivables	10	**0**	0	**16 191**	17 731
		13 855	13 905	**71 678**	68 223
CURRENT ASSETS					
Inventories	11				
Materials and supplies		**41 046**	36 777	**10 792**	10 716
Work in progress		**4 540**	4 082	**1 016**	676
Completed products / goods		**49 862**	40 227	**42 647**	35 269
		95 448	81 086	**54 455**	46 661
Receivables	12				
Trade receivables		**126 988**	96 494	**107 347**	83 951
Loan receivables		**593**	376	**26 395**	26 004
Accrued income and prepaid expenses		**7 658**	6 641	**6 259**	5 481
		135 238	103 511	**140 001**	115 435
Financial asset securities					
Short-term investments		**37 000**	32 000	**37 000**	32 000
		37 000	32 000	**37 000**	32 000
Cash and banks		**18 783**	24 583	**9 830**	10 188
		470 856	416 134	**406 566**	355 527

	Ref.	Group 31.12.1998	Group 31.12.1997	Parent company 31.12.1998	Parent company 31.12.1997
LIABILITIES					
SHAREHOLDERS' EQUITY	13				
Shareholders´equity					
Share capital		**20 778**	20 778	**20 778**	20 778
Share premium account		**27 446**	27 446	**27 446**	27 446
Reserve fund		**694**	463	**64**	64
Retained earnings		**123 389**	101 180	**122 983**	106 794
Profit for the year		**51 366**	36 156	**42 251**	26 509
Total		**223 673**	186 023	**213 523**	181 590
APPROPRIATIONS	13			**22 246**	21 422
CREDITORS	15				
Deferred tax liability	14	**7 424**	7 264	**0**	0
Long-term					
Loans from credit institutions		**50 866**	50 620	**29 580**	24 499
Pension loans		**41 002**	55 108	**37 800**	51 842
Other long-term liabilities		**369**	461	**0**	0
		92 237	106 189	**67 380**	76 341
Current					
Interest-bearing					
Loans from credit institutions		**18 880**	18 911	**15 201**	13 757
Pension loans		**11 902**	6 286	**11 720**	5 872
Overdraught facilities		**6 283**	783	**0**	0
Other current liabilities		**53**	757	**2 401**	2 083
		37 118	26 737	**29 322**	21 712
Non-interest bearing					
Advances received		**3 885**	8 341	**0**	0
Trade payables		**47 967**	38 600	**33 214**	24 145
Accrued liabilities and prepaid income		**38 277**	23 310	**24 116**	17 100
Other current liabilities		**20 275**	19 671	**16 765**	13 217
		110 405	89 922	**74 096**	54 462
Creditors, total		**247 183**	230 111	**170 797**	152 515
		470 856	416 134	**406 566**	355 527

Notes to the financial statements

Financial statements have been prepared in accordance with the new Accounting Act

Consolidated financial statements

The consolidated financial statements include Martela Oyj and its subsidiaries. Inter-company share ownership within the Group has been eliminated using the acquisition cost method. Intra-Group transactions, unrealized margins on intra-company deliveries, internal receivables and debts as well as the internal distribution of profit have been eliminated. The difference between the purchase price of shares in subsidiaries and their equity at the time of acquisition has been partly allocated to real estate, the remainder constituting goodwill. The goodwill has been amortized. The buildings will be depreciated in the same way as the amortization of the goodwill. The liquidation of Martela Hamburg GmbH ended on June 25, 1998 and it had no material effect on the Group's result or on the amount of the consolidated shareholders´ equity.

Receivables and debts denominated in foreign currency

The parent company and its subsidiaries in Finland have translated receivables and debts denominated in foreign currency into Finnish markka amounts at the Bank of Finland average exchange rate on the balance sheet date. Exchange rate differences have been entered in the income statement in net amounts. The assets and liabilities of subsidiaries abroad have been translated into Finnish markka at the Bank of Finland average exchange rate on the balance sheet date. The income statements were translated at the average exchange rate for the year. The translation adjustments arising from the conversion of shareholders' equity have been booked to the Group's non-restricted equity.

	Group		Parent company	
	1998	1997	**1998**	1997

INCOME STATEMENT

1. Turnover

Breakdown of turnover by market area, % of turnover

	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Finland	**56,4**	59,9	**84,2**	84,0
Sweden	**18,4**	20,4	**1,4**	1,9
Norway	**10,3**	5,7	**3,6**	2,1
Denmark	**2,1**	2,3	**0,9**	0,6
United Kingdom	**2,0**	2,0	**1,6**	1,0
Germany	**1,4**	1,1	**1,1**	0,7
Other Western Europe	**1,8**	1,1	**1,0**	0,8
Poland	**3,5**	1,3	**1,3**	1,1
Russia	**1,6**	3,5	**2,4**	5,0
The Baltic countries	**0,9**	1,0	**1,2**	1,5
Other Eastern Europe	**0,9**	0,6	**1,2**	0,8
Other exports	**0,7**	1,1	**0,1**	0,5
Total	**100,0**	100,0	**100,0**	100,0

2. Other income from operations

	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Gains on sale of assets	**379**	1 619	**426**	730
Rental income	**2 696**	2 772	**882**	1 450
Other income from operations	**1 278**	1 177	**218**	224
Total	**4 353**	5 568	**1 526**	2 404

3. Materials and services

	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Materials and supplies				
Purchases during the financial year	**460 574**	359 286	**294 980**	254 587
Change in inventories of materials and supplies	**-15 347**	-11 090	**-6 931**	-9 132
Total	**445 227**	348 196	**288 050**	245 455
External services	**165 566**	110 733	**101 402**	70 898
Materials and services, total	**610 793**	458 929	**389 451**	316 353

4. Personnel expenses and number of persons

	Group 1998	Group 1997	Parent company 1998	Parent company 1997
Salaries of board of directors and managing directors	**4 343**	3 723	**1 821**	1 588
Other salaries	**141 450**	117 769	**95 421**	83 018
Pension expenses	**22 436**	16 966	**17 688**	14 026
Other salary-related expenses	**21 735**	19 481	**10 019**	8 247
Personnel expenses in the income statement	**189 963**	157 939	**124 949**	106 878
Fringe benefits	**3 006**	2 983	**2 327**	2 201
Total	**192 969**	160 921	**127 276**	109 079
Personnel				
Average personnel	**942**	830	**613**	571
Personnel at year-end	**969**	859	**632**	605
Average personnel in Finland	**675**	627	**613**	571
Average personnel in Sweden	**185**	169	**0**	0
Average personnel in Norway	**4**	4	**0**	0
Average personnel in Germany	**9**	8	**0**	0

	Group		Parent company	
	1998	1997	**1998**	1997
Average personnel in the United Kingdom	**14**	14	**0**	0
Average personnel in Poland	**55**	8	**0**	0
Total	**942**	830	**613**	571

5. Depreciation

	Group		Parent company	
	1998	1997	**1998**	1997
Depreciation according to plan				
Intangible assets				
Goodwill	**0**	116	**0**	0
Other long-term expenditure	**6 739**	5 100	**5 371**	4 228
Tangible assets				
Buildings and constructions	**4 236**	4 417	**1 924**	1 882
Machinery and equipment	**11 970**	10 912	**7 858**	7 412
Depreciation according to plan, total	**22 944**	20 544	**15 153**	13 521

Depreciation according to plan is calculated on the economic life of fixed assets on a straight-line basis from the original acquisition cost.

The depreciation periods are:

Buildings	30 years
Housing and other buildings	20 years
Factory machinery and equipment	4-8 years
Other fixtures	6 years
Vehicles and ADP equipment	5 years
Product development and ADP software	5 years
Other long-term expenditure	10 years

6. Financial income and expenses

	Group		Parent company	
	1998	1997	**1998**	1997
Financial income and expenses				
Dividend income	**17**	7	**17**	7
Interest income on short-term investments	**2 800**	2 770	**2 283**	2 358
Interest income on short-term investments from Group companies	**0**	0	**712**	456
Gains on foreign exchange	**768**	687	**630**	978
Interest expenses	**-7 673**	-7 909	**-5 452**	-5 472
Losses on foreign exchange	**-1 533**	-311	**-2 013**	-35
Other financial expenses	**-1 404**	-1 177	**-1 218**	-963
Depreciation on investements*)	**0**	0	**0**	-15 332
Total	**-7 025**	-5 933	**-5 041**	-18 004

*) Write-down of shares in subsidiaries and receivables

	Group		Parent company	
	1998	1997	**1998**	1997
Foreign exchange differences				
Realized	**-265**	-46	**25**	42
Unrealized	**-500**	422	**-1 408**	902
Total	**-765**	376	**-1 383**	943

	Group		Parent company	
	1998	1997	**1998**	1997

7. Extraordinary income and expenses

In the extraordinary expenses for the group 1997 there is a revaluation of FIM 6,0 million to the site of Kiinteistö Oy Ylähanka.

	Group 1998	Group 1997	Parent company 1998	Parent company 1997
8. Appropriations				
Change in depreciation reserve (- increase, + decrease)				
Other long-term expenditure		869	**1 248**	869
Buildings and constructions		455	**210**	354
Machinery and equipment		759	**-2 283**	1 020
Total		2 084	**-825**	2 243
Change in transitional reserve		1 760	**0**	0
Total		3 844	**-825**	2 243
9. Income taxes				
Income taxes from extraordinary items	**0**	-1 680	**0**	0
Income taxes from operation	**20 158**	11 871	**19 728**	9 947
Change in deferred tax liability	**161**	0	**0**	0
Total	**20 319**	10 191	**19 728**	9 947

	Group		Parent company	
	1998	1997	**1998**	1997
10. Fixed assets and other long-term investments				
Intangible assets				
Intangible rights				
Acquisition cost 1.1.	**1 569**	1 780	**1 205**	1 204
Increases 1.1.-31.12.	**0**	1	**-1**	1
Decreases 1.1. - 31.12.	**0**	0	**0**	0
Foreign exchange differences 1.1. - 31.12.	**0**	-212	**0**	0
Accumulated depreciation 1.1.	**-228**	-228	**0**	0
Depreciation 1.1.-31.12.	**0**	0	**0**	0
Book value 31.12.	**1 341**	1 341	**1 204**	1 205
Goodwill				
Acquisition cost 1.1.	**169**	131		
Increases 1.1.-31.12.	**0**	0		
Decreases 1.1. - 31.12.	**0**	0		
Foreign exchange differences 1.1. - 31.12.	**0**	38		
Accumulated depreciation 1.1.	**-169**	-53		
Depreciation 1.1.-31.12.	**0**	-116		
Book value 31.12.	**0**	0		
Other long-term expenditure				
Acquisition cost 1.1.	**30 709**	24 539	**24 344**	18 368
Increases 1.1.-31.12.	**10 904**	6 252	**7 289**	5 975
Decreases 1.1. - 31.12.	**0**	-84	**0**	0
Foreign exchange differences 1.1. - 31.12.	**696**	2	**0**	0
Accumulated depreciation 1.1.	**-16 351**	-11 251	**-12 312**	-8 084
Depreciation 1.1.-31.12.	**-6 739**	-5 100	**-5 371**	-4 228
Book value 31.12.	**19 220**	14 358	**13 950**	12 032
Intangible assets book value 31.12.	**20 561**	15 699	**15 155**	13 237
Tangible assets				
Land and water				
Acquisition cost 1.1.	**21 524**	26 972	**1 300**	1 300
Increases 1.1.-31.12.	**0**	0	**0**	0
Decreases 1.1. - 31.12.	**-257**	-6 284	**0**	0
Foreign exchange differences 1.1. - 31.12.	**-265**	836	**0**	0
Book value 31.12.	**21 002**	21 524	**1 300**	1 300
Buildings				
Acquisition cost 1.1.	**151 059**	149 348	**91 151**	90 484
Increases 1.1.-31.12.	**1 767**	1 514	**1 236**	667
Decreases 1.1. - 31.12.	**0**	0	**0**	0
Foreign exchange differences 1.1. - 31.12.	**-2 912**	197	**0**	0
Accumulated depreciation 1.1.	**-71 495**	-67 078	**-54 160**	-52 278
Depreciation 1.1.-31.12.	**-4 236**	-4 417	**-1 924**	-1 882
Book value 31.12.	**74 183**	79 564	**36 302**	36 991

	Group		Parent company	
	1998	1997	**1998**	1997
Machinery and equipment				
Acquisition cost 1.1.	**201 375**	188 745	**167 074**	155 694
Increases 1.1.-31.12.	**25 446**	16 899	**19 298**	11 598
Decreases 1.1. - 31.12.	**-1 587**	-4 202	**-363**	-219
Foreign exchange differences 1.1. - 31.12.	**360**	-67	**0**	0
Accumulated depreciation 1.1.	**-160 615**	-149 703	**-139 055**	-131 643
Depreciation 1.1.-31.12.	**-11 970**	-10 912	**-7 858**	-7 412
Book value 31.12.	**53 009**	40 760	**39 096**	28 019
Manufacturing machinery and equipment				
Book value 31.12.	**32 342**	32 837	**25 425**	18 050
Other tangible assets				
Acquisition cost 1.1.	**126**	119	**99**	98
Increases 1.1.-31.12.	**6**	0	**6**	0
Decreases 1.1. - 31.12.	**0**	0	**0**	0
Foreign exchange differences 1.1. - 31.12.	**0**	7	**0**	0
Accumulated depreciation 1.1.	**0**	0	**0**	0
Depreciation 1.1.-31.12.	**0**	0	**0**	0
Book value 31.12.	**132**	126	**104**	98
Advance payments and construction in progress				
Acquisition cost 1.1.	**3 376**	297	**3 376**	297
Increases 1.1.-31.12.	**1 645**	3 079	**1 645**	3 079
Decreases 1.1. - 31.12.	**-3 376**	0	**-3 376**	0
Foreign exchange differences 1.1. - 31.12.	**0**	0	**0**	0
Book value 31.12.	**1 645**	3 376	**1 645**	3 376
Tangible assets book value 31.12	**149 971**	145 350	**78 447**	69 784
Taxation values of real-estate and securities booked under fixed assets				
Land and water	**8 175**	8 549	**2 452**	2 452
Buildings and constructions	**61 549**	63 723	**32 327**	32 259
Shares in subsidiaries	**55 809**	54 049	**33 550**	30 301
Other shares and participations	**15 086**	11 031	**15 026**	10 964
Revaluations of fixed assets				
Buildings	**18 700**	18 700	**13 000**	13 000

Revaluations have been formed in Martela Oyj 3.000 TFIM in 1977 and 10.000 TFIM in 1988 and in P.O. Korhonen Oy 5.700 TFIM in 1986.

Shares, participations and loan receivables booked under long-term investments

Group companies				
Shares			**41 679**	36 634
Loan receivables			**16 191**	17 731
Total			**57 870**	54 365
Shares in associated companies	**133**	133	**133**	133

	Group		Parent company	
	1998	1997	**1998**	1997
11. Inventories				
Inventories are valued at the direct acquisition cost.				
12. Receivables				
Receivables from Group and associated companies				
Trade receivables from Group companies			**31 328**	28 623
Trade receivables from associated companies			**0**	0
Loan receivables from Group companies			**25 964**	25 629
Loan receivables from associated companies			**0**	0
Trade receivables				
Trade receivables falling due within 12 months	**126 988**	96 494	**107 347**	83 951
Trade receivables falling due after 12 months	**0**	0	**0**	0
Loan receivables				
Loan receivables falling due within 12 months	**200**	158	**26 002**	25 786
Loan receivables falling due after 12 months	**393**	218	**393**	218
13. Shareholders' equity				
Share capital 1.1.	**20 778**	20 778	**20 778**	20 778
Increase in share capital	**0**	0	**0**	0
Share capital 31.12.	**20 778**	20 778	**20 778**	20 778
Share premium account 1.1.	**27 446**	27 446	**27 446**	27 446
Other change	**0**	0	**0**	0
Share premium account 31.12.	**27 446**	27 446	**27 446**	27 446
Reserve fund 1.1.	**463**	452	**64**	64
Transferred from retained earnings	**265**	0	**0**	0
Other change	**-34**	11	**0**	0
Reserve fund 31.12.	**694**	463	**64**	64
Retained earnings 1.1.	**137 336**	110 808	**133 372**	113 027
Transferred to reserve fund	**-265**	0	**0**	0
Foreign exchange differences and translation adjustments	**-3 292**	-3 395	**0**	0
Payment of dividend	**-10 389**	-6 233	**-10 389**	-6 233
Retained earnings 31.12.	**123 389**	101 180	**122 983**	106 794
Profit for the year	**51 366**	36 156	**42 251**	26 509
Shareholders´ equity 31.12.	**223 673**	186 023	**213 523**	181 590
Appropriations 1.1.			**21 422**	23 664
Change in the income statement			**825**	-2 243
Appropriations 31.12.			**22 246**	21 422

The appropriations of Martela Oyj are from accumulated depreciaton difference.

14. Deferred tax liability

In the calculation of the deferred tax liability shown in the balance sheet revaluations nor tax losses of the subsidiaries have been noted. Other defferred tax liabilities or receivables of consolidations are minor and they have not been noted.

	1998	1997
Accumulated depreciation difference	**26 515**	25 942
28% at above	**7 424**	7 264
Transferred to equity	**19 091**	18 678

	Group		Parent company	
	1998	1997	**1998**	1997
15. Creditors				
Debts falling due in five years or more				
Loans from financial institutions	**27 885**	16 805	**5 246**	3 714
Pension loans	**29 203**	34 278	**26 231**	31 536
Total	**57 088**	51 083	**31 477**	35 250
Debts to Group and associated companies				
Trade payables to Group companies			**2 265**	1 224
Other short-term debts to Group companies			**2 401**	2 083
Accrued liabilities to Group companies			**200**	771
Current liabilities				
Non-interest bearing debts	**110 405**	89 922	**74 096**	54 462
Next year's repayments on long-term loans	**30 783**	25 198	**26 920**	19 629
Other interest-bearing debts	**6 335**	1 540	**2 401**	2 083
Total	**147 522**	116 659	**103 418**	76 174
Accured liabilities and prepaid income				
Accured liabilities, personnel expenses	**25 434**	19 246	**17 581**	13 196
Accured liabilities, taxes	**5 191**	60	**5 065**	0
Other accured liabilities and prepaid income	**7 652**	4 005	**1 471**	3 904
Total	**38 277**	23 310	**24 116**	17 100
16. Pledges granted and contingent liabilities				
To secure own commitments				
Mortgages on real estate	**84 692**	87 534	**68 290**	77 190
Other mortgages	**35 801**	38 589	**17 000**	18 000
Shares pledged	**4 216**	4 476	**424**	324
For Group companies				
Mortgages on real estate			**6 900**	6 900
Other mortgages			**1 000**	1 000
Guarantees			**24 276**	29 554
On behalf of others				
Guarantees	**202**	6 664	**0**	0
Other own commitments				
Repurchase sureties	**655**	1 054	**641**	509
Leasing commitments	**7 391**	5 012	**5 877**	4 290
Total				
Mortgages on real estate	**84 692**	87 534	**75 190**	77 090
Other mortgages	**35 801**	38 589	**18 000**	19 000
Shares pledged	**4 216**	4 476	**424**	324
Guarantees	**202**	6 664	**24 276**	29 554
Repurchase sureties	**655**	1 054	**641**	509
Leasing commitments	**7 391**	5 012	**5 877**	4 290

17. Pension security

The retirement plans for company employees have been arranged through pension insurance companies.

The agreed retirement age of the Chairman of the Board of Directors of Martela Oyj and the Managing Director is 60 years.

18. Shares and participations

Shares and participations 31.12. 1998

Group companies

The Group's holding is 100%. The Group's share of voting rights is 100%.

	Proportion of equity held by the Group (FIM 1,000)	Parent company´s holding (%)	No. of shares	Par value (FIM 1,000)	Book value (FIM 1,000)
Martela GmbH, Nürtingen, Germany		100	2	DEM 200	562
Martela AB, Bodafors, Sweden		100	50 000	SEK 5 000	3 267
Aski inredningscenter AB, Malmö, Sweden		100	12 500	SEK 1 250	6 006
Martela A/S, Oslo, Norway		100	200	NOK 200	142
Martela Holdings Ltd, Milton Keynes, UK		100	1 999 030	GBP 2029	10 476
Martela Plc, Milton Keynes, UK					
Martela Properties Ltd, Milton Keynes, UK					
Kiinteistö Oy Oulun Kaamatie 14, Oulu (real-estate company)		100	150	15	9 815
Kiinteistö Oy Ylähanka, Vantaa (real-estate company)		100	510	51	50
P.O Korhonen Oy, Raisio		100	5 750	5 750	5 801
Martela Design Center Sp.z o.o., Warsaw, Poland		100	3 483 000	PLN 3 483	5 560
Total	**6 150**				**41 679**

Associated companies

Essa Office Systems AG, Zürich, Switzerland	30	34	CHF 34	133
Total				**133**

Other shares and participations owned by the parent company

	No. of shares	Par value (FIM 1,000)	Book value (FIM 1,000)
As.Oy Kivipellonpolku (housing corporation)	287	4	123
As.Oy Kivipellonpiha (housing corporation)	2 590	4	179
As.Oy Rinnenummiharju I (housing corporation)	167	1	130
Helsingin Puhelinyhdistys	80	216	216
Technopolis Oulu Oyj	15 000	150	229
Merita Bank	5 208	52	100
Kiinteistö Oy Turun Pitkämäki (real-estate company)	306	31	10 745
Kivijärven lomamökit Oy	400	800	800
Helsinki Halli Oy	30	30	300
Other shares and participations			854
Total			**13 676**

Auditors` report

To the Shareholders of Martela Oyj

I have audited the accounting records and the financial statements as well as the governance by the Board of Directors and the Managing Director of Martela Oyj for the period ended 31 December 1998. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on my audit I express an opinion on these financial statements and the company´s governance.

I have conducted my audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of my audit of the administration has been to examine that the Board of Directors and the Managing Director have complied with the rules of the Finnish Companies Act.

In my opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statement in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by me. The proposal made by the Board of Directors on how to deal with the retained earnings in compliance with the Finnish Companies Act.

We have acquainted ourselves with the interim reports made public by the company during the year. It is our understanding that the interim reports have been prepared in accordance with the rules and regulations governing the preparation of such reports in Finland.

Helsinki, 2 March 1999

Reino Tikkanen
Authorized Public Accountant

During the financial year, the company will publish two interim reports.

Annual General Meeting

The Annual General Meeting of Martela Oyj will be held on Wednesday, 17 March 1999, beginning at 4.30 p.m., Strömbergintie 5, 00380 Helsinki. Shareholders wishing to participate in the meeting should be entered in the Shareholder Register, kept by the Finnish Central Securities Depository Ltd, no later than Friday, 12 March 1999, and they should contact the Company Head Office no later than Monday, 15 March 1999, tel. +358 (0)10 345 5301, fax +358 (0)10 345 5345, address Martela Oyj, P.O.Box 7, FIN-00381 Helsinki, to inform of their intention to participate in the meeting. The shareholders whose shares have not been transferred to the Book Entry Securities System will also have the right to take part in the Annual General Meeting provided that the shareholder has been registered in the Company's Share Register before 10 February 1995.

Payment of Dividends

A dividend according to the Board's proposal will only be paid to those who, on Monday, 22 March 1999, i.e. the record date for dividend payment, have been entered as a shareholder in the Shareholder Register, kept by the Finnish Central Securities Depository Ltd. The dividend will be paid out on Monday, 29 March 1999. The shareholders who have not transferred their share certificates to the Book Entry Securities System by the record date are entitled to the payment of dividend after the transfer of the shares has been completed.

Statistics on Martela Oyj shares

Share capital

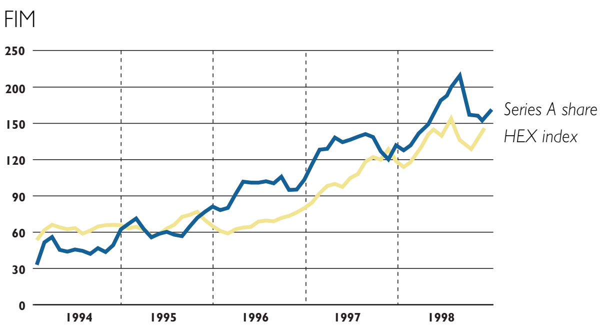
The paid-in share capital. which has been entered in the Trade Register, is FIM 20,778,000. The Articles of Association stipulate that the maximum share capital is FIM 58,000,000 and the minimum share capital is FIM 14,500,000. Martela Oyj's shares were transferred to the book-entry system on 10 February 1995.

Brakedown of share capital

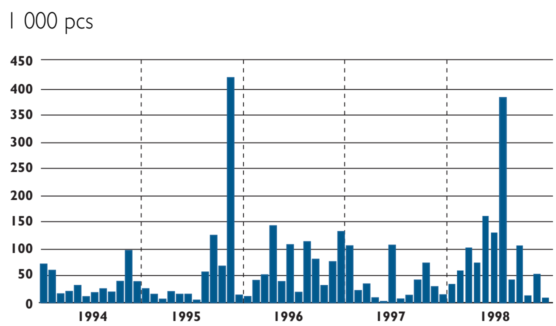
	Number of shares	Total FIM	%	Number of votes	%
Series K	**302 400**	**3 024 000**	**15**	**6 048 000**	**77**
Series A	**1 775 400**	**17 754 000**	**85**	**1 775 400**	**23**
Total	**2 077 800**	**20 778 000**	**100**	**7 823 400**	**100**

Series A shares are quoted on the Helsinki Stock Exhange I list. The par value of one share is FIM 10. Series K shares have 20 votes at the Annual General Meeting and Series A shares 1 vote. Both series of shares have the same dividend rights.

Martela series A share compared with the HEX index



Monthly trading value of Series A shares



Largest shareholders according to the Share Register as at 31 December 1998

	Series K pcs	Series A pcs	Total pcs	%	Votes pcs	%
ATK-Väline Oy	**145 600**	**116 287**	**261 887**	**12,6**	**3 028 287**	**38,7**
Palsanen Leena	**34 243**	**65 574**	**99 817**	**4,8**	**750 434**	**9,6**
Martela Liisa	**29 650**	**69 407**	**99 057**	**4,8**	**662 407**	**8,5**
Martela Matti T.	**29 128**	**64 291**	**93 419**	**4,5**	**646 851**	**8,3**
Martela Pekka	**24 753**	**22 120**	**46 873**	**2,3**	**517 180**	**6,6**
Martela Heikki	**16 178**	**24 479**	**40 657**	**2,0**	**348 039**	**4,4**
Merita Bank		**287 370**	**287 370**	**13,8**	**287 370**	**3,7**
Lindholm Tuija	**11 678**	**19 626**	**31 304**	**1,5**	**253 186**	**3,2**
Pohjola Insurance Company		**95 100**	**95 100**	**4,6**	**95 100**	**1,2**
Alfred Berg Financial Investment Fund		**87 400**	**87 400**	**4,2**	**87 400**	**1,1**
Nominee-registered shares		**296 370**	**296 370**	**14,3**	**296 370**	**3,8**
Other shareholders	**11 170**	**627 376**	**638 546**	**30,7**	**850 776**	**10,9**
Total	**302 400**	**1 775 400**	**2 077 800**	**100,0**	**7 823 400**	**100,0**

This list includes all the shareholders who own more than 5% of the shares or voting rights. The members of the Board of Directors and the Managing Director own a total of 9.6% of the company's shares and 20.1% of the voting rights.

Breakdown of share ownership by number of shares held

Number of shares	No. of shareholders	%	No. of shares	%	No. of Votes	% Votes
1-500	**512**	**79,8**	**62 800**	**3,0**	**81 230**	**1,0**
501-1000	**35**	**5,5**	**27 750**	**1,3**	**60 050**	**0,8**
1001-5000	**54**	**8,4**	**131 143**	**6,3**	**174 743**	**2,2**
Over 5000	**41**	**6,4**	**1 853 408**	**89,2**	**7 504 678**	**95,9**
Total	**642**	**100,0**	**2 075 101**	**99,9**	**7 820 701**	**100,0**
Shares not converted into book-entries			**2 699**	**0,1**	**2 699**	**0,0**
Total			**2 077 800**	**100,0**	**7 823 400**	**100,0**

Martela Group Administration

Martela Group Business Units
Finland, Risto Koskimäki
Scandinavia, Heikki Martela
Europe, Juha Ihalainen

Management Group of Martela Group
Torsten Hästö, Finance and Administration
Juha Ihalainen, Marketing
Risto Koskimäki, Managing Director
Jaakko Luhtasela, Production and Logistics
Heikki Martela, Product Development

Managing Directors of Group Companies
Risto Koskimäki, Martela Oyj
Asko Vesanen, Martela Design Center Sp. z o.o.
Heikki Martela, ASKI Inredningscenter AB
Heikki Martela, Martela AB
Matti Eskola, P.O. Korhonen Oy
Harri Mononen, Martela Plc
Sten Rydman, Martela GmbH
Rune Torgunrud, Martela A/S

Breakdown of share ownership by sector as at 31 December 1998

	Owners		Shares		Votes	
	pcs	%	pcs	%	pcs	%
Private companies	**51**	**7,9**	**315 107**	**15,2**	**3 081 507**	**39,4**
State-owned companies	**-**	**-**	**-**	**-**	**-**	**-**
Financial institutions and insurance companies	**18**	**2,8**	**509 485**	**24,5**	**509 485**	**6,5**
Public sector entities	**8**	**1,2**	**191 400**	**9,2**	**191 400**	**2,4**
Non-profit entities	**15**	**2,3**	**121 424**	**5,8**	**121 424**	**1,6**
Households	**548**	**85,4**	**641 315**	**30,9**	**3 620 515**	**46,3**
Nominee-registered shares	**2**	**0,3**	**296 370**	**14,3**	**296 370**	**3,8**
Total	**642**	**100,0**	**2 075 101**	**99,9**	**7 820 701**	**100,0**
Shares not converted into book-entries			**2 699**	**0,1**	**2 699**	**0,0**
Total	**642**	**100,0**	**2 077 800**	**100,0**	**7 823 400**	**100,0**

Share issue-adjusted indicators

	1998	1997	1996	1995	1994
Earning/share, FIM	24,7	18,4	7,3	18,2	0,5
Price/earnings multiple, P/E	6,6	6,8	15,0	4,3	155,0
Share par value	10,0	10,0	10,0	10,0	10,0
Equity/share, FIM	107,7	89,5	76,8	72,3	54,7
Dividend/share, FIM	7,50*)	5,00	3,00	5,00	1,00
Dividend/earnings, %	30,3	27,1	41,1	27,5	215,3
Effective dividend yield, %	4,6	4,0	2,7	6,4	1,4
Market value capitalization, FIM million **)	340,8	259,7	234,8	154,4	142,6
Share issue adjusted number of shares (thousands)	2077,8	2077,8	2077,8	1980,0	1980,0
Average issue-adjusted number of shares (thousands)	2077,8	2077,8	2032,2	1980,0	1980,0
Series A share					
Lowest price, FIM	120,00	115,00	76,00	53,10	38,00
Highest price, FIM	235,00	150,00	120,00	82,00	72,00
Average price, FIM	173,64	132,02	103,66	76,17	53,84
Price at 31.12.	164,00	125,00	113,00	78,00	72,00
Turnover, FIM million	201,1	61,0	88,1	60,1	24,4
Turnover, No. of shares, thousands	1157,9	462,3	850,3	788,9	452,5
Turnover as a percentage of shares outstanding, %	65,2	26,0	47,9	47,0	27,0

*) Proposal of the Board of Directors

**) The price of Series A shares has been used as the value of Series K shares.

The formulae for calculation the indicators are given on page 35.

Martela Group 1994-1998

The Martela Group 1994-1998 SCOPE OF OPERATIONS

		1998	1997	1996	1995	1994
Turnover		**895,7**	686,0	606,0	548,5	425,1
Change in turnover	%	**30,6**	13,2	10,5	29,0	23,9
Exports and international operations	FIM million	**393,0**	280,0	279,7	218,0	191,2
As a percentage of turnover	%	**43,9**	40,8	46,2	39,7	45,0
Export from Finland	FIM million	**109,9**	87,1	93,9	92,4	97,8
Gross capital expenditure on fixed assets	FIM million	**36,4**	27,8	27,3	21,5	8,5
As a percentage of turnover	%	**4,1**	4,0	4,5	3,9	2,0
Depreciation	FIM million	**22,9**	20,5	21,2	21,9	21,4
Research and development expenses	FIM million	**8,9**	9,3	9,8	7,8	6,9
As a percentage of turnover	%	**1,0**	1,4	1,6	1,4	1,6
Average personnel		**942**	830	760	716	699
Change in personnel	%	**13,5**	9,2	6,1	2,4	-6,7
Personnel at year end		**969**	859	774	750	722
Of whom in Finland		**696**	661	578	592	582

PROFITABILITY

Operating profit	FIM million	**78,7**	54,4	34,3	58,9	17,8
As a percentage of turnover	%	**8,8**	7,9	5,7	10,7	4,2
Profit before extraordinary items	FIM million	**71,7**	48,5	26,1	50,1	5,4
Profit before appropriations and taxes	FIM million	**71,7**	42,5	26,1	50,1	5,4
As a percentage of turnover	%	**8,0**	6,2	4,3	9,1	1,3
Profit for the year *)	FIM million	**51,4**	36,2	23,7	45,0	16,2
As a percentage of turnover	%	**5,7**	5,3	3,9	8,2	3,8
Turnover/employee	FIM 1000	**950,9**	826,5	797,4	766,1	608,2
Return on equity	%	**25,1**	22,2	10,1	28,7	0,8
Return on investment	%	**23,5**	18,0	12,6	22,6	7,2

FINANCING AND FINANCIAL POSITION

Balance sheet total	FIM million	**470,9**	416,1	403,8	360,6	339,6
Equity	FIM million	**223,7**	186,0	159,5	143,1	108,2
Interest-bearing net debt	FIM million	**73,0**	76,0	82,4	84,5	123,0
As a percentage of turnover	%	**8,1**	11,1	13,6	15,4	28,9
Equity ratio	%	**47,9**	45,6	39,8	39,7	32,1
Gearing ratio	%	**32,6**	40,8	51,7	59,1	113,7
Cash flow from operations	FIM million	**48,8**	43,0	32,3	65,4	16,3
Dividend paid	FIM million	**10,4**	6,2	9,9	2,0	0,0

*) Profit for the year 1998 includes change in deferred tax liability.

Formulae for the calculation of financial indicators

Earnings/share = $\dfrac{\text{Profit/loss before extraordinary items - minority interest - taxex for the financial year}}{\text{Average share issue-adjusted number of shares}}$

Price/earnings multiple (P/E) = $\dfrac{\text{Share issue-adjusted share price at year end}}{\text{Earnings per share}}$

Equity/share, FIM = $\dfrac{\text{Equity}}{\text{Share issue-adjusted number of shares at year end}}$

Dividend/share, FIM = $\dfrac{\text{Dividends for the financial year}}{\text{Share issue-adjusted number of shares at year end}}$

Dividend/earnings, % = $\dfrac{\text{Dividend / share}}{\text{Earning / share}} \times 100$

Effective dividend yield, % = $\dfrac{\text{Share issue-adjusted dividend / share}}{\text{Share issue-adjusted share price at year end}} \times 100$

Market value of shares outstanding, FIM = Total number of shares at year end x share price on the balance sheet date

Return on equity, % = $\dfrac{\text{Profit/loss before extraordinary items - taxes for the the financial year}}{\text{Equity + minority interest (Average during the year)}} \times 100$

Return on investment, % = $\dfrac{\text{Profit/loss before extraordinary items + interest expenses + other financial expenses}}{\text{Balance sheet total - non interest bearing liabilities (Average during the year)}} \times 100$

Equity ratio, % = $\dfrac{\text{Equity + minority interest}}{\text{Balance sheet total - advances received}} \times 100$

Gearing ratio, % = $\dfrac{\text{Interest-bearing net debt}}{\text{Equity + minority interest}} \times 100$

Average personnel = Month-end average calculation of the number of personnel in active employment

Interest-bearing net debt = Interest-bearing debt - interst-bearing receivables - cash and other liquid financial assets

Martela Group in EUR

Income statement (EUR 1,000)	1998	1997
Turnover	**150 646**	114 538
Operating profit	**13 238**	9 089
Financial income and expenses	**-1181**	-991
Profit before extraordinary items	**12 056**	8 099
Extraordinary items	**0**	-1 002
Income taxes	**-3 417**	-1 702
Profit for the financial year	**8 639**	6 037

Balance sheet (EUR 1,000)	1998	1997
ASSETS		
Intangible assets	**3 458**	2 621
Tangible assets	**25 223**	24 269
Investments	**2 330**	2 322
	31 012	29 213
Inventories	**16 053**	13 539
Receivables	**22 745**	17 284
Short-term investments and cash and banks	**9 382**	9 448
Current assets	**48 181**	40 271
	79 192	69 483
LIABILITIES		
Shareholders' equity	**37 619**	31 061
Deferred tax liability	**1 249**	1 213
Interest-bearing long term loans	**15 513**	17 731
Interest-bearing current loans	**6 243**	4 464
Non-interest-bearing current loans	**18 569**	15 015
Creditors total	**41 573**	38 422
	79 192	69 483

Scope of operations		1998	1997	1996	1995	1994
Turnover	EUR million	**151**	115	105	99	73
Change in turnover	%	**31,5**	9,3	6,1	35,1	23,9
Balance sheet total	EUR million	**79**	69	70	65	58
Equity	EUR million	**38**	31	28	26	19
Earning / share	EUR	**4,16**	3,08	1,27	3,27	0,09
Equity / share	EUR	**18,11**	14,95	13,27	13,01	9,41
EUR / FIM exchange rate		**5,9457**	5,9890	5,7840	5,5550	5,8150

I

Martela House took part in the waste collection experiment arranged by YTV. We sorted, in an exemplary manner, waste at its place of origin. We are capable of returning nearly all produced waste back to production. We have also introduced sorting, recycling and material utilisation in energy production at our other main places of business. As a result, the amount of waste delivered to landfills has decreased significantly.

II

In Nummela, we took extensive measures to protect the valuable groundwater supplies in the area.

III

Customer requirements increasingly emphasise environmental aspects. In the future, a directive will restrict the release of solvents. We have made our surface treatment process more environmentally friendly as a result of our participation in a research and development project, arranged in 1997-1998 and financed by TEKES. The project studied how wood surface treatment methods using solvents could be made more environmentally friendly, the focus being on the research of water-dilutable, UV-setting finishing agents. Although the results were promising, they have not yet produced a viable solution.

IV

We gradually began to use water-dilutable upholstery adhesives, as a result of which the use of organic solvents decreased by about three thousand kilos at an annual level. At the beginning of 1999, we will completely stop the use of solvent-dilutable adhesives.

V

The new European product safety and strength standards have gradually been introduced at Martela's Research Centre. Our objective is to make products that are as safe and durable as possible with a maximum service life. From the user's viewpoint, this is an important aspect when assessing the environmental load produced by the product.

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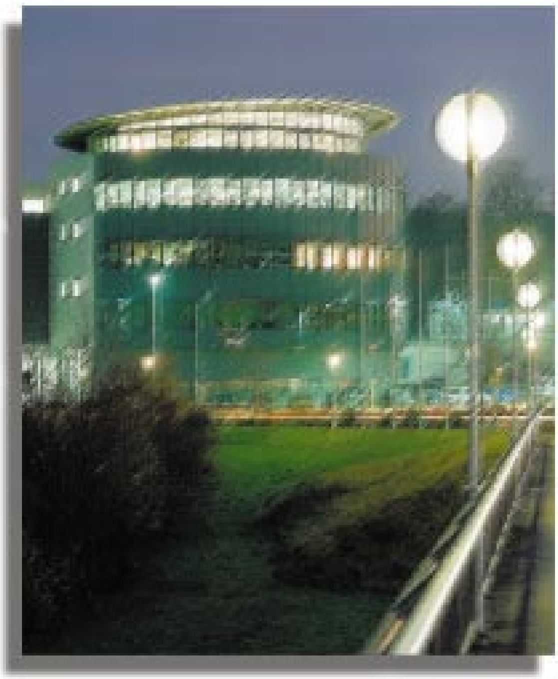

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