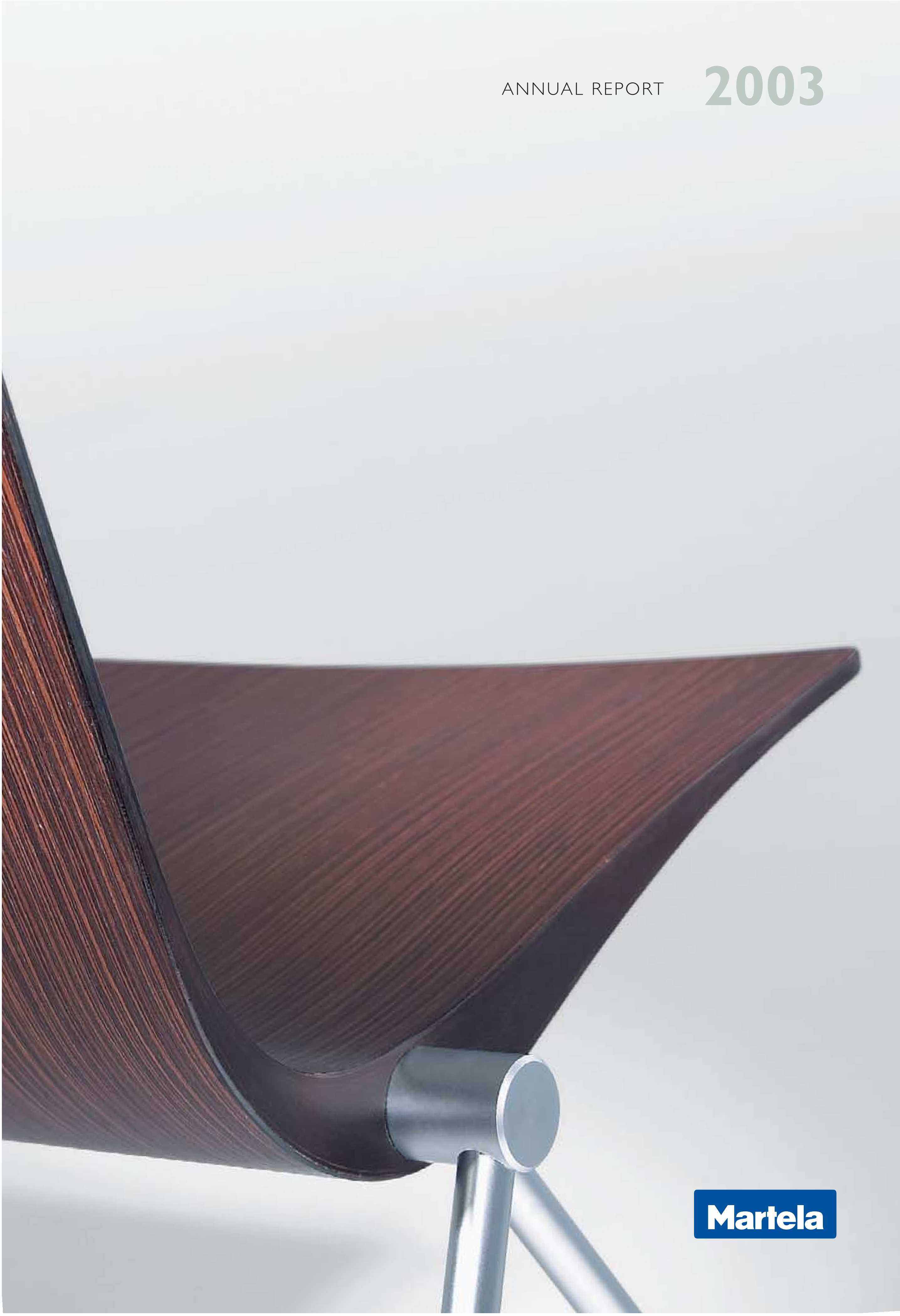
ANNUAL REPORT 2003



Martela

Contents

The Year in Brief

		2003	2002
Turnover	€ million	**102.1**	121.2
Growth in turnover	%	**–15.7**	–19.7
Operating profit	€ million	**–10,7**	–11.7
– as a percentage of turnover	%	**–10.5**	–9.7
Profit before extraordinary items	€ million	**–11,3**	–12.0
– as a percentage of turnover	%	**–11.0**	–9.9
Return on investment		**–20.9**	–19.0
Balance sheet, total	€ million	**59.7**	72.0
Equity ratio	%	**36.8**	49.3
Earning/share	€	**–5.3**	–5.8
Equity/share	€	**10.6**	17.3
Dividend/share	€	**0.25*)**	0.25
Capital expenditure	€ million	**1.0**	3.1
Average personnel		**767**	930
– change	%	**–17.5**	–10.6

*) Proposal of the Board of Directors

***Aura table**, design Pekka Toivola and Iiro Viljanen*
***Roy chair**, design Eero Aarnio*

Information for shareholders

Annual General Meeting

The Annual General Meeting of Martela Oyj will be held on Tuesday, 16 March, 2004, starting at 4.30 p.m. at Takkatie 1, 00370 Helsinki. The names of shareholders wishing to attend the meeting should be entered in the shareholder register at the Finnish Central Securities Depository Ltd no later than Friday, 5 March, 2004, and be made known to the Company's head office, Terhi Talvio, tel. +358 (0)10 345 5301, fax +358 (0)10 345 5345, or sent to Martela Oyj, PL 44, FI-00371 Helsinki, no later than Thursday, 11 March, 2004. Shareholders whose shares have not been transferred to the Book Entry Securities System are also entitled to attend the Annual General Meeting, provided such shareholders have been registered in the Company's Share Register before 10 February, 1995.

Payment of dividends

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.25 per share be distributed for the year ended 31 December, 2003. Only shareholders registered in the shareholder register maintained at the Finnish Central Securities Depository Ltd on the record date for dividend distribution, Friday, 19 March, 2004, will be entitled to the dividend declared by the Company. Dividend payments will be made on Friday, 26 March, 2004.

Annual and Interim Reports

Martela's Annual and Interim Reports are available in English and Finnish. The Annual Report will be mailed to all shareholders and it can also be ordered through the Group's Internet pages (www.martela.fi and www.martela.com). Martela will publish three Interim Reports in 2004:

First quarter 27 April, 2004
Second quarter 10 August, 2004
Third quarter 26 October, 2004

Interim Reports are published in the Group's Internet pages. Annual and Interim Reports can be ordered from:
Martela Oyj / Terhi Talvio,
Takkatie 1, PL 44, FI-00371 Helsinki.
Telephone +358 (0)10 345 5301,
fax +358 (0)10 345 5345, or email
terhi.talvio@martela.fi

Exchange announcements will be published on the Martela Group's Internet pages.

Scheletro, design Kari Asikainen

Martela in brief

Martela is Finland's largest designer, manufacturer and supplier of working environment solutions for offices. Its business idea is to create interior solutions that are excellent in terms of quality and ergonomics, are ideally suited to customers' needs and can be delivered rapidly. Martela has been furnishing offices and public premises for over 58 years.

Martela's individual customer service, its extensive range of high-quality products, fast deliveries and efficient sales network have strengthened its position as the leading office furnisher in Finland. Martela is the third largest office furniture supplier in Scandinavia and one of the major suppliers in Europe.

Martela Oyj, domiciled in Helsinki, is the parent company of the Group and has subsidiaries in Finland, Sweden, Norway and Poland.

The Group's production plants are located at Nummela, Kitee and Raisio in Finland, Bodafors in Sweden and Warsaw in Poland. The Kitee plant makes desktops and components for cabinets and pedestals. The Nummela, Bodafors and Warsaw plants are logistics centres as well as furniture factories. The Raisio plant makes furniture by means of form-pressing technology.

At the end of 2003, Martela employed 715 persons, 531 of them in Finland. The Group's turnover for 2003 was EUR 102.1 million.

***Kilta**, design Olli Mannermaa*

Managing Director’s Review

A year of adjustment and development

The exceptionally difficult period in our business sector continued in 2003. The uncertainty and nervousness prevailing in global markets has long affected our business which is very sensitive to the economic climate and very cyclical in nature. The whole European market for office furniture has contracted from the level of 2000 by over 40 per cent.

There are signs that the decline in demand is coming to a halt, although no significant growth in office furniture markets can yet be forecast this year. We expect real growth to take place only when key economic indicators start to rise more consistently. An exception, however, will be Martela’s subsidiary in Poland which is expected to grow substantially this year already.

> “We succeeded in 2003 to strengthen our competitiveness in core business areas. This was achieved by reducing our cost structure, developing and further expanding our competitive range and by active sales and customer service.”

We have adapted to the new market realities

In 2003 our invoicing fell for the third year running and the result was a loss. There has been plenty of over-capacity in the sector since demand began to decline in 2001. Companies have generally been making losses and all the major office furniture manufacturers have had to make adjustments of various kinds. It is expected that sector restructuring will accelerate in the coming years. Only the customers have benefited from this situation, since hard competition has pushed margins down.

Different adaptations have been needed for the new market realities. Martela's personnel, which totalled 1,064 at the end of the upswing in 2001, is now 715. The parent company divested the majority shareholdings in its U.K. and German subsidiaries after finding new partners to continue selling Martela's furniture. We also made rearrangements relating to our premises in Sweden, Norway and the U.K. which will reduce our costs and release capital. Martela's export organisation was renewed and the sales organisations of the P.O.Korhonen Oy subsidiary and exports and Finnish sales were transferred to the parent company. They were revamped for better customer service.

Martela's Kitee furniture plant was incorporated and it began 2004 as an independent company in the Martela Group under the name Kidex Oy. It will operate as a contract manufacturer for furniture manufacturers outside the Martela Group, too. The first new co-operation agreements have already been signed and the aim is for Kidex to grow as a major supplier of Nordic wood-based furniture components.

Plenty of new products and services

In 2003 we launched many notable innovations – about ten new product ranges and scores of new furniture items. The new line of Axia office chairs has been very well-received. The distinguished international design prize awarded to the Clash chair also speaks of successful product development. Our enlarged service concept was enthusiastically received and offers much that our customers have desired, such as furniture maintenance, a Martela rental service and the recycling of used office furniture.

We also streamlined and refined the Martela brand during the year, to communicate top quality customer service and ergonomic products that are known not only for their innovation, but also for their top design. The brand also denotes rapid, reliable deliveries and an extensive, excellent range.

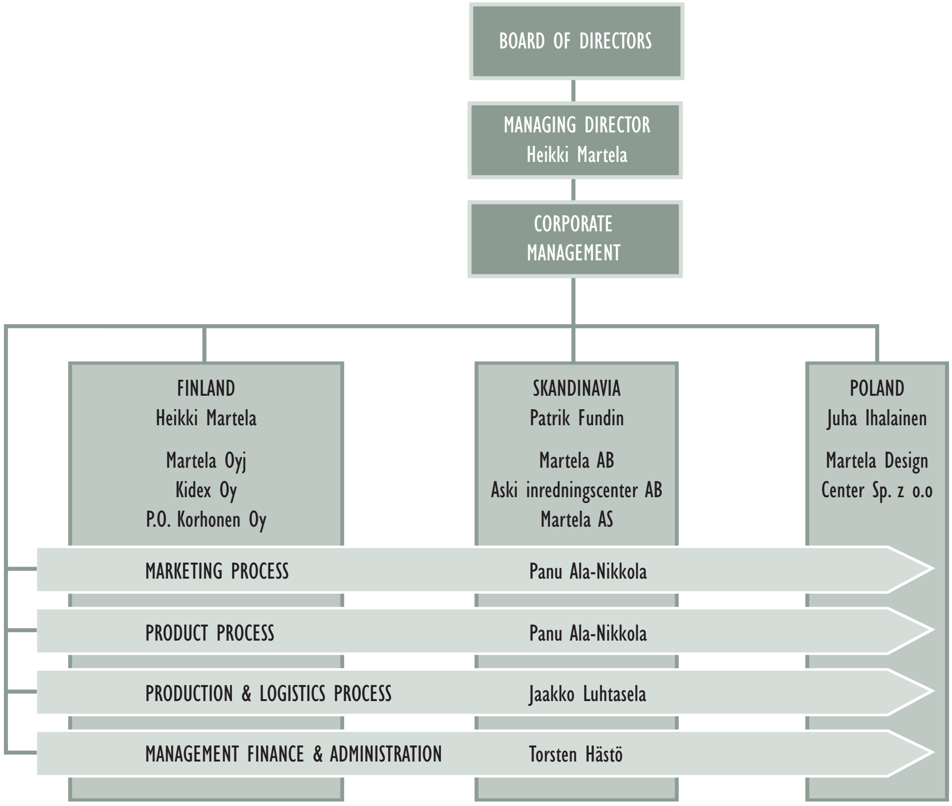
We succeeded in 2003 to strengthen our competitiveness in core business areas. This was achieved by reducing our cost structure, developing and further expanding our competitive range and by active sales and customer service. We will continue these efforts in 2004 to secure our short-term profitability and create a good basis for growth when the market turns up.

I wish to thank our customers, staff, partners and shareholders for the past year.

Takkatie, February, 2004

Heikki Martela
Managing Director

Business units



The Martela Group is divided into three business units according to their geographical location. The business units are: Finland, Scandinavia and Poland.

Business unit Finland

The Finnish business unit consists of Martela Oyj, the Group's parent company, Kidex Oy, the Kitee furniture plant incorporated on 1 January 2004, and P.O. Korhonen Oy, the furniture company.

The Finnish unit is in a key position within the Group, as the Finnish market accounts for 66.9% of the Group's turnover. Products made in Finland are mainly exported to countries in Scandinavia, Central Europe and Eastern Europe. Exports accounted for 13.6% of the unit's turnover in 2003.

Unit's production plants are at Nummela, Raisio and Kitee. The logistics centre, which coordinates production and deliveries, is located at Nummela.

Performance

The period of economic uncertainty that began in Finland in late 2001 was reflected in the business unit's sales throughout 2003.

Despite the challenges the company was able to retain its strong position in the Finnish market, even though domestic demand in 2003 fell by 12.3% from the previous year. The company's market share in Finland remained at 45%. Martela has a well-established clientele who appreciate comprehensive, high-quality office furnishing services. Market research shows that in Finland the Martela brand is well-known and strong. P.O.Korhonen is also well-known, especially among those who have dealings with the furniture sector.

• MARTELA OYJ

Martela Oyj is the Group's parent company. Its head office in Helsinki houses the company's marketing, some of the sales force, the top management and administration. 103 people are employed in these functions. Martela also has service centres in 23 locations in Finland.

Martela's logistics centre is located at Nummela. The centre includes surface treatment, chair and furniture plants, a control centre and a purchasing department. The plants manufacture cabinets, tables and desks, screens and chairs.

The manufacture of office furniture is highly automated and is based on the extensive subcontracting of components and their assembly at Martela's own plants. As production is driven by customer orders, the need for storage of finished products is minimised.

Nummela also houses the Group's research centre and product development department. The aim of product development is to create innovative office furnishing solutions for even the most challenging customer applications. The research centre examines and tests properties such as product durability and quality. The plants at Nummela and logistics process employ 223 people.

BU Finland	2003	2002	change
Invoicing (EUR million)	79.9	92.3	–13.5%
Average personnel	564	669	–15.7%

Martela Oyj	2003	2002	change
Invoicing (EUR million)	74.9	87.1	–14.0%
Average personnel	486	590	–17.6%

P.O. Korhonen Oy	2003	2002	change
Invoicing (EUR million)	9.7	9.0	7.8%
Average personnel	78	79	–1.3%

Martela's Kitee production plant was incorporated in 2003 and started operations on 1 January 2004 as a contract manufacturer for the Group, under the name Kidex Oy.

Export operations

The process of integrating the Group's export operations was begun in the autumn and brought to a conclusion on 31 December 2003. In this process the export units of both the parent company Martela Oyj and the subsidiary P.O. Korhonen Oy were combined into the same organisation. Export operations were integrated in order to improve internal efficiency and customer service. In addition combined resources gave more comprehensive distribution network for Group's collections.

In the summer, Martela divested its subsidiaries in Germany and the UK. Operations continue in both countries under the local management of the new owners using the Martela name and will continue as a part of our export operations.

Exports from Finland decreased compared to last year's level. Invoicing declined particularly in Germany and the UK.

Following these changes Martela Oyj's exports will be focused on Scandinavia, on Eastern Europe (Russia and the Baltic countries), Western Europe (Germany, the Netherlands and the UK) and Japan, where P.O. Korhonen has gained a strong position. In Sweden, Norway and Poland, other of the Group's companies act as the distribution channel for exports. In other market areas, sales are handled by established, long-term partners. Direct project export deliveries are also carried out from Finland.

Highlights of the year

In 2003, Martela continued to develop its strategic strengths. The core of the service concept, efficient and flexible customer service and well co-ordinated logistics, was strengthened. Martela's service concept was expanded and includes new service products such as the receipt and recycling of old furniture and removal co-ordination in furnishing projects, premises maintenance services and the Martela rental service. Information systems were developed to better meet the needs of customer service.

The product launches of 2003 included new furniture for meeting environments, first previewed at the Stockholm Furniture Fair in February. In the autumn, numerous occasions were arranged in Finland to launch the new Axia task chair range. This was combined with an extensive marketing campaign which was very well received.

Martela also continued as the other main partner of the Finnish National Theatre and engaged in many joint events and communications efforts with the theatre.

In 2003 Martela participated in the EDUCA school furniture event and in the Secretary & Personal Assistant trade fairs.

Outlook for the near future

No major changes are expected in the market in the near future. The goal is to further develop the service concept to better address changing customer needs. Product development faces challenges related to innovations in ergonomics and new products responding to customer needs. Electronic services will become increasingly important.

• KIDEX OY

The Kitee furniture plant was incorporated as a subsidiary of the Martela Group on 1 January 2004. The company's name is Kidex Oy, and Martela Oyj holds 100% of the company's shares.

Kidex Oy also operates as a contract manufacturer of board furniture components for customer companies outside the Martela Group.

The Kitee plant was established in 1975 and currently manufactures components for cabinets, pedestals and free-form table tops. It also assembles pedestals and manufactures cabinets. The materials used are coated particle boards and MDF boards. In 2003, Kidex won its first orders from customers outside the Martela Group.

Kidex Oy's production equipment has been renewed and expanded in recent years. All of its main machines have also been renewed. Kidex currently employs 95 persons.

__Cube__, design Mikko Halonen

Kidex Oy will actively develop and carry out contract manufacturing in its sector in Scandinavia, offering flexible, cost-efficient and high-quality services to its customers.

• P.O. KORHONEN OY

P.O. Korhonen, a part of the Finnish business unit located in Raisio is a subsidiary of Martela Oyj. It manufactures wooden furniture based on moulding technology.

Performance

In 2003, P.O. Korhonen continued to grow, although more slowly than expected. Turnover totalled EUR 9.7 million, an increase of approximately 7.9 per cent over the previous year.

Exports accounted for 35.3 per cent of invoicing in 2003. Exports decreased by 10.7% compared with the previous year. However, domestic invoicing increased by 21.8%. The company's profitability improved significantly over the previous years. At the end of 2003, the company employed 74 people (74).

Highlights of the year

During the year under review, P.O.Korhonen Oy continued efforts to develop its staff and operations, as a result of which the company was awarded the IIP standard at the end of 2003. The international Investors in People (IIP) standard ensures that the business unit invests in developing the skills of individuals and teams. The purpose of the standard is to develop skills in order to achieve business goals and to measure the effectiveness of personnel investments. The IIP standard is the only standard that is directed at people.

The company continued to invest strongly in product development and introduced several new products during the year. The Clash chair designed by Samuli Naamanka won the FX Design Award in England.

P.O. Korhonen took part in many industry fairs in Finland and abroad and also organised several exhibition events in Finland and in many export countries.

The company's investments of EUR 74,000 were focused mainly on new products.

Outlook for the near future

The sales organisations of P.O. Korhonen Oy and Martela Oyj were combined at the beginning of 2004. P.O. Korhonen's sales people were transferred to Martela and thereafter P.O. Korhonen's sales were handled mainly through Martela's sales organisation.

P.O. Korhonen aims to increase its business with new products, by using current marketing channels. Growth is being sought especially in exports and the market for auditorium furniture.

The investments made in product development, operational efficiency, productivity improvement and auditorium furniture were other focal points of the year.

***Arco**, design Mikko Halonen*

Business unit Scandinavia

The Group's business unit Scandinavia comprises Martela AB, Aski inredningscenter AB and Martela AS, and is focused on the Swedish, Norwegian and Danish markets. The logistics centre of the Scandinavian unit is situated in Bodafors, Sweden.

Scandinavia is Martela's second largest market and the company has established a strong presence here. 22.8 per cent of the Group's invoicing comes from the Scandinavian market. Martela's position is especially strong in Sweden with approximately 10 per cent market share.

Sales in Sweden, Norway and Denmark are organised mainly through dealers.

Financial development

The year 2003 was weaker than the previous year for Martela in Scandinavia. The overall turnover and profit targets for 2003 were not achieved and the company's market position remained more or less the same. Invoicing in 2003 totalled EUR 21.9 million. Market demand decreased significantly due to weak overall economic development and uncertainty. Invoicing decreased all over in Scandinavia.

Scandinavian operations

• SWEDEN

Martela AB is Martela Oyj's Swedish subsidiary and designs, markets and manufactures furniture for offices and public places. Its principal products are desks, pedestals, cabinets, screens, full height partitions and chairs for both working and meeting environments. The production plant is located at Bodafors, Sweden. Sales are handled through a dealer network covering the whole country. Martela AB employs 114 people (134).

The sales company, Aski inredningscenter AB, operates in Southern Sweden and has offices in Malmö and Helsingborg. The company's product range comprises products related to the comprehensive furnishing of office interiors, in addition to products manufactured by the Group's other companies. The company employs 14 people (20).

The weak market situation in Sweden continued during 2003. Invoiced sales totalled EUR 16.5 million in 2003, which represents a decrease of 19.3 per cent. Martela AB's turnover decreased by 13.9 per cent from the previous year, and Aski Inredningscenter AB's by 26.1 per cent.

BU Scandinavia	2003	2002	change
Invoicing (EUR million)	21.9	26.9	–18.9%
Average personnel	150	181	–17.1%

Martela AB	2003	2002	change
Invoicing (EUR million)	18.8	21.8	–13.9%
Average personnel	125	149	–16.1%

Aski Inredninscenter AB	2003	2002	change
Invoicing (EUR million)	4.2	5.7	–26.1%
Average personnel	20	23	–13%

Martela AS	2003	2002	change
Average personnel	5	9	–44.4%

Koppla T, design Jerry and William Zetterman

• NORWAY

Martela AS, a marketing company located in Oslo, operates as a support organisation for the Norwegian sales network. Sales are handled through a dealer network that covers the whole country. The company employs 4 people (6).

Martela has achieved a stable position in the Norwegian market and is counted among the biggest suppliers of office furniture. Its market share is approximately 6 per cent.

The Norwegian market was in decline in 2003. The invoiced sales of the Group totalled EUR 5.5 million, a decrease of 23 per cent from the previous year.

• DENMARK

Sales in Denmark are conducted via local importers and their sales network.

In Denmark, the demand for office furniture has decreased in recent years. Martela Group's Danish exports totalled EUR 1.6 million in 2003. Invoicing decreased by 16.1 per cent compared to the previous year.

Highlights of the year

During the review year, Martela introduced the new product range Surroundings.

Operations at the Bodafors plant have been significantly altered to correspond with Martela's new logistics centre operating model. The key elements of the model are customer service, speed and reliability of deliveries, and capacity flexibility. This includes the possibility to create market-specific product lines with different variations of Group products. Another important aspect is being able to change the products according to customer needs.

Outlook for the near future

Martela does not expect to achieve substantial total growth in Scandinavian markets during 2004. Due to the very weak market situation, the company's operations have produced substantial losses in recent years. All the Group's companies continue with measures to improve their cost structures and make their operations profitable. Special attention is paid to improving the efficiency and developing the customer service of the Bodafors plant. The company will also focus on developing its sales organisation and marketing functions.

***Combo**, design Iiro Viljanen*

Business unit Poland

The Martela Group's Polish business unit comprises its Polish subsidiary. In addition to sales, Martela's operations in Poland include working with local suppliers as well as office furniture assembly.

Martela's strengths in the Polish market are its comprehensive sales network covering the country's main population centres (Warsaw, Wrocław, Katowice, Gdańsk, Poznań and Kraków), its price competitiveness due to local assembly and subcontracting and its ability to adapt products to the needs of the local market.

Performance

Following a period of strong growth in the 1990s, the Polish economy came to almost a halt in the early 2000s. The tide turned in late 2003 and growth is expected to accelerate in the coming years due to Poland's accession to the EU in May 2004.

Highlights of the year

In 2003, Martela continued to develop its business operations in Poland in accordance with its strategy. The sales network was strengthened by the addition of a sales outlet in Kraków, brand recognition was improved and additional products were transferred for local assembly and subcontracting. During the year the skills of the sales force were improved through an extensive development project. External consultants spent three days coaching all sales personnel in sales planning and implementation of sales plans, starting from initial customer contacts.

As a result of the pick-up in economic growth, the demand for office furniture has begun to improve in Poland, which was reflected in an increase in Martela's sales in the second half of the year. Martela employed 53 people in Poland in 2003.

Outlook for the near future

Poland's office furniture market is still rather immature. Market positions will be established in the coming years. With its 5% market share, Martela can already be counted as one of the country's leading office furniture suppliers. The company has all the prerequisites for strengthening its position further.

Personnel and process development will be continued in 2004 on the basis of the personnel survey carried out in 2003.

Local component purchasing will be increased to a level where 70% of the furniture sold in Poland is assembled in Poland.

Distribution channels will be strengthened either by opening the company's own new sales offices or by co-operation with dealers in 1–3 new towns.

During 2004 architectural events will be organised in six cities, to which the sector's most important architectural offices will be invited.

BU Poland	2003	2002	change
Invoicing (EUR million)	3.7	4.4	–15.5%
Average personnel	53	53	0

***Combo**, design Iiro Viljanen*

Martela Brand

The Group's Marketing Process is entrusted with the development of brand equity. It supports the business units in concept design, in the production and maintenance of sales and marketing materials and in marketing communications. It ensures that all communications give a uniform message, that the same ideas and marketing materials are used in different markets and that appropriate sales tools are developed and maintained.

The Martela Group has developed a uniform brand for the office furniture it sells in all markets. Other brands acquired through acquisitions have been absorbed into the Martela brand and no separate product brands are used. The only exception was the subsidiary, P.O. Korhonen Oy, which used its own visual image in communications concerning different product or target groups until the end of 2003 when its marketing and sales were integrated with Martela's organisation and the Martela brand.

The strong Martela brand is a guarantee of high-quality products and services. The brand differentiates Martela from its competitors, increases the effectiveness of marketing communications and supports the company's business goals. As more and more information floods the market, it will become increasingly important to rely on a well-known brand and the images and experiences that are associated with it.

Highlights of the year

The key values and substance of the Martela brand were revised in 2003. The brand idea has been summed up as "Furniture that fits you". This will guide all of the Group's activities and marketing communications from now on. In its communications with stakeholders Martela will highlight certain issues that are felt to be important in office furnishing – excellent customer service, ergonomics, design and innovation, quick and reliable deliveries and an extensive range of top-quality products.

In addition to further defining the brand, the main achievements of 2003 included the launch in trade fairs and numerous customer events of new furniture for meeting environments and a new task chair range, the streamlining of brochure layouts and production, the development of a design database for interior designers and the electronic distribution of product information.

Outlook for the near future

In 2004 Martela will support sales and improve its contacts with customers and architects with a revised product catalogue and material samples and an expanded design database and electronic communication. The product range will be renewed, particularly concerning storage furniture, while numerous additional features and materials will be developed for other furniture and introduced at trade fairs and other events. Marketing communications will become more consistent and effective through the application of the brand idea and better targeting.

***Clash**, design Samuli Naamanka,*
FX-Design Award 2003

Product Process

Since the beginning of 2002, product development, marketing and design have operated in one organisation, known as the Product Process. The goal of the Product Process is to strengthen Martela's position as the Scandinavian leader in developing offices and working environments and in creating ergonomic solutions.

Product development is responsible for processes such as technical modelling, testing in the laboratory and the manufacture of prototypes. Product collections are developed with a close eye on new market requirements and demand and with a focus on innovative solutions. Product design is one of the key aspects of product development. Product collections aim at achieving durable, ergonomic solutions that are simple in their design and contribute to wellbeing in the workplace.

***Aura**, design Pekka Toivola and Iiro Viljanen*

Highlights of the year

A strategic objective of 2003 was to strengthen Martela's collection of furniture for meeting environments or networking spaces (NWS furniture). Accordingly, nine new boldly-designed items or ranges of NWS furniture, all part of a project begun in 2001, were launched at the Stockholm Furniture Fair in early February. The new collection was well-received, and it was created by leading young Finnish designers. The year was spent in enthusiastic marketing and training for the use of these products – a process which will continue in 2004 with the aim of further strengthening Martela's market position in NWS furniture.

Martela's emphasis on innovative design brought success in November 2003 to interior designer Samuli Naamanka when his Clash chair won the internationally prestigious FX Design Award in London.

Another significant advance occurred at the beginning of October with the launch on the Finnish market of the Axia range of task chairs. Sales of this product have boomed, showing that when an excellent task chair range is combined with a well-targeted marketing campaign, quick success is possible.

A major share of the development resources of the Product Process was focused on several large projects to develop and improve work station furniture. They included the competitive desk variants launched at the end of 2003 and the completely new Combo range of storage furniture launched at the beginning of 2004. New models of the Koppla T desk, important in Scandinavian markets, were developed for launch in early 2004. Development of the Aura desk range, first introduced in 2002, was continued and an even higher quality and more practical version will be introduced in 2004.

The combined school furniture collection and the collections of Martela's partners increased the sales of the Martela Group significantly especially in the Finnish markets.

Despite the cost savings implemented, the operations of the Product Process were revised and improved in 2003. No product development projects were put on ice because of the cost restraints. Instead, investments in projects supporting sales and profitability were implemented according to plan.

Outlook for the near future

In the near future, the Product Process will focus on marketing the launched collections and products, and especially on improving the profitability and competitiveness of those product groups that are the most crucial for short-term and long-term business goals.

Martela will strive to reach the set targets more quickly and cost-efficiently by the speedy utilisation of accurate market information and by the successful setting of priorities in all its activities.

Quality and The Environment

Martela's aim is the long-term development of the Group's quality management and environmental management culture. The objective is to offer customers excellent customer service and durable, long lasting products that promote safety and high quality in working environments, and whose production harms the environment as little as possible.

Martela's quality management system utilises the ISO 9001:2000 standard, and the Group's environmental management system meets the ISO 14001 standard. The aim of the company's environmental management programs is to reduce the environmental load of Martela's products throughout their life cycles, and to increase the reuse and recycling of materials.

Highlights of the year

During the year under review Det Norske Veritas certified Martela Ab's operations on the basis of the ISO 9001:2000 standard. The objective of certification is to bring uniformity to the Group's operating systems through quality management. It has also been decided to start building an environmental management system for Martela Ab, with the aim of being certified under ISO 14001 during 2004.

Systematic work has continued in the chair and surface finishing factories operating at the Nummela logistics centre to reduce solvent emissions and make the factories more environmentally friendly. For the chair factory, this means using solvent-free glues and for the surface finishing factory using solvent-free finishing agents in product manufacturing.

The system for recycling old furniture developed by Martela and its partners has demonstrated its usefulness and has expanded into a nationwide service.

The everyday activities of Martela employees are still benefiting from lessons learnt in the "driving habits" courses started in 2002. The results have been positive and fuel consumption per kilometres driven has further decreased.

Martela has continued to be actively involved in different environmental protection projects that aim to improve environmental co-operation between different companies and institutions.

Outlook for the near future

The greatest challenges for environmental management in 2004 will be to reduce the consumption of energy in production and to minimise environmental impacts by using new products and technology

Concerning the Group's management systems, the main aim will be to certify Martela Ab's environmental management system during 2004 and to upgrade and adapt Kidex Oy's systems.

Personnel

For the personnel, 2003 was a year of rapid changes. The organisation was renewed, the number of employees was adjusted to correspond better with weakened demand, and long-term development projects designed to change working methods tied up resources throughout the organisation.

Highlights of the year in Finland

At the end of December 2003, Martela Oyj had 457 employees, 199 of whom were classified as white-collar employees and 258 as blue-collar employees. During the year, 18 employees were made redundant for financial and production reasons. Some employees were also laid off for fixed or indefinite periods.

As in 2002, every attempt was made in planning and implementing personnel reductions to use a compassionate approach. Briefings on unemployment benefits and job seeking, as well as outplacement training were arranged for the employees who were leaving in order to help them find new jobs. In addition, they were able to use the services of occupational health and HR experts.

The two major personnel development projects of the year concerned the development of management skills and the pay system. Managers play a key role in maintaining job satisfaction and wellbeing among the personnel. This role is critical in times of uncertainty. Therefore in 2003 Martela began a management skills development project aimed at systematically strengthening the skills of managers and giving them the necessary support. A competence profile was defined for Martela's managers, and this was used as a basis for performing a "360-degree survey" of management practices. Based on the feedback, each manager made a personal development plan that will be implemented through the management skills development project in 2004.

In order to promote the principles of fairness, equality and motivation embodied in the pay policy, Martela worked with employees to develop a new pay system in which the pay structure includes job-specific, personal and bonus components. Development of the new system took several years and involved a large number of Martela employees. The new pay system concerns all personnel groups and was introduced on 1 January 2004.

The development of multi-skilled employees was a particular focus area in personnel training. The objective of the main training programs was to give employees new and fresh ideas and skills to implement in their work. A significant number of Martela employees from all Group sectors and offices took part in training in 2003. There was an average of four training days per employee during the year.

P.O. Korhonen Oy employed 74 people at the end of the year. The company continued to develop its personnel and operations, and as a result gained the IIP (Investors in People) certificate toward the end of 2003.

The results of the 2003 job satisfaction survey were gone over in each department. The remarkable thing was that, despite the difficult times, job satisfaction did not decline. Martela promoted the wellbeing of its employees by supporting sport, cultural and other leisure time activities.

Key events of the year in Scandinavia and Europe

Due to the exceptionally weak demand, personnel adjustments were made during the year under review in Martela AB, Aski Inredningscenter AB and Martela AS. The Scandinavian unit's personnel were reduced during the year by 28 persons to 132 at the end of the year. In November, Martela AB began new negotiations concerning personnel reductions.

The Group's personnel were reduced by 24 persons due to the sale of majority holdings in the Group's German and UK subsidiaries.

During 2003, the Group's Polish operations carried out a large-scale sales personnel development project.

Outlook for the near future

The ability to develop the right competence for the company will be a key success factor in the future. Competence management will be an area of focus in 2004. The management skills development process got off to a good start in 2003. The areas in which management skills are to be improved have been identified, both on the individual and corporate level, and the management skills development process will be in full implementation in 2004.

The introduction of the new pay system on 1 January 2004 and its further development are a key priority in 2004. The development of multi-skills and co-operation skills will remain important areas of focus and new training programs will be linked to these themes.

As in previous years, the Group will measure job satisfaction in the spring of 2004 and plan the necessary development measures for each department based on the results. The management survey will also be repeated in autumn, 2004, at which time it will be possible to see what influence the development measures have had.

***Form**, design Jukka Setälä*

Board of Directors' Report

Market conditions remained weak in 2003. Turnover fell by 15.7% to EUR 102.1 million (121.2). Profit before extraordinary items and taxes was a negative EUR 11.3 million (-12.0). The result for 2003 was burdened by non-recurring expenses resulting from structural changes and cost-cutting measures and amounting to EUR 1.1 million. The equity ratio fell to 36.8% (49.3) and the financing situation remained good. The average number of employees decreased by 17.5%, with the personnel at the end of the year numbering 715 (856).

Market conditions are not expected to change significantly in 2004. As a result of the cost-cutting measures completed in 2003 and still to be implemented in 2004, the Group's cost structure will be streamlined and the average number of personnel will be about 10% smaller in 2004 than it was in 2003. The goal is to reach a positive result in 2004, first half year may however still be at loss.

Market situation

The overall demand for office furniture has been in decline since 2001 as a result of weak economic growth and a slowdown in corporate investment activity. In 2003, market conditions remained weak in all the principal market areas. The office furniture market is post-cyclical and sensitive to economic fluctuations, and changes in general economic growth have often led to substantial fluctuations in overall demand. Over-capacity and tight price competition have decreased margins and many companies in the sector have recently had profitability problems and been forced to adjust their operations to the difficult market situation.

Group structure and organisation

In May 2003 the Group sold the majority holding in both its English and German sales companies. The Group now holds less than 20% of both companies. Sales to the English and German markets continue to be channelled through these companies, however. The divestment resulted in significant non-recurring expenses, which are presented under extraordinary expenses.

Martela Oyj's furniture plant in Kitee, Finland, was incorporated at the beginning of 2004. The company operates as a contract manufacturer of wood-based components for the Martela Group's companies and also for outside customers.

The sales organisations of P.O. Korhonen Oy and Martela Oyj were merged at the beginning of 2004, with the sales personnel of P.O. Korhonen being transferred to Martela Oyj's employment. As a result, P.O. Korhonen Oy will now sell its products primarily through Martela Oyj's sales organisation.

Turnover

Turnover started to decline in 2001 and fell by a further 15.7% in 2003. The Group's turnover totalled EUR 102.1 million (121.2). Turnover declined in all the principal market areas.

Profit and profitability

The Group's profit before extraordinary items and taxes was a negative EUR 11.3 million (-12.0). The continuation of loss-making operations was influenced by the continued decline in turnover and by the competitive environment, which once again kept margins at low levels.

The Group undertook measures to improve its cost structure throughout the year, and the average number of employees was reduced by 17.5% compared with 2002. The personnel reductions, premises rearrangements and other cost-cutting measures carried out in 2003 led to non-recurring expenses of EUR 1.1 million, which are included in the operating profit.

The operating profit for the final quarter includes EUR 0.6 million in non-recurring items. The divestment of the English and German subsidiaries in May resulted in non-recurring expenses of EUR 1.4 million, which are presented under extraordinary items.

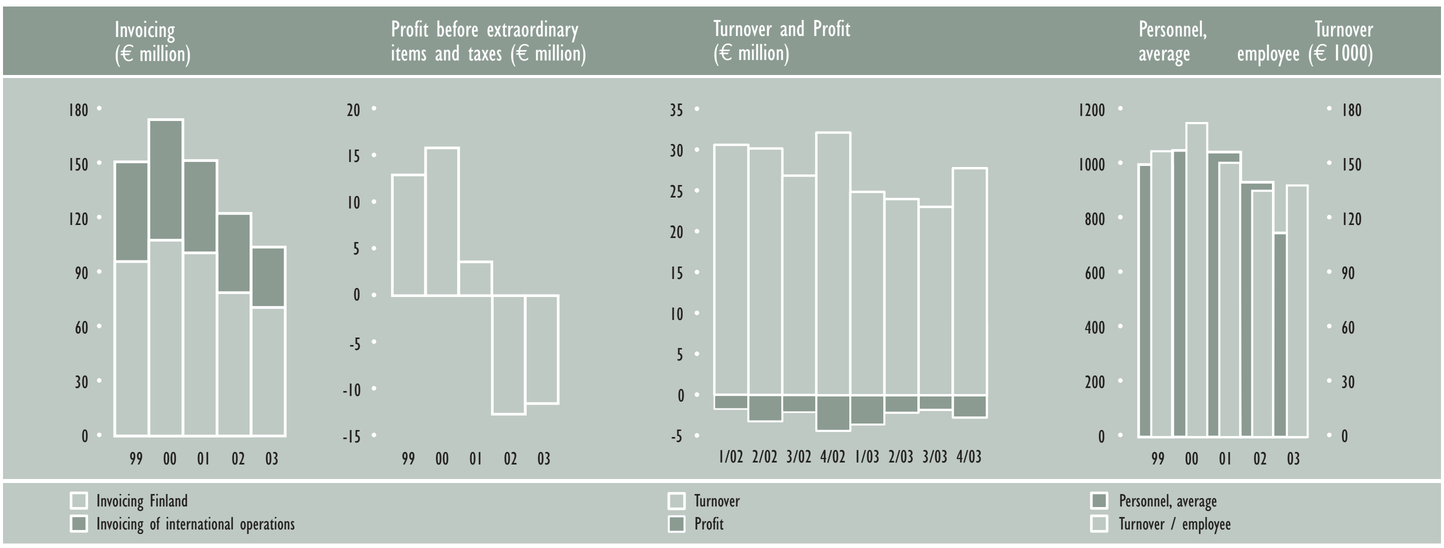
Capital expenditure

The Group's gross capital expenditure for the year was EUR 1.0 million (3.1), and mostly concerned replacement investments at production facilities, and investments in R&D and information technology. The property of the English subsidiary was sold in January for EUR 1.3 million. Investments have been curbed in recent years due to the operating losses made. As a result, the level of depreciation has also declined significantly. The curbing of investments is not expected, however, to require a substantial increase in capital expenditure in the coming years.

Personnel

The personnel declined by 141 in 2003, and totalled 715 (856) at the end of the year. The Group employed an average of 767 (930) persons in 2003, a reduction of 17.5%.

The Group's parent company, Martela Oyj, has adjusted its capacity through redundancies and layoffs. Further personnel adjustments will take place in early 2004.



The personnel has also been reduced in Martela AB due to weak demand and operating losses. New negotiations were initiated in December aimed at reducing the personnel by a further 24 persons.

Aski Inredningscenter AB reduced its personnel by about a third in autumn 2003.

Turnover per person has started to rise. Further personnel reductions will take place in 2004 as a result of decisions made. At the end of 2004, the personnel will number substantially less than 700 and on average about 10% less than in 2003.

Product development

Product development employed 24 persons (25) in 2003, and product development expenditure was 2.5% (2.6) of turnover. A number of new products have been introduced to the markets. Nine new product ranges, intended primarily for lobbies and similar meeting areas, were presented at the Stockholm furniture fair in early 2003. A new line of Axia office chairs was launched in October, supported by an extensive marketing campaign in Finland. In November, the new Clash chair was chosen as the best in its class in an international FX-design competition in London. The Aura office desk line, first introduced in 2002, was also improved during the year.

Martela's range of storage furniture was expanded during the year, and a new line of storage furniture, the Combo line, was introduced at the Stockholm fair in February 2004.

The scope of the furniture maintenance service was broadened to cover all of Finland. Within the framework of its service concept, Martela is able to offer its customers not only design and installation services, but also continuous maintenance and management of total furniture concepts, removal services, old furniture recycling, and financing.

Quality and the environment

In its quality management Martela adheres to the ISO 9001:2000 quality standard and the ISO 14001 environmental standard. Martela AB's quality management system was certified by Det Norske Veritas in 2003, and the aim is to certify the company's environmental management system in 2004. Both Martela Oyj and P.O. Korhonen Oy already have valid quality management and environmental management certification.

Financing

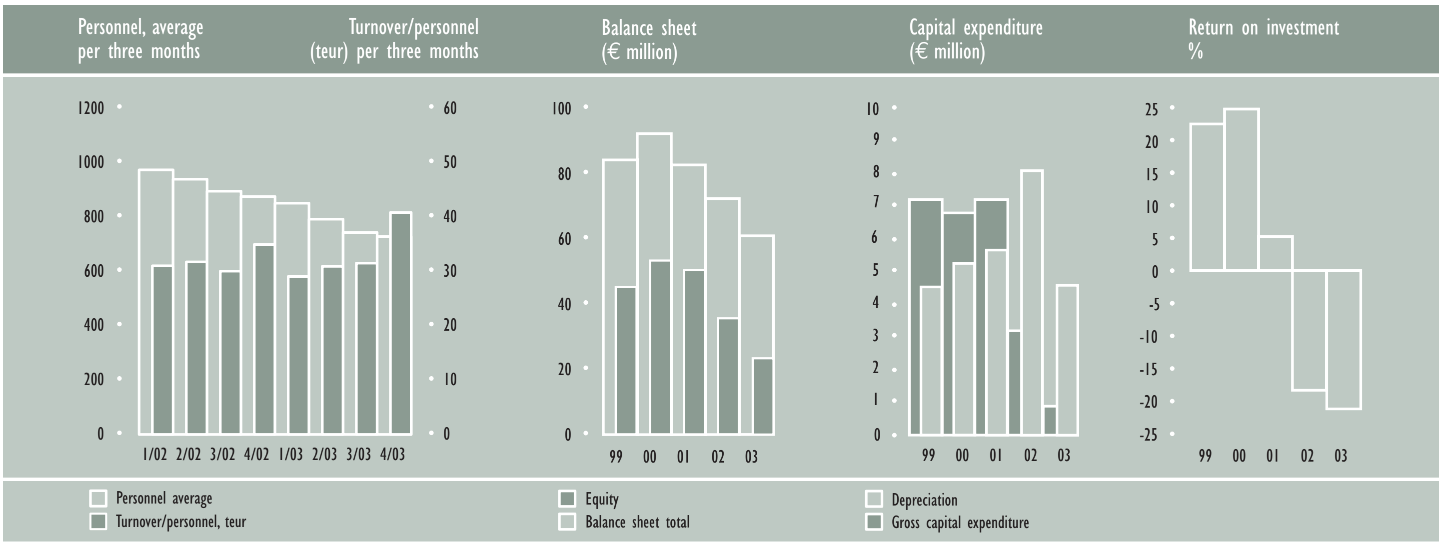
The equity ratio fell to 36.8% (49.3), and the gearing ratio to 69.4% (28.3). Net interest bearing liabilities grew by EUR 1.6 million and totalled EUR 22.5 million at the end of the year. Liquid assets at year's end totalled EUR 7.4 million (10.9).

Invoicing in principal market areas (EUR million)

	2003	Share %	2002	Share %	Change %
Finland	69.3	67.0%	79.0	64.5%	–12.3%
Scandinavia	23.6	22.8%	29.5	24.1%	–20.0%
Europe	9.0	8.7%	11.9	9.7%	–24.4%
Other areas	1.5	1.5%	2.0	1.6%	–25.0%
Group total	103.4	100.0%	122.4	100.0%	–15.5%

Personnel

	31.12.2003	31.12.2002	Change
Martela Oyj, Finland	457	547	–90
P.O. Korhonen Oy, Finland	74	74	– 0
Martela AB, Sweden	114	134	–20
Aski Inredningscenter AB, Sweden	14	20	– 6
Martela AS, Norway	4	6	– 2
Martela Plc, UK	0	16	–16
Martela GmbH, Germany	0	8	– 8
Martela Design Center, Poland	52	51	– 1
Group total	715	856	–141



Annual General Meeting

The Annual General Meeting was held on 18 March 2003. The Meeting appointed Heikki Ala-Ilkka, Tapio Hakakari, Matti T. Martela, Heikki Martela, Pekka Martela, Jori Keckman and Jaakko Palsanen to the Board of Directors. Hannu Kosonen was elected to the Board as the personnel representative, and Matti Lindström as his deputy. The Board chose Heikki Ala-Ilkka as Chairman and Pekka Martela as Deputy Chairman.

The Annual General Meeting decided to extend for a further year the Board's authorisation to raise share capital, issue convertible bonds and decide on the acquisition and/or disposal of the company's own shares in deviation from the pre-emptive rights of shareholders.

Own shares

Martela did not acquire any of its own shares in 2003. On 31 December 2003, Martela held 33,850 of its own shares, which were purchased at an average price of EUR 21.29. Martela's holding of its own shares amounts to 1.6% of all shares and 0.4% of all votes.

Proposals to the Annual General Meeting

The Board of Directors will propose to the Annual General Meeting, to be held on 16 March 2004, that the authorisations granted to the Board during the 2003 Annual General Meeting to raise the share capital, issue convertible bonds and decide on the acquisition and/or disposal of the company's shares, should be extended for another year. The Board will also propose that a dividend of EUR 0.25 per share be distributed, totalling EUR 510,987.50.

Outlook for 2004 and revitalisation measures

The Group has made substantial losses for the past two years. The key objectives for 2004 are to achieve a turnaround and to make a profit. Though it seems that the general economic decline has come to an end, the office furniture markets are still not expected to substantially change for the better in 2004.

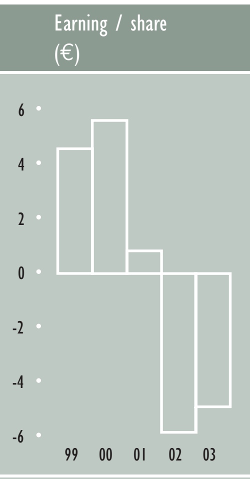
Profitability improvement will be based on the following measures:

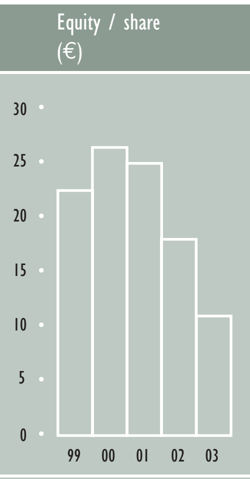
- Focus on the current principal markets in Scandinavia and Europe
- Launch several new products and services, supported by a more active sales effort
- The Kitee plant, which was incorporated at the turn of the year and operates as a contract manufacturer starts its deliveries to external customers
- Gain improved competitiveness in Scandinavia by new products and by developing logistics and the order/delivery chain
- Achieve more efficient export operations by pooling the resources of Martela Oyj and P.O. Korhonen Oy.
- Continue actions to improve cost-efficiency
- The average number of personnel decereases further by 10% in 2004
- Increase sales margins by more competitive new products and new component subcontractors
- Move to cheaper office premises in Stockholm, Oslo and Malmö

The measures decided on to streamline the cost level will improve the result in 2004. Invoicing for the first quarter of the year has usually been poorer than that for the last quarter of the previous year. It is expected that this will also occur in 2004. The goal is to achieve a positive result in 2004 but the first half of the year may still be at loss.

Martela Oyj

Board of Directors





***Axia**, design BMA Ergonomics*

Income Statement

(EUR 1000)	Ref.	Group 1.1.–31.12.2003	Group 1.1.–31.12.2002	Parent company 1.1.–31.12.2003	Parent company 1.1.–31.12.2002
TURNOVER	1	102 130	121 165	73 577	85 935
Change in manufacturing inventories		–281	–326	–2	8
Production for own use		19	83	17	79
Other income from operations	2	574	334	260	127
Materials and services	3	–80 177	–92 542	–57 945	–66 800
Personnel expenses	4	–28 257	–32 476	–17 947	–20 605
Depreciation and reduction in value	5	–4 699	–7 937	–3 548	–4 332
OPERATING PROFIT (LOSS)		–10 691	–11 699	–5 588	–5 588
Financial income and expenses	6	–583	–315	–2 309	87
PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS		–11 274	–12 014	–7 897	–5 501
Extraordinary items	7	–1 372	0	–3 716	0
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES		–12 646	–12 014	–11 613	–5 501
Appropriations	8	0	0	1 430	346
Income taxes	9	372	–137	–55	–250
PROFIT (LOSS) FOR THE FINANCIAL YEAR		–12 274	–12 150	–10 237	–5 405

Statement of Source and Application of Funds

(EUR 1000)	Ref.	Group 1.1. – 31.12.2003	Group 1.1. – 31.12.2002	Parent company 1.1. – 31.12.2003	Parent company 1.1. – 31.12.2002
FUNDS GENERATED FROM OPERATIONS					
Cashflow from sales		102 427	125 502	73 904	89 022
Cashflow from other income from operations		421	316	110	174
Payments on operational costs		–107 887	–123 511	–72 719	–86 233
Cashflow from operations before financial items and taxes		–5 039	2 308	1 295	2 963
Interests paid and other financial payments		–953	–367	–173	65
Taxes paid		570	249	–11	351
Cashflow from operations before extraordinary items		–5 422	2 191	1 111	3 380
Cashflow from extraordinary items (net)		–140	0	–140	0
Cashflow from operations (A)		–5 561	2 191	971	3 380
CAPITAL EXPENDITURE					
Capital expenditure on intangible and tangible assets		–819	–2 601	–644	–1 580
Cashflow from assignments of intagible and tangible assets		2 083	34	198	29
Loans granted		–217	0	–935	–2 239
Capital expenditure on other short term investments		0	0	–4 147	0
Repayments of receivables		0	0	1 045	0
Cashflow from capital expenditure (B)		1 047	–2 567	–4 483	–3 792
FINANCING					
Own shares		0	–358	0	–358
New short-term loans		1 267	0	0	45
Repayments on short-term loans		0	0	0	0
New long-term loans		5 952	7 302	5 400	6 800
Repayments on long-term loans		–5 671	–2 786	–5 130	–2 120
Dividends		–511	–2 472	–511	–2 472
Cashflow from financing (C)		1 037	1 686	–241	1 895
CHANGE IN LIQUID FUNDS (A+B+C) (+ INCREASE, – DECREASE)		–3 477	1 310	–3 753	1 483
Liquid funds at the beginning of financial year 1)		10 897	9 587	10 580	9 096
Liquid funds at the end of financial year 1)		7 421	10 897	6 829	10 580

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

Balance Sheet

(EUR 1000)	Ref.	Group 31.12.2003	31.12.2002	Parent company 31.12.2003	31.12.2002
ASSETS					
FIXED ASSETS AND OTHER NON-CURRENT INVESTMENT	10				
Intangible assets					
Intangible rights		407	473	355	390
Other long-term expenditure		908	1 712	731	1 238
Advance payments		18	13	18	13
		1 333	2 198	1 104	1 641
Tangible assets					
Land and water areas		2 446	3 215	219	219
Buildings and constructions		8 773	10 977	5 260	5 953
Machinery and equipment		8 735	11 693	7 387	9 718
Other tangible assets		24	24	20	20
Advance payments and construction in progress		538	260	463	177
		20 516	26 169	13 349	16 087
Investments					
Shares in subsidiaries	17	8	0	5 162	7 010
Shares in associated companies	17	22	22	22	22
Own shares	17	721	721	721	721
Other shares and participations	17	2 153	2 177	2 096	2 116
Loan receivables	10	0	0	7 418	4 592
		2 904	2 920	15 419	14 461
CURRENT ASSETS					
Inventories	11				
Materials and supplies		5 682	7 427	3 113	4 276
Work in progress		1 685	1 633	880	921
Completed products / goods		2 749	2 878	1 584	1 311
Prepaid expenses		10	22	0	0
		10 126	11 960	5 577	6 509
Receivables	12				
Trade receivables		16 178	16 290	11 453	14 909
Loan receivables		292	46	3 700	4 654
Accrued income and prepaid expenses		977	1 477	545	396
		17 447	17 813	15 698	19 959
Financial asset securities		5 187	9 099	5 187	9 099
Other securities		5 187	9 099	5 187	9 099
Cash and banks		2 234	1 797	1 642	1 481
		59 748	71 958	57 976	69 237

Balance Sheet

(EUR 1000)	Ref.	Group 31.12.2003	31.12.2002	Parent company 31.12.2003	31.12.2002
LIABILITIES					
SHAREHOLDERS' EQUITY	13				
Shareholders' equity					
Share capital		3 500	3 500	3 500	3 500
Share premium account		4 616	4 616	4 616	4 616
Own shares fund		721	721	721	721
Reserve fund		121	121	11	11
Retained earnings		25 774	38 628	30 968	37 218
Profit for the year		–12 274	–12 150	–10 237	–5 405
Total		22 458	35 436	29 579	40 661
APPROPRIATIONS	13			2 088	3 518
CREDITORS	15				
Deferred tax liability	14	742	1 173	0	0
Long-term					
Loans from credit institutions		12 899	9 129	9 846	6 135
Pension loans		2 960	3 664	2 825	3 532
Other long-term liabilities		382	338	338	338
		16 241	13 131	13 009	10 005
Current					
Interest-bearing					
Loans from credit institutions		3 485	6 304	2 875	5 609
Pension loans		706	706	706	706
Overdraught facilities		2 078	811	0	0
Other current liabilities		0	0	639	596
		6 269	7 822	4 220	6 911
Non-interest bearing					
Advances received		15	114	0	0
Trade payables		6 989	7 330	4 639	3 227
Accrued liabilities and prepaid income		4 068	3 829	2 560	2 317
Other current liabilities		2 966	3 124	1 882	2 597
		14 038	14 396	9 081	8 141
Creditors, total		37 290	36 522	26 310	25 058
		59 748	71 958	57 976	69 237

Notes to the financial statements 31.12.2003

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 intracompany 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 buildings will be depreciated in the same way as the amortization of the goodwill. Associated companies are not included in the Group financial statements as they have no essential influence on Group result or equity. Martela Oyj's subsidiaries in Germany and the UK were divested in May 2003. The income statements of the divested companies are included in the Group income statement for January-March.

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 Eur amounts at the Central Bank of Europe 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 Eur at the Central Bank of Europe 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.

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	5 years
Product development and ADP software and hardware	3 years
Other long-term expenditure	5 and 10 years

In the calculation of the deferred tax liability shown in the balance sheet revaluations nor tax losses of the subsidiaries have been noted.

Other deferred tax liabilties or receivables of consolidations are minor and they have not been noted.

The retirement plan

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

The age at which Martela's Managing Director may retire on full pension is 60 years.

TRANSITION TO IFRS REPORTING

The European Union requires that all listed companies in the EU produce financial reports in accordance with the International Financial Reporting Standards (IFRS) by 2005. The purpose of adopting internationally uniform financial reporting standards is to increase the efficiency of EU capital markets by improving the reliability, transparency and comparability of financial statements issued by companies in the area.

The IFRS adoption project and transition schedule

The Martela Group will start using the IAS/IFRS standards in its interim reports and financial statements prepared in 2005. Preparation for the adoption of the IFRS was started in 2003 with the establishment of an IFRS project group. A preliminary assessment was made in 2003 to identify the differences between the IFRS and the Finnish financial reporting practices and principles used at Martela. In 2003, training was also organised for the staff on the adoption of the IFRS and the key standards contained in it. During 2004, decisions will be made on the optional financial reporting principles and the opening IFRS balance sheet information, as well as the comparison information between the 2004 and 2005 interim reports. Any system changes required by the IFRS will also be made in order to start using the new system at the beginning of 2005. The project has proceeded on schedule.

Effects of the introduction of the IFRS on financial statements

According to the preliminary assessment, changes may have to be made in the following parts of the financial statements:

Leases

According to the IFRS, assets leased under finance leases will be recognised in the balance sheet as assets and liabilities.

Employee benefits

An asset or liability that results from benefit-based pension arrangements or other employee benefits will be recognised in the financial statements on the basis of actuarial calculations.

Impairment testing

Goodwill impairment testing is mandatory at the moment of transition. The units generating cash flow and the testing methods will have to be defined for this testing.

Deferred tax liabilities and assets

In general, deferred tax liabilities or assets for all temporary differences between the Group balance sheet and taxable balance sheet values should be recognised.

Inventories

IFRS requires that the cost of inventories should include all fixed production overheads. Until now, only variable production overheads have been capitalised in inventories.

Requirements related to presentation

IFRS requires more comprehensive segment reporting on the division of operations by business segment and geographical segment. Moreover, IFRS-compliant financial statements should present more comprehensive notes, explain the accounting policies in more detail and present a new financial statements calculation concerning equity. In addition, the cash flow statement should report cash flows, and there are new requirements on the notes to the cash flow statement.

Changes to be made in the IFRS standards

The first IFRS-compliant financial statements for 2005 with comparative information should be prepared in accordance with the standards valid on the balance sheet date. Final versions of some of these standards are expected only at the end of Q1 in 2004, and the effects of these standards are partly still open. The existing standards also include optional accounting principles, concerning which no decisions have yet been taken in Martela Group, as is also the case with the application of the relief possibilities granted by the IFRS 1 transition standard. In these respects, all the future changes are not necessarily known with sufficient certainty. It is also possible that as the project proceeds, changes or effects other than those mentioned above will arise.

Notes to the financial statement

(EUR 1 000)	Ref.	Group 31.12.2003	31.12.2002	Parent company 31.12.2003	31.12.2002
INCOME STATEMENT					
1. Turnover					
Breakdown of turnover by market area, % of turnover					
Finland		67.0	64.5	90.1	88.6
Sweden		15.9	16.7	1.1	0.9
Norway		5.3	5.9	1.5	2.4
Denmark		1.5	1.6	0.8	0.8
United Kingdom		1.0	1.6	0.4	0.6
Germany		0.6	1.1	0.4	0.6
Other Western Europe		1.3	1.4	0.9	0.9
Poland		3.5	3.6	1.5	1.6
Russia		1.3	1.1	1.8	1.5
The Baltic countries		0.5	0.4	0.7	0.6
Other Eastern Europe		0.6	0.5	0.5	0.7
Other exports		1.5	1.7	0.3	0.8
Total		100.0	100.0	100.0	100.0
2. Other income from operations					
Gains on sale of assets		158	34	144	24
Rental income		257	188	100	72
Other income from operations		159	112	16	31
Total		574	334	260	127
3. Materials and services					
Materials and supplies					
Purchases during the financial year		53 290	61 641	40 875	46 014
Change in inventories of materials and supplies		1 426	1 430	929	1 130
Total		54 716	63 071	41 804	47 144
External services		25 461	29 471	16 141	19 656
Materials and services, total		80 177	92 542	57 945	66 800
4. Personnel expenses and number of persons					
Salaries of board of directors and managing directors		805	881	278	288
Other salaries		20 753	24 470	13 694	15 973
Pension expenses		4 055	3 785	2 858	2 907
Other salary-related expenses		2 644	3 339	1 117	1 437
Personnel expenses in the income statement		28 257	32 476	17 947	20 605
Fringe benefits		558	726	436	473
Total		28 815	33 201	18 383	21 078
Personnel					
Average personnel		767	930	486	590
Personnel at year-end		715	856	457	547
Average personnel in Finland		564	669	486	590
Average personnel in Sweden		145	172	0	0
Average personnel in Norway		5	9	0	0
Average personnel in Germany		0	11	0	0
Average personnel in the United Kingdom		0	16	0	0
Average personnel in Poland		53	53	0	0
Total		767	930	486	590
5. Depreciation					
Depreciation according to plan					
Intangible assets					
Goodwill		0	425	0	0
Other long-term expenditure		908	1 765	739	1 423
Tangible assets					
Buildings and constructions		607	1 314	356	340
Machinery and equipment		3 184	3 433	2 453	2 569
Decrease in value of land and water areas		0	1 000	0	0
Depreciation according to plan, total		4 699	7 937	3 548	4 332

Notes to the financial statement

(EUR 1 000)	Ref.	Group 31.12.2003	31.12.2002	Parent company 31.12.2003	31.12.2002
6. Financial income and expenses					
Financial income and expenses					
Dividend income		21	11	19	10
Interest income on short-term investments		120	140	58	85
Interest income on short-term investments from Group companies		0	0	157	114
Gains on foreign exchange and other financial income		442	566	439	566
Interest expenses		–882	–873	–609	–583
Losses on foreign exchange		–174	–59	–193	–56
Other financial expenses		–110	–100	–53	–49
Value adjustment of loan receivables				–2 127	
Total		–583	–315	–2 309	87
Foreign exchange differences					
Realized		–91	441	–112	38
Unrealized		1	66	0	67
Total		–90	507	–112	105
7. Extraordinary items					
Costs for sold subsidiaries in England and Germany					
8. Appropriations					
Change in depreciation reserve (– increase, + decrease)					
Other long-term expenditure		0	0	0	0
Buildings and constructions		0	0	121	74
Machinery and equipment		0	0	1 309	272
Total		0	0	1 430	346
9. Income taxes					
Income taxes from operation		–372	137	55	250
Change in deferred tax liability		0	0	0	0
Total		–372	137	55	250
BALANCE SHEET					
10. Fixed assets and other long-term investments					
Intangible rights					
Acquisition cost 1.1.		775	716	650	595
Increases 1.1. – 31.12.		155	59	155	55
Decreases 1.1. – 31.12.		0	0	0	0
Accumulated depreciation 1.1.		–302	–129	–260	–121
Depreciation 1.1. – 31.12.		–221	–173	–190	–139
Book value 31.12.		407	473	355	390
Other long-term expenditure					
Acquisition cost 1.1.		8 089	7 268	5 803	5 361
Sold subsidiaries, acquisition cost		–517	0		
Increases 1.1. – 31.12.		42	701	42	441
Decreases 1.1. – 31.12.		0	0	0	0
Foreign exchange differences 1.1. – 31.12.		200	120	0	0
Accumulated depreciation 1.1.		–6 377	–4 612	–4 565	–3 281
Sold subsidiaries, accumulated depreciations		379			
Depreciation 1.1. – 31.12.		–908	–1 765	–549	–1 284
Book value 31.12.		908	1 712	731	1 238
Advance payments					
Acquisition cost 1.1.		13	39	13	39
Increases 1.1. – 31.12.		25	73	25	73
Decreases 1.1. – 31.12.		–20	–99	–20	–99
Foreign exchange differences 1.1. – 31.12.		0	0	0	0
Book value 31.12.		18	13	18	13
Intangible assets book value 31.12.		1 333	2 198	1 104	1 641

Notes to the financial statement

(EUR 1 000)	Ref.	Group 31.12.2003	31.12.2002	Parent company 31.12.2003	31.12.2002
Tangible assets					
Land and water areas					
Acquisition cost 1.1.		3 215	3 643	219	219
Increases 1.1. – 31.12.		0	611	0	0
Decreases 1.1. – 31.12.		–684	–1 045	0	0
Foreign exchange differences 1.1. – 31.12.		–85	6	0	0
Book value 31.12.		2 446	3 215	219	219
Buildings and constructions					
Acquisition cost 1.1.		26 637	25 284	16 416	15 281
Sold subsidiaries, acquisition cost		–25	0		
Increases 1.1. – 31.12.		2	1 428	0	1 134
Decreases 1.1. – 31.12.		–2 823	–3	–336	0
Foreign exchange differences 1.1. – 31.12.		–26	–72	0	0
Accumulated depreciation 1.1.		–15 660	–14 346	–10 463	–10 123
Sold subsidiaries, accumulated depreciations		1 275	0		
Depreciation 1.1. – 31.12.		–607	–1 314	–356	–340
Book value 31.12.		8 773	10 977	5 260	5 953
Machinery and equipment					
Acquisition cost 1.1.		43 637	40 755	34 326	31 968
Sold subsidiaries, acquisition cost		–1 537	0		
Increases1.1. – 31.12.		456	2 943	156	2 362
Decreases 1.1. – 31.12.		–103	–50	–34	–5
Foreign exchange differences 1.1. – 31.12.		53	–11	0	0
Accumulated depreciation 1.1.		–31 944	–28 511	–24 608	–22 039
Sold subsidiaries, accumulated depreciations		1 357	0		
Depreciation 1.1. – 31.12.		–3 184	–3 433	–2 453	–2 569
Book value 31.12.		8 735	11 693	7 387	9 718
Manufacturing machinery and equipment, book value 31.12.		6 927	7 877	6 447	7 676
Other tangible assets					
Acquisition cost 1.1.		24	24	20	20
Increases 1.1. – 31.12.		0	0	0	0
Decreases 1.1. – 31.12.		0	0	0	0
Foreign exchange differences 1.1. – 31.12.		0	0	0	0
Accumulated depreciation 1.1.		0	0	0	0
Depreciation 1.1. – 31.12.		0	0	0	0
Book value 31.12.		24	24	20	20
Advance payments and construction in progress					
Acquisition cost 1.1.		260	3 366	177	2 752
Increases 1.1. – 31.12.		399	1 850	395	1 368
Decreases 1.1. – 31.12.		–109	–4 877	–109	–3 943
Foreign exchange differences 1.1. – 31.12.		–12	–79	0	0
Book value 31.12.		538	260	463	177
Tangible assets book value 31.12.		20 516	26 169	13 349	16 087
Revaluations of fixed assets					
Buildings		2 809	3 145	1 850	2 186

Revaluations have been formed in Martela Oyj 505 TEUR in 1977 and 1 682 TEUR in 1988 and in P.O.Korhonen Oy 959 TEUR in 1986
Value adjustment of buildings –336 TEUR in Martela Oyj in 2003

(EUR 1 000)	Ref.	Group 31.12.2003	31.12.2002	Parent company 31.12.2003	31.12.2002
Shares, participations and loan receivables booked under long-term investments					
Group companies					
Shares		8		5 162	7 010
Capital Loan receivables				7 418	4 592
Total		8		12 580	11 602
Shares in associated companies		22	22	22	22

11. Inventories

Inventories are valued at the direct acquisition cost.

Notes to the financial statement

(EUR 1 000)	Ref.	Group 31.12.2003	31.12.2002	Parent company 31.12.2003	31.12.2002
12. Receivables					
Receivables from Group and associated companies					
Trade receivables from Group companies				1 836	4 257
Loan receivables from Group companies				3 413	4 608
Trade receivables					
Trade receivables falling due within 12 months		16 178	16 290	11 453	14 909
Trade receivables falling due after 12 months		0	0	0	0
Loan receivables					
Loan receivables falling due within 12 months		292	46	2 109	3 075
Loan receivables falling due after 12 months		0	0	1 591	1 579
13. Shareholders' equity					
Share capital 1.1.		3 500	3 500	3 500	3 500
Increase in share capital		0	0	0	0
Share capital 31.12.		3 500	3 500	3 500	3 500
Share premium account 1.1.		4 616	4 616	4 616	4 616
Share premium account 31.12.		4 616	4 616	4 616	4 616
Own shares fund 1.1		721	363	721	363
Payment of own shares		0	358	0	358
Own shares fund 31.12.		721	721	721	721
Reserve fund 1.1.		121	119	11	11
Transferred from retained earnings		0	0	0	0
Other change		0	2	0	0
Reserve fund 31.12.		121	121	11	11
Retained earnings 1.1.		26 478	41 444	31 815	40 048
Foreign exchange differences and translation adjustments		143	14	0	0
Payment of dividend		–511	–2 472	–511	–2 472
Payment of own shares		0	–358	0	–358
Increase in share capital		0	0	0	0
Value adjustment of buildings		–336	0	–336	0
Retained earnings 31.12.		25 774	38 628	30 968	37 220
Profit for the year		–12 274	–12 150	–10 237	–5 405
Shareholders' equity		22 458	35 436	29 577	40 661
Appropriations 1.1.				3 518	3 864
Change in the income statement				–1 430	–346
Appropriations 31.12.				2 088	3 518

The appropriations of Martela Oyj are from accumulated depreciation difference.
Market value of own shares 31.12.2003: 484055 EUR

(EUR 1 000)	Ref.	Group 31.12.2003	31.12.2002	Parent company 31.12.2003	31.12.2002
14. Deferred tax liability					
Accumulated depreciation difference		2 558	4 044		
29% of above		742	1 173		
Transferred to equity		1 816	2 871		
15. Creditors					
Debts falling due in five years or more					
Loans from financial institutions		2 520	986	1 951	336
Pension loans		134	838	0	706
Total		2 654	1 824	1 951	1 042

Notes to the financial statement

(EUR 1 000)	Ref.	Group 31.12.2003	31.12.2002	Parent company 31.12.2003	31.12.2002
Debts to Group and associated companies					
Trade payables to Group companies				578	526
Other short-term debts to Group companies				639	596
Accrued liabilities to Group companies				224	236
Current liabilities					
Non-interest bearing debts		14 038	14 396	9 081	8 141
Next year's repayments on long-term loans		4 191	7 010	3 581	6 315
Other interest-bearing debts		2 078	811	639	596
Total		20 307	22 218	13 301	15 052
Accrued liabilities and prepaid income					
Accrued liabilities, personnel expenses		3 076	1 970	1 843	1 787
Accrued liabilities, taxes		72	26	44	0
Other accrued liabilities and prepaid income		919	1 833	673	530
Total		4 067	3 829	2 560	2 317
16. Pledges granted and contingent liabilities					
Debts, mortgages given as securities					
Pension loans		3 666	4 370	3 532	4 238
Real estate mortgages		4 205	4 205	4 205	4 205
Corporate mortgages		0	224	0	0
Loans from financial institutions		16 367	15 434	12 721	11 744
Real estate mortgages		8 731	9 452	6 188	6 928
Corporate mortgages		7 511	6 028	3 700	2 859
Shares pledged		37	55	37	55
Securities total		20 484	19 964	14 130	14 047

Mortgages to financial institutions include general securities of parent company's pension loans 3.6 Meur (4.3)

(EUR 1 000)	Ref.	Group 31.12.2003	31.12.2002	Parent company 31.12.2003	31.12.2002
Other pledges					
Other pledges concerning rents		28	28	28	28
Securities granted for Group companies					
Real estate mortgages				1 160	1 160
Corporate mortgages				168	168
Securities for Group companies total				1 328	1 328
Guarantees for Group companies				3 471	3 682
On behalf of others					
Guarantees		67	80		
Leasing commitments					
Leasing commitments falling due within 12 months		671	911	517	639
Leasing commitments falling due after 12 months		614	697	477	492
Total		1 285	1 608	994	1 131
Repurchase sureties		364	308	361	305
Other commitments					
Rent commitments		12 088	13 552	11 787	13 146

Loans to the buyers of subsidiaries in England and Germany, repayment of loans depends on future earnings.

	Parent company's holding (%)	No of shares	Par value (EUR 1000)	Book value (EUR 1000)
17. Shares and participations 31.12.2003				
Group companies				
The Group's holding is 100%. The Group's share of voting rights is 100%.				
Kidex Oy	100	100	8	8
Martela AB, Bodafors, Sweden	100	50 000	T SEK 5 000	550
Aski Inredningscenter AB, Malmö, Sweden	100	12 500	T SEK 1 250	1 010
Martela AS, Oslo, Norway	100	200	T NOK 200	24
Kiinteistö Oy Oulun Kaarnatie 14, Oulu, Finland (real-estate company)	100	150	3	1 651
Kiinteistö Oy Ylähanka, Vantaa, Finland (real-estate company)	100	510	9	8
P.O. Korhonen Oy, Raisio, Finland	100	5 750	967	976
Martela Design Center Sp. z o.o., Warsaw, Poland	100	3 483	T PLN 3 483	935
Total				**5 162**
Associated companies				
Essa Office Systems AG, Switzerland	30	34	TCHF 34	22
Rom for Design AS, Norway				
Total				**22**
Own shares		33 850	57	721
Other shares and participations owned by the parent company				
As.Oy Kivipellonpolku (housing corporation)		287	1	21
As.Oy Kivipellonpiha (housing corporation)		2 590	1	30
Elisa Communications Oyj		14 918	7	48
Technopolis Oulu Oyj		15 000	25	38
Nordea Ab		5 312	19	17
Kiinteistö Oy Turun Pitkämäki (real-estate company)		306	5	1 807
Other shares and participations				135
Total				**2 096**

Statistics on Martela Oyj shares

Share capital

The paid-in share capital. which has been entered in the Trade Register, is EUR 3,500,000.
The Articles of Association stipulate that the maximum share capital is EUR 14,000,000 and the minimum share capital is EUR 3,500,000. Martela Oyj's shares were transferred to the book-entry system on 10 February 1995.

Breakdown of share capital as at 31 December 2003

	Number of shares	Total EUR	%	Number of votes	%
Series K	302 400	509 250	15	6 048 000	77
Series A	1 775 400	2 990 750	85	1 775 400	23
Total	**2 077 800**	**3 500 000**	**100**	**7 823 400**	**100**

Series A shares are quoted on the Helsinki Stock Exhange I list. In bookkeeping the counter value of one share is EUR 1.68. 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.

Largest shareholders according to the Share Register as at 31 December 2003

	Series K no	Series A no	Total	%	Number of votes	%
Marfort Oy	145 600	116 287	261 887	12.6	3 028 287	38.7
Ilmarinen Mutual Pension Insurance Company	0	166 700	166 700	8.0	166 700	2.1
Odin Norden	0	133 600	133 600	6.4	133 600	1.7
Palsanen Leena	34 243	65 574	99 817	4.8	750 434	9.6
Pohjola Indemnity Insurance Company	0	95 100	95 100	4.6	95 100	1.2
Martela Heikki J.	26 061	53 117	79 178	3.8	574 337	7.3
Suomen Itsenäisyyden juhlarahasto Sitra	0	76 100	76 100	3.7	76 100	1.0
Martela Matti T.	29 128	42 991	72 119	3.5	625 551	8.0
Pohjola Finland Value Sijoitusrahasto	0	69 900	69 900	3.4	69 900	0.9
Lindholm Tuija E.	21 561	47 012	68 573	3.3	478 232	6.1
Other shareholders	45 807	909 019	954 826	46.0	1 825 159	23.3
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 11.7% of the company's shares and 25.4% of the voting rights.

Breakdown of share ownership by number of shares held at 31 December 2003

Number of shares	Number of shareholders	%	Number of shares	%	Number of votes	%
1–500	503	77.7	68 642	3.3	94 672	1.2
501–1000	40	6.2	30 258	1.5	62 558	0.8
1001–5000	60	9.3	153 627	7.4	218 227	2.8
over 5000	44	6.8	1 824 579	87.8	7 447 249	95.2
Total	**647**	**100.0**	**2 077 106**	**100.0**	**7 822 706**	**100.0**
Shares not converted into book-entries			694	0.0	694	0.0
Total			**2 077 800**	**100.0**	**7 823 400**	**100.0**

Statistics on Martela Oyj shares

Breakdown of share ownership by sector as at 31 December 2003

	Number of owners	%	Number of shares	%	Number of votes	%
Private companies	47	7.3	435 415	21.0	3 201 815	40.9
Financial institutions and insurance companies	12	1.9	426 716	20.5	426 716	5.5
Public sector entities	8	1.2	249 300	12.0	249 300	3.2
Non-profit entities	14	2.2	123 734	6.0	123 734	1.6
Households	563	87.0	647 341	31.2	3 626 541	46.4
Foreign investors	3	0.5	194 600	9.4	194 600	2.5
Total	**647**	**100.0**	**2 077 106**	**100.0**	**7 822 706**	**100.0**
Shares not converted into book-entries			694	0.0	694	0.0
Total	**647**	**100.0**	**2 077 800**	**100.0**	**7 823 400**	**100.0**

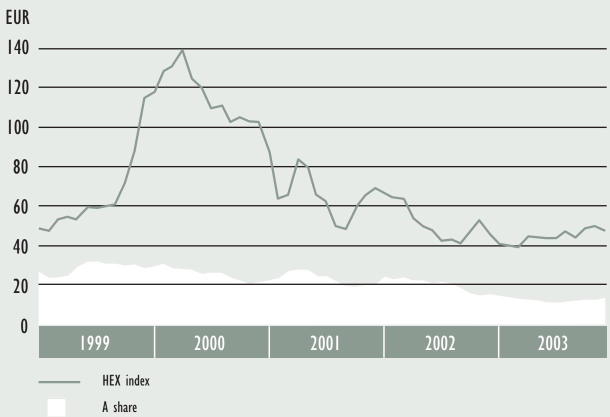
Share issue-adjusted indicators

	2003	2002	2001	2000	1999
Earning/share, EUR	–5.3	–5.8	0.8	5.4	4.4
Price/earnings multiple, P/E	–2.7	–2.4	31.9	4.8	6.4
Share par value	1.7	1.7	1.7	1.7	1.7
Equity/share, EUR	10.6	17.3	24.0	25.4	21.6
Dividend/share, EUR	0.25*	0.25	1.20	2.02	1.35
Dividend/earnings, %	–4.7	–4.3	160.0	28.2	30.7
Effective dividend yield, %	1.7	1.8	5.0	5.8	4.8
Market value capitalization, EUR million **)	29.7	29.1	49.7	54.0	58.2
Share issue adjusted number of shares (thousands)	2077.8	2077.8	2077.8	2077.8	2077.8
Average issue-adjusted number of shares (thousands)	2077.8	2077.8	2077.8	2077.8	2077.8
Series A share					
Lowest price, EUR	10.75	14.02	17.80	20.50	22.00
Highest price, EUR	15.00	26.00	29.75	31.80	33.00
Average price, EUR	12.83	20.36	22.29	22.18	27.35
Price at 31.12.	14.30	14.02	23.90	26.00	28.00
Turnover, EUR million	2.5	2.4	7.0	7.6	11.9
Turnover, No. of shares, thousands	196.4	118.9	312.4	342.7	436.1
Turnover as a percentage of shares outstanding, %	11.1	6.7	17.6	19.3	24.6

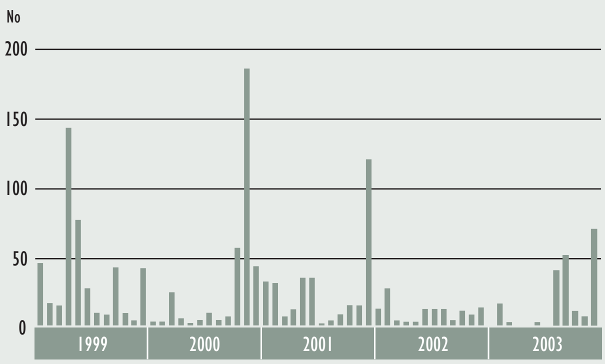
*) Proposal of the Board of Directors

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

Series A share compared with the HEX index



Monthly trading value of serie A shares



The Martela Group 1999–2003

SCOPE OF OPERATIONS

		2003	2002	2001	2000	1999
Turnover EUR million	EUR million	102.1	121.2	150.9	173.7	150.3
Change in turnover	%	–15.7	–19.7	–13.2	15.6	–0.2
Exports and international operations	EUR million	34.2	43.4	50.6	66.1	54.6
As a percentage of turnover	%	33.5	35.8	33.5	38.1	36.3
Export from Finland	EUR million	10.8	13.7	15.4	18.2	14.6
Gross capital expenditure on fixed assets	EUR million	1.0	3.1	7.0	6.6	7.0
As a percentage of turnover	%	1.0	2.6	4.6	3.8	4.7
Depreciation	EUR million	4.7	7.9	5.5	5.1	4.4
Research and development expenses	EUR million	2.6	3.1	2.2	1.9	1.6
As a percentage of turnover	%	2.5	2.6	1.5	1.1	1.1
Average personnel		767	930	1 040	1 046	994
Change in personnel	%	–17.5	–10.6	–0.6	5.2	5.5
Personnel at year end		715	856	987	1 038	972
Of whom in Finland		531	621	689	738	695

PROFITABILITY

		2003	2002	2001	2000	1999
Operating profit	EUR million	–10.7	–11.7	4.1	15.7	13.1
As a percentage of turnover	%	–10.5	–9.7	2.7	9.0	8.7
Profit before appropriations and taxes	EUR million	–12.6	–12.0	3.5	15.3	12.5
As a percentage of turnover	%	–12.4	–9.9	2.3	8.8	8.3
Profit for the year *)	EUR million	–12.3	–12.2	1.6	11.1	9.1
As a percentage of turnover	%	–12.0	–10.0	1.0	6.4	6.1
Turnover/employee	EUR 1000	133.2	130.3	145.1	166.1	151.2
Return on equity	%	–38.6	–27.9	3.1	22.8	22.1
Return on investment	%	–20.9	–19.0	6.8	23.8	21.8

FINANCING AND FINANCIAL POSITION

		2003	2002	2001	2000	1999
Balance sheet total	EUR million	59.7	72.0	82.2	91.7	83.7
Equity	EUR million	22.5	35.4	50.0	52.9	44.9
Interest-bearing net debt	EUR million	15.1	10.1	5.9	5.8	9.1
As a percentage of turnover	%	14.8	8.3	3.9	3.4	6.0
Equity ratio	%	36.8	49.3	60.9	57.7	53.8
Gearing ratio	%	69.4	28.3	11.8	11.1	20.2
Cash flow from operations	EUR million	–5.6	2.2	10.4	12.1	13.7
Dividend paid	EUR million	0.5	2.5	4.2	2.8	2.6

*) Profit for the years 2003. 2002, 2001, 2000 and 1999 include changes in deferred tax liability.

Proposal of the Board of Directors for the distribution of profit

The consolidated distributable equity is EUR 11,682,331.39 after the deduction from the consolidated non-restricted equity of the item transferred from optional reserves and depreciation difference to shareholders' equity. The parent company's distributable equity is EUR 20,728,711.79, of which the loss for the financial year is EUR 10,236,977.07.
The Board of Directors proposes to the Annual General Meeting that the distributable equity be used as follows:

• distribution of a dividend of EUR 0.25 per share, totalling	EUR 510,987.50
• to be left in retained earnings	EUR 20,217,724.29

Helsinki, 23 February 2004

Heikki Ala-Ilkka Chairman of the Board	Pekka Martela	Heikki Martela Managing Director
Matti T Martela	Jaakko Palsanen	Jori Keckman
Hannu Kosonen	Tapio Hakakari	

The financial statements have been prepared in accordance with Finnish Generally Accepted Accounting Standards. We have today issued a report on the audit performed by us.

Helsinki, 24 February 2004

Reino Tikkanen
Authorized Public Accountant

Auditor's 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 2003. 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 the Directors and the Managing Director. Based on my audit I express an opinion on these financial statements and the company´s administration.

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 financial year audited by me. The proposal made by the Board of Directors on how to deal with the retained earnings is in compliance with the Finnish Companies Act.

Helsinki, 24 February 2004
Reino Tikkanen
Authorized Public Accountant

***Opteam**, design Martela*

Corporate Governance

Martela Oyj complies with the directives of the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers concerning the governance of publicly listed companies, as is recommended by the Helsinki Exchanges. The company also complies with the Guidelines for Insiders published by the above-mentioned organisations and approved by the Helsinki Exchanges.

General Meeting and Board of Directors

A General Meeting is usually held only once a year (the Annual General Meeting) and is the company's supreme decision-making body. The Board of Directors, elected by the Annual General Meeting, is responsible for the management and proper arrangement of the operations of the company in compliance with the Companies Act and the Articles of Association. In accordance with the Articles of Association, the Board of Directors consists of no fewer than three and no more than nine members. There are no more than five deputy members. The Board of Directors elects from among its members a Chairman and Vice Chairman to serve until the end of the Annual General Meeting that follows their election. Martela's employees have one representative and one deputy on the Board, both of whom participate in Board meetings. The employees elect their representative for a three-year period, and this choice must be confirmed annually by a General Meeting.

More information on the composition of the Board and the backgrounds of Board members can be found later in the Annual Report.

The Board of Directors follows an agreed annual programme in which its meetings are generally focused on a particular theme, in addition to regular supervisory tasks.

The Board met 10 times in 2003. On the agenda at these meetings were matters such as the principles governing the Board's work, the annual and interim financial statements, divestments and finance, the strategy and budget prepared by the company's management, key investments and the action plans and operations of the business units and Group processes.

The Board formed an internal panel to review earnings and, with Board approval, to determine the salaries and profit bonuses of the Managing Director, the Board members employed by the company and the members of the Group Management Team. Members of the Board's internal earnings panel were in 2003 Heikki Ala-Ilkka, Jaakko Palsanen, Tapio Hakakari and Heikki Martela.

Board membership fees are not paid to those members employed by the company.

Managing Director

The Board appoints the Managing Director of Martela Oyj. The Managing Director is responsible for the operational management and supervision of the parent company and the Group in accordance with the guidelines set by the Board. The age at which Martela's Managing Director may retire on a full pension is 60 years.

Organisation

The Martela Group is managed in accordance with both its operational organisation and the legal Group structure. The Group is managed primarily through an operational matrix organisation. It is also divided into three business units based on the geographical location of resources. These business units are Finland, Scandinavia and Poland.

The Finnish business unit comprises the Group's companies operating in Finland. Martela Oyj, the Group's parent company, has a logistics centre at Nummela. The Kitee furniture factory was incorporated under the name Kidex Oy on 1 January 2004. Kidex operates as a contract manufacturer of wood-based components for customer companies in the Group and outside it. P.O. Korhonen Oy is a furniture factory located at Raisio whose product sales are handled primarily by Martela Oyj and Martela AB.

Approximately 90% of the turnover of the Finnish business unit is derived from the Finnish market.

The Scandinavian business unit comprises the businesses of the Group's companies Martela AB, Aski Inredningscenter AB and Martela AS, and is almost entirely focused on the Swedish, Norwegian and Danish markets. The logistics centre of the Scandinavian unit is at Bodafors, Sweden.

The Polish business unit operates under the framework of the Martela Design Center Sp. z o.o. The company imports products and components from Group companies and assembles furniture in the Warsaw logistics centre. Local components are also used in the assembly of office furniture.

Business unit operations are co-ordinated by product, marketing, production and logistics, and support processes under Group management. A manager has been appointed to manage each business unit and Group process.

Group Management Team

The Board of Directors and the Managing Director appoint the members of the Group Management Team. The Managing Director of Martela Oyj acts as the Chairman of the Group Management Team. The other members are the profit responsible managers of the Finnish, Scandinavian and Polish business units, and the managers who are responsible for the Group's processes. The Group Management Team prepares and reviews strategies, budgets and investment proposals, and monitors the financial situation of the Group, business units, processes and subsidiaries. The Group Management Team also monitors the implementation of operational targets and plans. The Management Team meets once a month. Profit bonuses are paid to members of the Group Management Team based on the success of the Group and their own areas of responsibility. No compensation based on membership of the Board or a subsidiary is paid.

Auditors

The auditors of Martela Oyj are the firm of authorised public accountants, Oy KPMG Wideri Ab, the principally responsible auditor being Mr Reino Tikkanen, Authorised Public Accountant.

***Inez**, design Iiro Viljanen*

Formulae for the Calculation of Financial Indicators

Earnings / share = $\frac{\text{Profit before extraordinary items} \pm \text{minority iterest} - \text{taxes for the financial year}}{\text{Average share issue-adjusted nurmber of shares}}$

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

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

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

Dividend / earnings, % = $\frac{\text{Dividend / share}}{\text{Earnings / share}} \times 100$

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

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

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

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

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

Gearing ratio, % = $\frac{\text{Interest-bearing} - \text{cash and banks and financial asset securities}}{\text{Equity} + \text{minority interest}} \times 100$

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

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

Martela Group's Board of Directors 2003

CHAIRMAN OF THE BOARD
Heikki Ala-Ilkka, born in 1952, M.Sc. (Econ)
Member of the Board of Martela Oyj since 2002,
Chairman of the Board since 2003.
Chief Financial Officer: Onninen Oy
Vice Chairman of the Board:
The Finnish Medical Foundation
Owns 300 series A shares of Martela Oyj.

VICE CHAIRMAN
Pekka Martela, born in 1950, M.Sc. (Econ)
Member of the Board of Martela Oyj since 1981,
Chairman of the Board 2002–2003,
Vice Chairman of the Board 1994–2001, 2003–
At Martela 1971–2001.
Managing Director: Marfort Oy
Owns 34,637 series K shares and
29,323 series A shares of Martela Oyj.

BOARD MEMBERS
Tapio Hakakari, born in 1953, LL.M.
Member of the Board of Martela Oyj since 2003,
Director, Secretary to the Board of Directors: Kone Oyj
Managing Director and Member of the Board:
Security Trading Oy
Member of the Board: Consolis Oy Ab
Owns 500 series A shares of Martela Oyj.

Jori Keckman, born in 1961, M.Sc. (Econ)
Member of the Board of Martela Oyj since 2000.
Managing Director: Lundia Oy
Does not own any shares of Martela Oyj.

Hannu Kosonen, born in 1961, Sales Manager, Kidex Oy
Deputy of Personnel Representative and Member of the Board of Martela Oyj 1999–2001.
Personnel Representative and Member of the Board of Martela Oyj since 2002. At Martela since 1980,
Liaison Person 1994–2002.
Does not own any shares of Martela Oyj.

Heikki Martela, born in 1956, M.Sc. (Econ), MBA
Member of the Board of Martela Oyj since 1986,
full-time Chairman of the Board 2000–2002,
Managing Director of Martela Oyj since1 March 2002.
At Martela since 1993, Managing Director of Martela AB and Aski Inredningscenter AB 1993–1999
Member of the Board: Marfort Oy
Owns 26,061 series K shares and
53,117 series A shares of Martela Oyj.

Matti T Martela, born in 1939, M.Sc. (Econ)
Member of the Board of Martela Oyj since 1965,
Chairman of the Board 1986–2000.
At Martela 1961–1999.
Managing Director of Martela Oyj 1976–1986.
Chairman of the Board: Marfort Oy
Owns 29,128 series K shares and
42,991 series A shares of Martela Oyj.

Jaakko Palsanen, born in 1944, M.Sc. (Eng.)
Member of the Board of Martela Oyj since 1993.
Vice President, Business Development: UPM-Kymmene Oyj
Owns 1,600 series K shares and 30,984 series A shares of Martela Oyj.

DEPUTY OF PERSONNEL REPRESENTATIVE
Matti Lindström, born in 1948,
Packer, Chief Shop Steward
Personnel representative and Member of the Board of Martela Oyj 1993–1996, Deputy of Personnel Representative and Member of the Board of Martela Oyj since 2002.
At Martela since 1966.
Does not own any shares of Martela Oyj.

SECRETARY OF THE BOARD
Torsten Hästö, see Management Team

The Martela Group's Board of Directors (from the left): Matti T. Martela, Pekka Martela, Tapio Hakakari, Hannu Kosonen, Heikki Ala-Ilkka, Jori Keckman, Jaakko Palsanen, Matti Lindström and Heikki Martela.

Management Team of Martela Group 2003

Heikki Martela, see Board of Directors
Areas of responsibility: Operational management of Martela Group.
Management of Business Unit Finland.
Managing Director of Martela Oyj.

Patrik Fundin, born in 1964, B.Sc. MBA, Director
Areas of responsibility: Management of Business Unit Scandinavia.
Managing Director of Martela AB and Martela AS.
At Martela since 2002.
Does not own any shares of Martela Oyj.

Panu Ala-Nikkola, born in 1965, M. Sc. (Econ)
Marketing and Product Director.
Areas of responsibility: Marketing, product process and product development activities of the Group.
At Martela since 2001.
Does not own any shares of Martela Oyj.

Torsten Hästö, born in 1948, M. Sc. (Econ)
Administration Director.
Areas of responsibility: Finance and Administration, Personnel and IT Administration.
At Martela since 1993.
Owns 300 series A shares of Martela Oyj.

Juha Ihalainen, born in 1946, M.Sc. (Econ), Director
Areas of responsibility: Management of Business Unit Poland.
Managing Director of Martela Design Center, Sp. z o.o. since 1 February 2001.
At Martela since 1981.
Does not own any shares of Martela Oyj.

Ilkka Koskimies, born in 1955, M.Sc. (Econ)
Marketing Director (Finland)
Areas of responsibility: Sales and Marketing in Finland
At Martela since 1990 (excluding year 1999).
Does not own any shares of Martela Oyj.

Jaakko Luhtasela, born in 1954, M.Sc. (Eng.)
Production and Logistics Director.
Areas of responsibility: Production and logistics activities of the Group, Production and logistics of Martela Oyj.
At Martela since 1985.
Does not own any shares of Martela Oyj.

Addresses

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Axia, design BMA Ergonomics