ANNUAL REPORT 2004

Martela

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The Year in Brief

		2004	2003
Turnover	€ million	**100.7**	102.1
Growth in turnover	%	**–1.4**	–15.7
Operating profit	€ million	**–2.2**	–10.7
– as a percentage of turnover	%	**–2.2**	–10.5
Profit before extraordinary items	€ million	**–3.0**	–11.3
– as a percentage of turnover	%	**–3.0**	–11.0
Return on investment		**–4.7**	–20.9
Balance sheet, total	€ million	**55.2**	59.7
Equity ratio	%	**33.8**	36.8
Earning/share	€	**–0.7**	–2.7
Equity/share	€	**4.5**	5.3
Dividend/share	€	**0.15***	0.13
Capital expenditure	€ million	**0.9**	1.0
Average personnel		**662**	767
– change	%	**–13.7**	–17.5

* 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 Wednesday, 16 March, 2005, starting at 3.00 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, 4 March, 2005, 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 Friday, 11 March, 2005.

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 0.15 per share be distributed for the year ended 31 December, 2004. Only shareholders registered in the shareholder register maintained at the Finnish Central Securities Depository Ltd on the record date for dividend distribution, Monday, 21 March, 2005, will be entitled to the dividend declared by the Company. Dividend payments will be made on Wednesday, 30 March, 2005.

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 2005:

First quarter 28 April, 2005

Second quarter 9 August, 2005

Third quarter 25 October, 2005

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.

Optimo, design Martela

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 the very paragon of quality and ergonomics, are ideally suited to customers' needs and can be delivered rapidly. Martela also provides outsourcing services that maintain these solutions and support any required changes. Martela has been furnishing offices and public premises for over 59 years.

Martela's individual customer service activities, 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 is the parent company of the Group and has its headquarters in Helsinki. Martela's subsidiaries are in Finland, Sweden, Norway and Poland.

The Group's production plants are located in Nummela, Kitee and Raisio in Finland; Bodafors in Sweden; and Warsaw in Poland. There are logistics centres in Nummela, Bodafors and Warsaw, where office furniture can be ordered, assembled and delivered at short notice. The Kitee plant manufactures cabinet and pedestal components, and desktops. The plant also produces board furniture components for furniture manufacturers outside the Group. The Raisio plant manufactures furniture by means of form-pressing technology.

In 2004 Martela Group's turnover was EUR 100.7 million with an average of 662 employees, 514 of them in Finland.

***Largo**, design Iiro Viljanen*

Managing Director's Review

We are focusing strongly on service

The sustained decline in the demand for office furniture that started in 2001 continued right up to early 2004. Last year the total demand in Scandinavia and Finland was estimated to be only 60 per cent of peak demand in 2000. The market can thus be regarded as very challenging, prompting much restructuring within the industry to adapt to market realities. However, no major restructuring or re-distribution of markets has taken place in northern Europe.

The year 2004 was one of solid progress for the Martela Group. Our strategy was implemented in a very systematic way, and business structures and operations were streamlined in both our domestic and foreign activities.

The measures we commenced some three years ago to adapt to the reduced demand

"Due to the measures commenced earlier and continued last year, we have achieved much that we expect will significantly improve our result for 2005, even in the current market situation."

bore fruit during the second half of 2004. The third quarter result was positive, as was the result for the entire second half. However, the global economic situation still has so many uncertainty factors for us that we do not expect this year's demand to improve substantially from the previous year. Our industry has normally been very cyclical. Thanks to our flexible structure, we can react very rapidly to any changes in the market, if necessary.

Due to the measures commenced earlier and continued last year, we have achieved much that we expect will significantly improve our result for 2005, even in the current market situation.

Since we divested Aski Inredningscenter AB and the Morgana screen business, our Swedish operations have been more clearly focused on our core business, in accordance with our strategy. But our operations in Sweden still resulted in a loss in 2004, and one of our main challenges for this year is to help them become profitable.

We converted a wide range of services into products and launched these during 2004. Martela is the first office furniture supplier to provide a comprehensive and broad range of services extending beyond furniture deliveries. Our service products make it easy and convenient for our customers to design functional workspaces and acquire new furniture, and they also enable flexible changes and maintenance of furniture by our professionals.

We have developed our service products together with our customer companies for a number of years. We have now advanced so far that we are ready to assume complete responsibility for office design, furniture deliveries, moving services, recycling and maintenance – and all this with Martela's acclaimed quality. Our services also include consultation, furniture rentals and stocktaking. We have become an increasingly comprehensive service provider for offices and public premises, enabling our customers to focus their resources on their core businesses.

The conversion of services and service packages into products was initially sparked by the demand and the needs of our customers. Our service products have been received extremely well and are expected to add a positive contribution to our result. Moreover, they also provide strong support for our new furniture sales. As unparalleled experts in office and public space decor, we believe that we will always have a strong position in the industry also as service providers, even in a tough competitive environment.

Last year we grew and improved our position in the Polish market. The Warsaw logistics centre moved into new premises at the beginning of 2005, further strengthening the competitiveness of our products in Poland.

Our Kitee plant was incorporated into Kidex Oy, and this subsidiary has already received substantial orders from outside the Martela Group. We will continue our efforts to increase the proportion of outsourcing assignments for external customers in Kidex Oy.

The expansion of our product range has continued and new products, such as the new range of storage units, have been launched in a controlled way and with a lot of success, adding to our competitiveness in all our main markets.

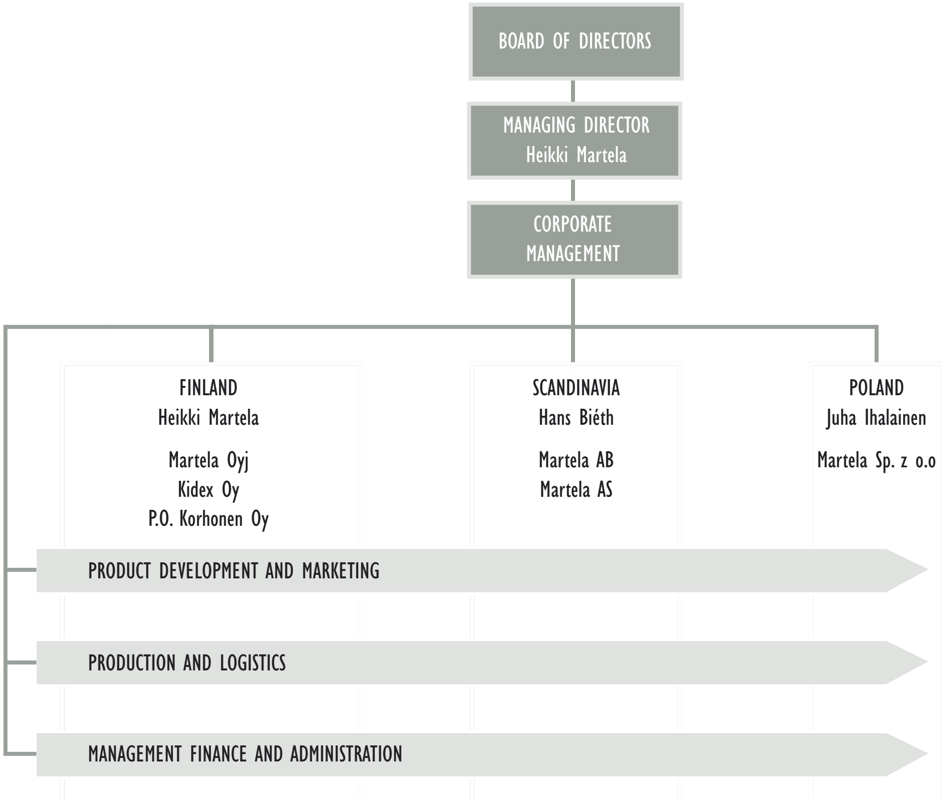
This year is Martela's 60th year of operations. We are the leading Finnish company in our field and will continue our efforts as the pioneer in interior office decoration for the benefit of our customers.

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

Takkatie, February, 2005

Heikki Martela
Managing Director

Business Units



The Martela Group is divided into three business units: Finland, Scandinavia and Poland.

BU Finland total	2004	2003	change %
Invoicing (EUR million)	83.8	79.9	4.9
Average personnel	514	564	–8.9

Martela Oyj	2004	2003	change %
Invoicing (EUR million)	80.5	74.9	7.6
Average personnel	356	486	–26.8

P.O. Korhonen Oy	2004	2003	change %
Invoicing (EUR million)	8.4	9.7	–13.5
Average personnel	68	78	–12.8

Kidex Oy	2004	2003	change %
Invoicing (EUR million)	9.5	–	–
Average personnel	90	–	–

Business unit Finland

The Finnish business unit consists of the Group companies in Finland, namely Martela Oyj, the Group's parent company, Kidex Oy, the Kitee furniture plant incorporated on 1 January 2004, and P.O. Korhonen Oy that produces form-pressed furniture.

The unit's invoicing stood at EUR 83.8 million in 2004, of which 84.3 per cent of sales were derived from the Finnish market. Finnish markets accounted for 69.5 per cent of the Group's total turnover. Products made in Finland are primarily exported to countries in Scandinavia, Central Europe and Eastern Europe. The unit has a sales network that covers the whole of Finland, and had 514 employees at the end of 2004.

The production plants are located in Nummela, Raisio and Kitee. The logistics centre, which co-ordinates production and deliveries, is located at Nummela.

• MARTELA OYJ

Martela Oyj is the parent company of the Group. Its turnover for 2004 was EUR 80.5 (74.9) million and the company employed an average of 356 (486) persons in the same year. The number of personnel declined as a result of the incorporation of the Kitee plant and other personnel reductions.

85.2 per cent of the invoicing derives from the Finnish market. The company has an extensive sales and service network which covers the whole of Finland. The company's sales and showroom facilities are at the Helsinki Head Office and also at the regional centres in Turku, Tampere, Kuopio and Oulu. The company's own direct sales organisation is supplemented by seven independent Martela Centres throughout Finland. Martela has a total of 23 service centres in Finland. Martela is a market leader in Finland with a market share of about 45 per cent.

Martela's position as a market leader is based on a good understanding of the customer's needs, a broad service network, extensive customer needs, collections that can be modified, the design of customer solutions, and quick and reliable deliveries.

In recent years the service concept has been developed to cover larger and larger entities. Today, the services include the collection and recycling of old furniture, removal co-ordination in connection with furniture projects, furniture maintenance services and Martela rental service with long-term rental.

The export operations of P.O. Korhonen Oy and Martela Oyj were combined at the beginning of 2004. The objective was to improve internal efficiency and customer service, and to achieve a more comprehensive distribution network for our collections.

Martela Oyj's exports will focus on Scandinavia; Russia and the Baltic countries in Eastern Europe; Germany, the Netherlands and Great Britain in Western Europe; and Japan, where P.O. Korhonen Oy's products have achieved a strong market position. In Sweden, Norway and Poland, export distribution is handled by the Group's own subsidiaries. In other market areas, sales are handled by established, long-term partners. Direct project export deliveries are also carried out from Finland.

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

The process of office furniture manufacture is highly automated and is based on a wide range of subcontracts for component supply, their assembly by the Group, and fast and reliable deliveries. As production is driven by customer orders, the need for storing 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 demanding customer applications. The research centre examines and tests the products in various ways such as durability and quality. Altogether, the plants at Nummela and the logistics process employ about 200 people.

For many years, Martela Oyj has applied the ISO 9001 standard in quality management and the ISO 14001 standard in environmental management.

• KIDEX OY

Established by Martela in 1975, the furniture plant in Kitee was incorporated into Kidex Oy on 1 January 2004. It is a fully owned subsidiary of Martela Oyj. Its invoicing for 2004 stood at EUR 9.5 million, and the company employed an average of 90 persons.

Kidex Oy's business idea is to be a contract manufacturer of wood-based furniture components.

The subsidiary's customers include Martela Group companies and also non-Martela furniture manufacturers, especially kitchen and shop furniture manufacturers.

The plant also manufactures components for cabinets and pedestals and free-form table tops. In addition, the Kitee plant assembles pedestals and manufactures cabinets. The materials used are coated particle boards and MDF boards.

Most of the subsidiary's 2004 deliveries were destined for Martela Oyj and its Nummela plants. The number of customers outside the Group is increasing, recording a 15 per cent share of total sales in 2004.

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

Kidex Oy's quality management system is to date certified as part of Martela Oyj's quality management system.

The company is working to significantly increase its turnover through active contract manufacturing and business operations in Scandinavia, offering flexible, cost-effective and high-quality services to its customers. In order to achieve this target, the company is prepared to expand its ownership structure.

__Picco__, design Timo Saarnio

• P.O. KORHONEN OY

P.O. Korhonen, located in Raisio, Finland, is a fully-owned subsidiary of Martela Oyj. The company manufactures wooden furniture based on moulding technology. Its 2004 turnover stood at EUR 8.4 (9.7) million and the average number of employees was 68 (78).

Furniture made by the company is designed for offices and public spaces, for schools, retirement homes and day care centres. In addition to the products designed and manufactured by P.O. Korhonen itself, the company also has a network of subcontractors. In recent years the company has expanded its product portfolio, most notably with its auditorium collection, with a clear increase in sales.

About half of the deliveries are exported to Scandinavia, Central Europe and Japan.

At the beginning of 2004, the company's domestic and export sales resources - with the exception of auditorium sales - were merged with Martela Oyj's domestic and export sales organisations. This structural change is reflected in the company's invoicing and personnel figures. The company is seeking growth especially in exports and the market for auditorium furniture.

The company has held an ISO 9001 quality management certificate since 2003 and an ISO 14001 environmental management certificate since 2004.

P.O. Korhonen Oy was awarded an international Investors in People (IiP) human resources certificate at the end of 2003. The purpose of the IiP certification is to encourage companies to channel their competencies in order to achieve their goals, and also to measure the effectiveness of their personnel investments. The IiP certificate is the only standard that is associated with employees.

***Credir**, design Leena Palsanen*

Business unit Scandinavia

The Group's business unit Scandinavia comprises Martela 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. 19.1 per cent (22.8) 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.

The year 2004 was weaker than the previous year for Martela in Scandinavia. The overall turnover and profit targets for 2004 were not achieved and the company's market position remained more or less the same. Invoicing in 2004 totalled EUR 16.6 million (21.9). Market demand decreased due to weak overall economic development and uncertainty. Invoicing decreased all over in Scandinavia.

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.

During the review year, Martela introduced the new cabinet product range Combo.

Martela does not expect to achieve substantial total growth in Scandinavian markets during 2005. Due to the weak market situation, the company's operations have produced substantial losses in recent years. 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.

BU Scandinavia total	2004	2003	change %
Invoicing (EUR million)	16.6	21.9	–24.0
Average personnel	98	150	–34.7

Martela AB	2004	2003	change %
Invoicing (EUR million)	15.6	18.8	–16.7
Average personnel	87	125	–30.4

Aski *) Inredninscenter AB	2004	2003	change %
Invoicing (EUR million)	1.6	4.2	–61.4
Average personnel	9	20	–55.0

Martela AS	2004	2003	change %
Average personnel	2	5	–60.0

*) Aski Inredninscenter AB was sold in August 2004.

Arco, design Mikko Halonen

• 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 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 69 people (114).

The weak market situation in Sweden continued during 2004. Invoiced sales totalled EUR 12.8 million in 2004, which represents a decrease of 22.6 per cent. Martela AB's turnover decreased by 16.6 per cent from the previous year.

• 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 (4).

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 2004. The invoiced sales of the Group totalled EUR 5.3 million, a decrease of 4 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 1.4 million in 2004. Invoicing decreased by 14.5 per cent compared to the previous year.

***Combo**, design Iiro Viljanen*

Business unit Poland

The Group's Polish business unit consists of a Polish subsidiary, which was renamed Martela Sp. z o.o. in late November.

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, Wroc∏aw, Katowice, Gdaƒsk, Poznaƒ and Kraków), its price competitiveness due to local assembly and subcontracting, and its ability to adapt products to the needs of the local market.

Following a period of strong growth in the 1990s, the Polish economy almost came to a halt in the early 2000s. However, the tide turned in late 2003 and economic growth was good in 2004, and is expected to continue at almost the same rate in 2005.

In 2004, Martela continued to develop its business operations in Poland in accordance with its strategy. The sales network was strengthened, brand recognition was improved and additional products were transferred for local assembly and subcontracting. All Martela offices organised architectural seminars attended by over 500 architects. The new task chair Onda was launched in August.

Martela employed 50 people in Poland in 2004.

With its 5 per cent market share, Martela can already be counted as one of the country's leading office furniture suppliers and has all the prerequisites for strengthening its position even further.

Personnel and process development will be continued in 2005 on the basis of the personnel survey carried out in 2004.

In February 2005, Martela will be moving its production and logistics operations to a new 3,000 m2 facility in Warsaw. This will enable Martela to produce even more of its products locally.

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

BU Poland	2004	2003	change %
Invoicing (EUR million)	4.6	3.7	23.9
Average personnel	50	53	–5.7

***Grafio**, design Pekka Toivola*

Product development and marketing

Highlights of the year

All marketing functions were placed under a single organisation and merged with product development in May 2004. This organisation is in charge of product development, product marketing, collection management and marketing communications. The purpose of the new organisation is to provide an additional boost to the product development process, improve the market-orientation of products and the timing of launches, and ultimately maintain the role of a pioneer and boost product innovation.

The external launch of the Axia task chair family continued successfully in 2004. It has taken the Finnish task chair market by storm thanks to its excellent ergonomics and properties that support good sitting postures. The Axia launch campaign received a special mention at the Finnish Direct Marketing Association's annual event.

Launching the Combo line of cabinets, cupboards and related furniture was a major challenge for the entire organisation, but one with a successful outcome. Combo brought new elements and customer benefits to offices' storage needs, and also unified the Group's collections further, as the manufacture of the same product will begin in other Group logistics centres by the second quarter of 2005.

The Clash chair's success continued: it won first prize in the FX International Interior Design Awards in London, the Grand Prix prize at MOBITEX 2004 in Brno, Czech Republic and the ADEX (Award for Design Excellence) Platinum Award in the United States.

Numerous different services have been introduced to make changes and alterations in the office environment easier. The sales of these services began with customer pilots a few years ago. A substantial turnover was created already in 2004, and demand is increasing sharply. These services include making an inventory of old furniture, a planning and recycling service when buying new furniture, funding service, ergonomics counselling, task chair analysis and maintenance service.

Outlook for the near future

Brand communication and product campaigns will be intensified in 2005. The new-generation, electrically adjustable desk to be launched in the early part of the year will support the marketing of basic desks in all market areas. The marketing of new services will also be continued.

Martela will be celebrating its 60th anniversary in 2005, marking the occasion during the year in various events and also in marketing communications.

***Kari**, design Kari Asikainen*

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 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 model utilises the ISO 9001:2000 standard, and the Group's environmental management model 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 cycle, and to increase the reuse and recycling of materials.

Highlights of the year

During the period under review, Kidex Oy's operations were developed on the basis of the Group's quality and environmental management systems, resulting in Kidex Oy's own operational system that conforms with ISO 9001:2000 and ISO 14001 standards. Kidex's operational system has not been certified by an outside body.

The certification of Martela AB's operations in 2003 has unified operating models in the Group concerning quality and environmental management issues, despite operational and organisational changes.

Work has continued systematically - in co-operation with product development and production in the chair and surface finishing factories operating in 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 expanded into a nationwide service, becoming an important part of Martela's environmental management in its day-to-day customer service operations.

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

Outlook for the near future

The biggest challenges for Martela Oyj in 2005 will be to carry out extensive development projects to improve the overall quality of order and delivery processes. In environmental management, the objective continues to be the development of more energy-efficient production processes, and to minimise the environmental load of the processes by means of new products and technology.

In 2005, Martela Group will continue to organise the Group's operational systems, taking into consideration the varying needs and preconditions of different market areas.

Opteam S, design Martela

Personnel

Like the year before, 2004 saw many changes take place in the Group. Staff numbers were adjusted, the organisation restructured and development projects designed to change working methods continued throughout the year.

Key events of the year in Finland

At the end of December 2004, Martela Oyj employed 339 people, 181 of which worked as clerical employees and 158 in other functions. During the year, a total of 13 people were made redundant based on financial and production reasons. In addition, staff members were laid off for a fixed period or until further notice.

As in previous years, every attempt was made in planning and implementing staff reductions to use a compassionate approach. Outplacement training was arranged for employees who were leaving in order to help them find new jobs. In addition, they were able to benefit from the services of occupational health and HR experts.

Staff reductions are also hard for the staff members who remain in the organisation. As the staff reductions in 2004 mainly affected clerical staff, the Group arranged training for them to better understand the process of change and help teams to cope and function.

Developing managerial skills was one of the main themes of 2004. Throughout the year, managerial staff underwent training sessions to improve their basic skills and special training days to analyse strategic goals and current topics. The Group also founded a managerial skills library. At the end of the year, the Group carried out its second 360-degree management survey which provided managers with feedback from their superiors, subordinates and colleagues. The survey results showed improvements from 2003, indicating that the investments made in management development have paid off.

On 1 January 2004, Martela introduced a new salary system for all employee groups, based on job difficulty ratings. The new pay structure combines job-specific, personal and bonus components, and proved highly effective during its first year. If necessary, the system will be developed further in co-operation with staff representatives.

In the spring of 2004, Martela created a new incentives system which was tested during the summer. The system is aimed at Martela Oyj's sales staff in Finland, and the objective is to improve profitability and increase sales volumes. The incentive system, which rewards sales staff for excellent performance, was taken into use on 1 October 2004.

Despite hard times, Martela has always invested in developing staff competencies. In previous years the focus has been on individual and team competencies, but in 2004 the scope was broadened to include organisational competence. Martela's strategic competencies, aimed at ensuring the company will achieve its main goals, were mapped out in the autumn. In 2005, the focus will be on improving these competencies.

The results of Martela's annual job satisfaction survey were analysed and discussed in all departments. Each department has drawn up an action plan based on the results to address individual departmental development needs. It is noteworthy that, despite the difficult times, job satisfaction has not declined. In 2004, Martela promoted staff wellbeing by supporting sport and culture related hobbies and other leisure time activities.

At the end of 2004, P.O. Korhonen employed 64 people. The company continued to develop its staff and operations in accordance with the Investors in People (IIP) certificate first granted to the company in 2003. Each team and clerical staff member has individual goals derived from the company's strategy and operating plan. Progress made in achieving the goals is monitored.

Job satisfaction was measured through a staff survey and the results were analysed with staff members. The theme of 2004 was internal customers and the entire staff received related-training. The company's security of supply improved significantly compared to the previous year, thanks to a process of continuous improvement. Staff members made more than 200 development proposals during the year, more than 3 proposals per person.

***Tangent table**, design Pekka Toivola*
***Mini Kilta chair**, design Olli Mannermaa*

Martela's Kitee production plant was incorporated at the beginning of 2004 and named Kidex Oy. The Kitee plant now manufactures products for external customers as well as for Martela. These changes and new operations lead to the restructuring of the plant organisation, including the specification of tasks and responsibilities and managerial training. The company will further promote these aspects in 2005. Kidex Oy downsized its staff in February 2004 for financial and production reasons. At the end of the year, the staff totalled 90 employees. In the autumn, Kidex outsourced the plant's canteen to Amica Restaurants Ltd. The new pay system was tested in 2004. Job satisfaction and managerial skills were measured in the autumn. The results form a basis for the future development of the organisation and management skills.

Key events of the year in Scandinavia and Poland

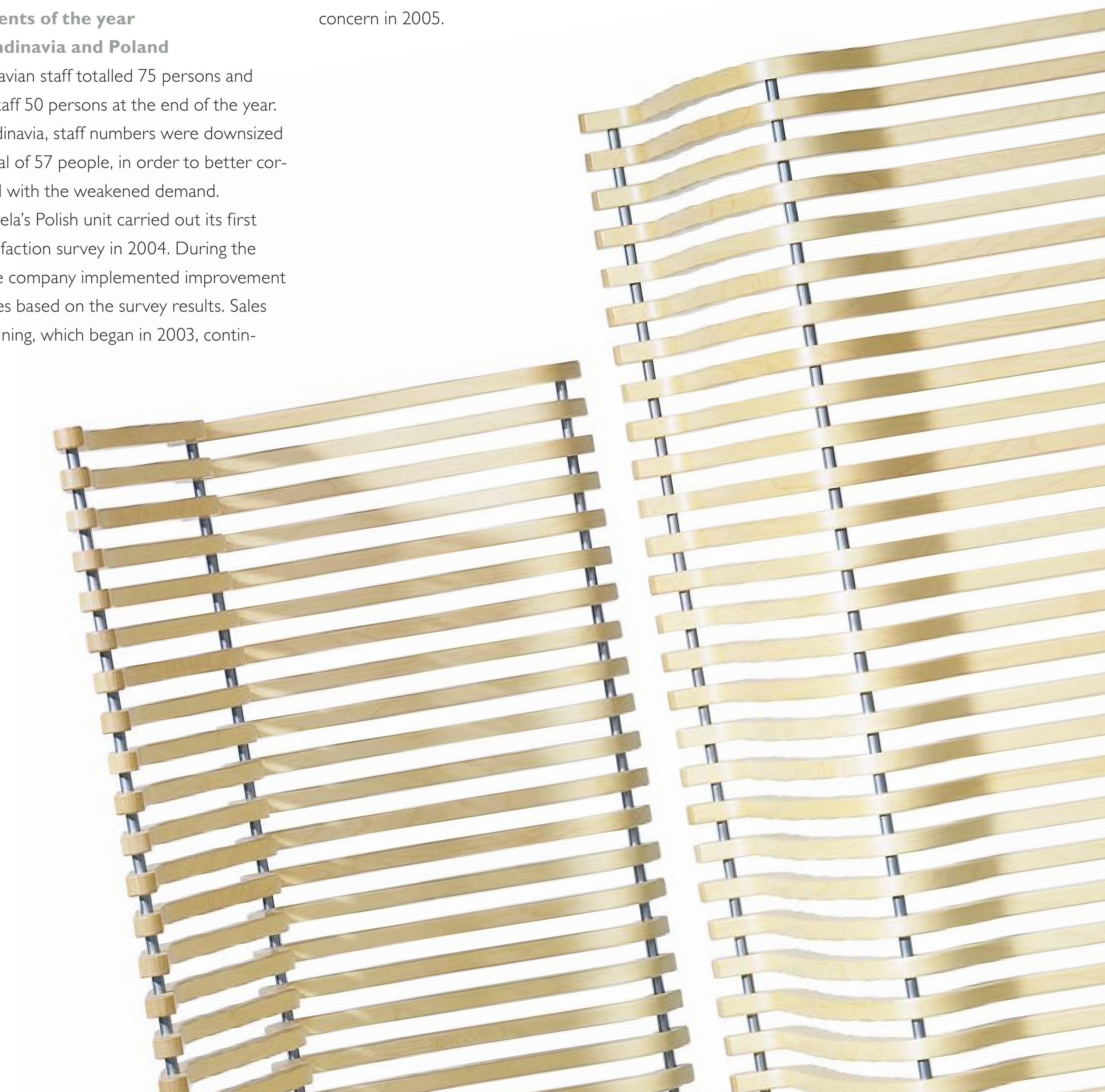
Scandinavian staff totalled 75 persons and Polish staff 50 persons at the end of the year. In Scandinavia, staff numbers were downsized by a total of 57 people, in order to better correspond with the weakened demand.

Martela's Polish unit carried out its first job satisfaction survey in 2004. During the year, the company implemented improvement measures based on the survey results. Sales staff training, which began in 2003, continued in 2004 and each sales staff member received six days of training during the year. The training is aimed at improving sales staff's professional skills and ability to bring in new customers. The training will continue in 2005.

Outlook for the near future

One of the most crucial factors for a company's success is to possess the competencies needed for the company to achieve its goals. In 2005 Martela will be investing in both individual and team competencies, as well as in the strategic competence of its organisation. The development of management skills will continue along the same lines as in 2004. More attention will be paid to staff wellbeing, and the Group will examine whether the flexible "working time account" system could be adopted. Measures to further improve the incentive system will remain an important concern in 2005.

***Schelectro**, design Kari Asikainen*



Board of Director's Report

The long decline in demand for office furniture seems to have ended. Martela Group's turnover declined by 1.4 per cent on the previous year and totalled EUR 100.7 million (102.1). The decrease was influenced by business divestments that took place in Sweden in August. Turnover began to increase towards the year's end.

The result before extraordinary items and taxes improved significantly, but was still negative at EUR -3.0 million (-11.3). The results of both the third and the fourth quarter were profitable. The result includes non-recurring items resulting from structural changes and the adoption of IFRS (International Financial Reporting Standards) whose net effect on the year's result is EUR -0.4 million.

The decline in the number of personnel continued. The average number of personnel fell by 13.7 per cent. The personnel numbered 613 (715) at the end of the year.

The equity ratio was 33.8 per cent (36.8) at the end of the year. The financing situation remained good, cash flow was positive and the Group's liquid assets were EUR 7.8 million (7.4) at the end of the year.

A positive result is expected for 2005, although the beginning of the year is expected to be loss-making due to the fact that invoicing is normally lower in the first months of the year.

Market situation

It appears that the sustained decline in demand came to a halt in 2004. The overall demand for office furniture in Finland and Scandinavia has fallen from its peak in 2000 by about 40 per cent. The sector is post-cyclical. Despite the slight recovery in invoicing in the year's second half, there is much uncertainty as to the permanency of the improvement in demand.

Group structure and organisation

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

The sales organisations of P.O. Korhonen Oy and Martela Oyj were combined at the beginning of 2004. Korhonen's sales team joined Martela Oyj, as a result of which Korhonen products are now mainly sold through Martela Oyj's domestic and export sales organisations.

The screen business of Martela AB's Bodafors production facilities was sold in August 2004 to Svenska Möbel AB, already a long-time tenant in Martela AB's facilities in Bodafors. The invoicing of the screen business was EUR 2.5 million in 2003, and EUR 1.0 million for January-July 2004. As a result of the divestment, the 15-person screen business organisation was transferred to Svenska Möbel AB's payroll. The company leases the facilities needed for the business from Martela AB, in addition to their already leased facilities.

The business and real estate of Aski Inredningscenter AB, located in Malmö in southern Sweden, were sold in August to Input Interiör AB. Input Interiör AB is the largest office furniture dealer for Martela AB and also for the whole of Sweden. Aski Inredningscenter AB's turnover was EUR 4.2 million in 2003, and EUR 1.6 million in January–July 2004. The company employed 14 people when it was sold. 68.0 per cent of the company's invoicing was derived from products sold outside the Group.

Turnover

The Group's turnover declined by 1.4 per cent on the previous year and totalled EUR 100.7 million (102.1). The Group's invoicing has fallen by 42 per cent from the year 2000 as a result of the poor market situation and a number of structural changes. Invoicing increased on the Finnish market by 2.1 per cent, and fell in Scandinavia by 17.7 per cent, which was influenced by the divestments made in August. Excluding the structural changes, the decrease in invoicing on the Scandinavian market was approximately 6 per cent. The other markets grew in total by 9.3 per cent, largely thanks to an increase in invoicing in Poland, Eastern Central Europe, Russia and Japan.

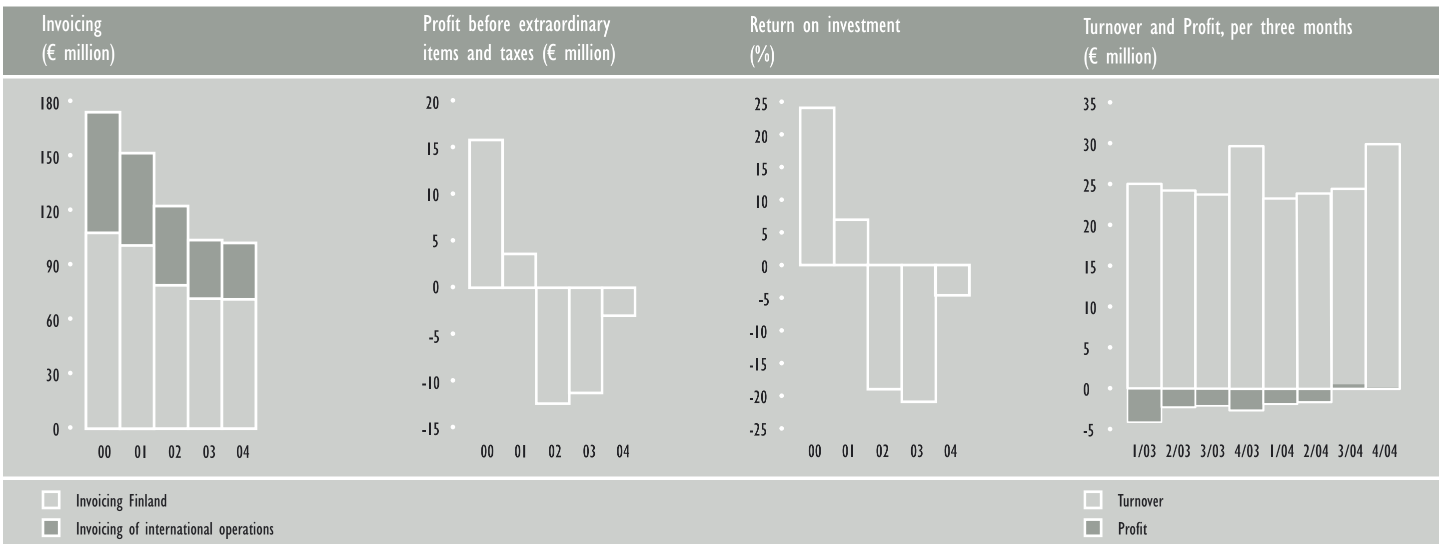
Results and profitability

In 2004, the result before extraordinary items and taxes was negative at EUR -3.0 million (-11.3). The effect of structural changes and asset revaluation on the result for the year is EUR –0.4 million.

Measures to rationalise the cost structure have continually reduced the losses, and the Group's result before extraordinary items and taxes was a profit for the year's second half.

Non-recurring items negatively affected the result of the last two quarters in particular.

The operating result of companies operating in Finland turned profitable again in 2004,



thanks to increased sales and a better cost structure.

The invoicing of Scandinavian companies declined, partly as a result of the above-mentioned structural changes. Further personnel cuts and the accompanying structural changes and business divestments caused significant non-recurring income and expense items whose net effect on the result was EUR –0.2 million. The operations of the Scandinavian companies have been streamlined for many years already, but the result remained a loss.

Thanks to growth in invoicing by the Polish company, there was a clear improvement in profitability, although the result for the whole of 2004 remained a loss.

Capital expenditure

The Group's gross capital expenditure of EUR 0.9 million came almost to the same level as the previous year (1.0). Investments were further restricted to ensure cash flow, and investments were clearly lower than depreciation. The investments were mainly IT and production replacement investments.

Personnel

The number of personnel at work fell by 102 during the year. The Group employed an average of 662 (767) persons, down by 13.7 per cent on the previous year. There were 613 employees at the end of the year. The personnel decreased by 27 employees due to divestments.

By the end of 2004, the number of personnel had decreased by 41 per cent from 2000, when it was at its highest. Net sales have decreased by 42 per cent from 2000. Invoicing per employee is rising sharply. In 2005, the number of personnel is estimated to remain at the level of early 2005, which means a 7 per cent reduction from the average level of 2004.

Martela AB's Managing Director changed at the beginning of December 2004. The new Managing Director is Hans Biéth, who was previously in charge of the Iittala Group's Swedish operations.

Product development

Product development employed 22 people (24) during the year, with product development expenses accounting for 2.7 per cent (2.5) of the turnover.

The biggest news during the year was the Combo line of cabinets, cupboards and related furniture that was launched in the early part of the year. Combo will unify the Group's collections further, and the intention is to assemble it not only in Nummela, but also in the Group's other logistics centres.

Other collections have also been developed, in particular electrically adjustable desks.

Invoicing in principal market areas (EUR million)

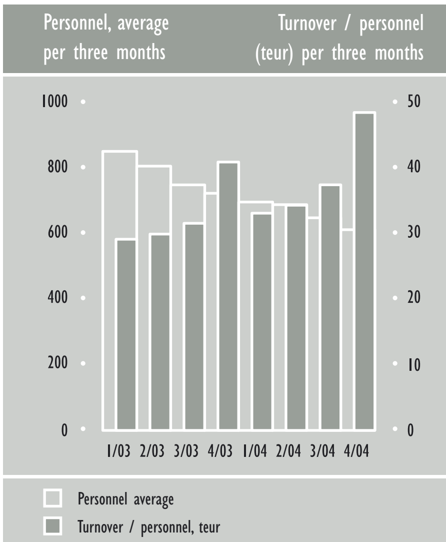
	2004	Share %	2003	Share %	Change %
Finland	70.7	69.5	69.3	67.0 %	2.1 %
Scandinavia	19.4	19.1	23.6	22.8 %	– 17.7 %
Europe	9.5	9.4	9.0	8.7 %	4.6 %
Other regions	2.1	2.0	1.5	1.5 %	37.3 %
Group total	101.7	100.0	103.4	100.0 %	– 1.7 %

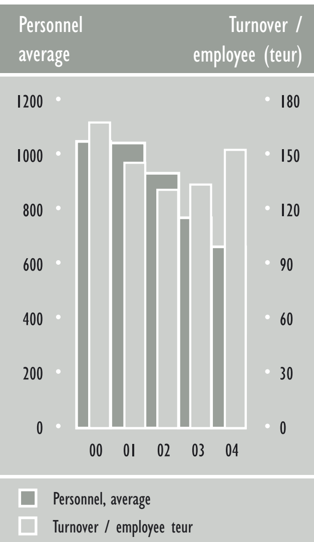
Invoicing in Finland accounted for 69.5 per cent of the Group's total invoicing.
The English and German subsidiaries were divested in May 2003.

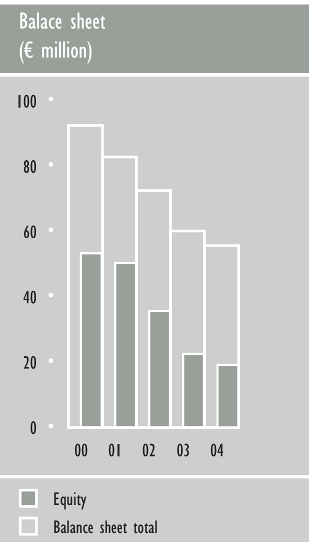
Personnel

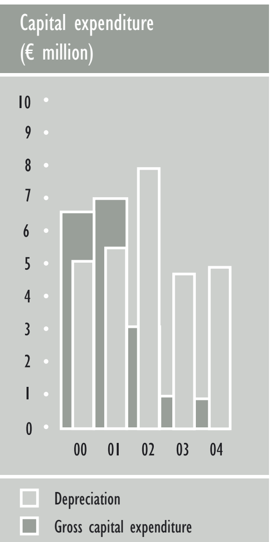
	2004	2003		Change %
Martela Oyj	356	486	1)	– 26.8
Kidex Oy	90	0	1)	–
P. O. Korhonen Oy	68	78		– 12.8
Finland total	514	564		– 8.9
Martela AB	87	125		– 30.4
Aski Inredningscenter AB	9	20		– 55.0
Martela AS	2	5		– 60.0
Scandinavia total	98	150		– 34.7
Martela Sp z o.o., Poland	50	53		– 5.7
Group total	662	767		– 13.7

1) The personnel of the Martela Oyj Kitee plant were employed to Kidex Oy, which incorporated on 1 January, 2004.









The Group's extensive service concept has been developed into more new products. We can offer a number of services to cater for the changing needs of office environments, including removals, inventory and recycling of old furniture in connection with sales, maintenance of all furniture, and finance.

Financing

Cash flow from business turned positive thanks to the better result, and stood at EUR 2.5 million (-5.6). The net cash flow from investments was EUR -0.3 million (1.0) as a result of sales of fixed assets and businesses. Interest bearing liabilities fell by EUR 1.6 million and totalled EUR 20.9 million (22.5) at the end of the year. Liquid assets grew and amounted to EUR 7.8 million (7.4) at the end of the year. The equity ratio was 33.8 per cent (36.8) at the end of the year and the gearing ratio was 71.1 per cent (69.4)

Annual General Meeting

The Annual General Meeting, held on 16 March 2004, elected Heikki Ala-Ilkka, Tapio Hakakari, Matti T. Martela, Heikki Martela, Pekka Martela, Jori Keckman and Jaakko Palsanen as members of the Board of Directors for the next term. Hannu Kosonen was elected 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 re-authorised the Board of Directors to decide, for the following year, on raising the share capital, issuing convertible bonds and acquiring and/or disposing of the company's shares in deviation from the pre-emptive rights of shareholders.

Extraordinary General Meeting

An Extraordinary General Meeting on 7 December 2004 approved the Board's decision to increase the company's share capital from EUR 3,500,000 to EUR 7,000,000 through a bonus issue by transferring EUR 3,500,000 from the share premium account to the share capital. The bonus issue consisted of 1,775,400 new A shares and 302,400 new K shares, all with a counter book value of EUR 1.68. One (1) new A share was given for each one (1) old A share, and one (1) new K share for each one (1) old K share. The bonus issue was entered in the trade register on 10 December 2004.

Own shares

Martela did not purchase any of its own shares in 2004. As a result of the bonus issue, the number of Martela's shares owned by Martela doubled. On 31 December 2004, Martela owned 67,700 of its own A shares, which had been purchased at an average price of EUR 10.65. Martela's holding of its own shares amounts to 1.6 per cent of all shares and 0.4 per cent of all votes.

IFRS

From the beginning of 2005, Martela Oyj will publish its consolidated financial statements and interim reports and comparison figures in accordance with the International Financial Reporting Standards (IFRS). Conformance with the new standards requires that the comparison figures for 2004 must be presented in a corresponding way. This change will increase, among other things, the balance sheet total, the equity ratio and depreciation. A separate stock exchange release will be published on the IFRS-compliant beginning balance sheet for 2004 and on the effect of the change on balance sheet items.

Corporate governance

The Corporate Governance Recommendation for Listed Companies issued by HEX Plc, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers in 2003 came into force on 1 July 2004. Martela Oyj's corporate governance system has been updated to correspond with these recommendations.

Outlook for the future and development decisions

The key target for 2005 is to achieve a positive result. No significant change is expected in 2005 in the overall demand for office furniture.

The Group's cost structure has improved as a result of the measures carried out. The Group is seeking growth primarily in its current main market areas in Finland, Scandinavia and Poland. In Finland, growth is founded on actively selling comprehensive office furnishing services and new products and on raising the share of new customers for Kidex Oy, Martela's contract manufacturer.

In Scandinavia, growth is founded on more competitive collections, strengthening the dealer network and developing the processes that support it.

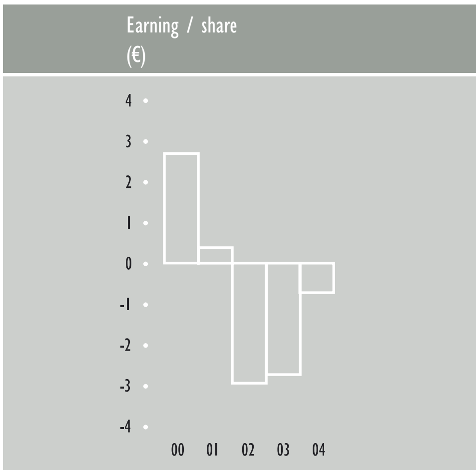
In Poland, a new logistics centre was launched in February 2005. The purpose is to expand local assembly and subcontracting even more, and to strengthen the company's sales network.

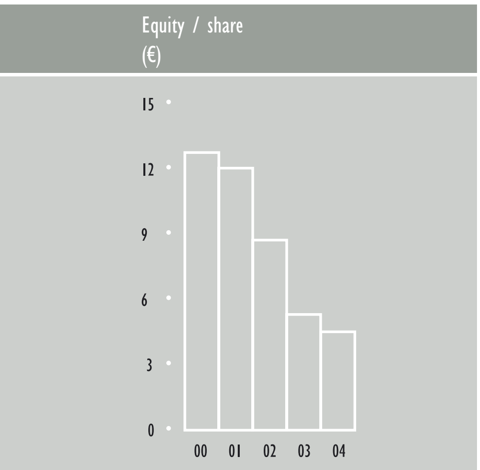
The Group's invoicing is usually at its highest in the last quarter, followed by a clearly poorer quarter. This will probably be the case also in 2005, which is why the result for the beginning of the year is expected to be a slight loss. However, the forecast for the entire year is expected to be clearly profitable.

Helsinki, 16 February 2005

Martela Oyj

Board of Directors





Income statement

(EUR 1,000)	Ref.	Group 1.1. – 31.12.2004	Group 1.1. – 31.12.2003	Parent company 1.1. – 31.12.2004	Parent company 1.1. – 31.12.2003
TURNOVER	1	100 747	102 130	79 667	73 577
Change in manufacturing inventories		-493	-281	150	-2
Production for own use		20	19	15	17
Other income from operations	2	1 629	574	467	260
Materials and services	3	-73 152	-80 177	-61 390	-57 945
Personnel expenses	4	-26 088	-28 257	-14 882	-17 947
Depreciation and reduction in value	5	-4 881	-4 699	-1 782	-3 548
OPERATING PROFIT (LOSS)		-2 218	-10 691	2 245	-5 588
Financial income and expenses	6	-758	-583	-2 281	-2 309
PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS		-2 976	-11 274	-36	-7 897
Extraordinary expenses	7	0	-1 372	0	-3 716
Extraordinary income	7	0	0	400	0
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES		-2 976	-12 646	364	-11 613
Appropriations	8	0	0	0	1 430
Income taxes	9	305	372	-51	-55
PROFIT (LOSS)FOR THE FINANCIAL YEAR		-2 671	-12 274	313	-10 237

Statement of Source and Application of Funds

	Group		Parent company	
(EUR 1,000)	1.1. – 31.12.2004	1.1. – 31.12.2003	1.1. – 31.12.2004	1.1. – 31.12.2003
FUNDS GENERATED FROM OPERATIONS				
Cashflow from sales	101 567	102 427	77 318	73 904
Cashflow from other income from operations	1 268	421	211	110
Payments on operational costs	-100 067	-107 887	-74 054	-72 719
Cashflow from operations before financial items and taxes	2 768	-5 039	3 475	1 295
Interests paid and other financial payments	-131	-953	-93	-173
Taxes paid	-137	570	-95	-11
Cashflow from operations before extraordinary items	2 500	-5 422	3 287	1 111
Cashflow from extraordinary items (net)	0	-140	0	-140
Cashflow from operations (A)	2 500	-5 561	3 287	971
CAPITAL EXPENDITURE				
Capital expenditure on intangible and tangible assets	-928	-819	-606	-644
Cashflow from assignments of intagible and tangible assets	715	2 083	580	198
Loans granted	-142	-217	-528	-935
Capital expenditure on other short term investments	0	0	-2 920	-4 147
Repayments of receivables	7	0	711	1 045
Cashflow from capital expenditure (B)	-348	1 047	-2 763	-4 483
FINANCING				
New short-term loans	0	1 267	0	0
Repayments on short-term loans	-108	0	0	0
New long-term loans	2 001	5 952	2 000	5 400
Repayments on long-term loans	-3 143	-5 671	-1 981	-5 130
Dividends	-511	-511	-511	-511
Cashflow from financing (C)	-1 761	1 037	-492	-241
CHANGE IN LIQUID FUNDS (A+B+C) (+ increase, - decrease)	391	-3 477	32	-3 753
Liquid funds at the beginning of financial year 1)	7 421	10 897	6 829	10 580
Liquid funds at the end of financial year 1)	7 812	7 421	6 860	6 829

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

Balance Sheet

(EUR 1,000)	Ref.	Group 31.12.2004	Group 31.12.2003	Parent company 31.12.2004	Parent company 31.12.2003
ASSETS					
FIXED ASSETS AND OTHER NON-CURRENT INVESTMENTS	10				
Intangible assets					
Intangible rights		327	407	226	355
Other long-term expenditure		601	908	397	731
Advance payments		73	18	57	18
		1 001	1 333	680	1 104
Tangible assets					
Land and water areas		1 924	2 446	215	219
Buildings and constructions		7 548	8 773	3 323	5 260
Machinery and equipment		6 577	8 735	2 651	7 387
Other tangible assets		24	24	20	20
Advance payments and construction in progress		579	538	387	463
		16 652	20 516	6 596	13 349
Investments					
Shares in subsidiaries	17	0	8	6 484	5 162
Shares in associated companies	17	22	22	22	22
Own shares	17	721	721	721	721
Other shares and participations	17	1 910	2 153	1 855	2 096
Loan receivables	10	0	0	9 694	7 418
		2 653	2 904	18 776	15 419
CURRENT ASSETS					
Inventories	11				
Materials and supplies		5 937	5 682	3 184	3 113
Work in progress		1 524	1 685	500	880
Completed products / goods		2 483	2 749	1 504	1 584
Prepaid expenses		12	10	0	0
		9 956	10 126	5 188	5 577
Receivables	12				
Trade receivables		15 753	16 178	11 823	11 453
Loan receivables		460	292	6 833	3 700
Accrued income and prepaid expenses		905	977	303	545
		17 118	17 447	18 959	15 698
Financial asset securities					
Other securities		5 267	5 187	5 267	5 187
		5 267	5 187	5 267	5 187
Cash and banks		2 545	2 234	1 593	1 642
		55 193	59 748	57 059	57 976

Balance Sheet

(EUR 1000)	Ref.	Group 31.12.2004	Group 31.12.2003	Parent company 31.12.2004	Parent company 31.12.2003
LIABILITIES					
SHAREHOLDERS' EQUITY	13				
Shareholders' equity					
Share capital		7 000	3 500	7 000	3 500
Share premium account		1 116	4 616	1 116	4 616
Own shares fund		721	721	721	721
Reserve fund		121	121	11	11
Retained earnings		12 823	25 774	20 218	30 968
Profit for the year		-2 671	-12 274	313	-10 237
Total		19 110	22 458	29 379	29 579
APPROPRIATIONS	13			0	2 088
CREDITORS	15				
Deferred tax liability	14	378	742	0	0
Long-term					
Loans from credit institutions		11 020	12 899	9 102	9 846
Pension loans		2 253	2 960	2 119	2 825
Other long-term liabilities		0	382	0	338
		13 273	16 241	11 221	13 009
Current					
Interest-bearing					
Loans from credit institutions		4 932	3 485	4 344	2 875
Pension loans		706	706	706	706
Overdraught facilities		1 970	2 078	0	0
Other current liabilities		0	0	680	639
		7 608	6 269	5 730	4 220
Non-interest bearing					
Advances received		95	15	0	0
Trade payables		6 363	6 989	5 019	4 639
Accrued liabilities and prepaid income		5 017	4 068	3 655	2 560
Other current liabilities		3 349	2 966	2 055	1 882
		14 824	14 038	10 729	9 081
Creditors, total		36 083	37 290	27 680	26 310
		55 193	59 748	57 059	57 976

Notes to the financial statements 31.12.2004

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include Martela Oyj and its subsidiaries. Inter-company share ownership within the Group has been eliminated using the acquisition cost method. Intra-Group transactions, unrealized margins on intra-company deliveries, internal receivables and debts as well as the internal distribution of profit have been eliminated. The difference between the purchase price of shares in subsidiaries and their equity at the time of acquisition has been partly allocated to real estate, the remainder constituting goodwill. The 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.

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. After having filled 60 years the Managing Director is entitled to retire in full.

IFRS

From the beginning of 2005 Martela Oyj prepares the consolidated financial statements and interim reports with comparative information in accordance with IFRS. A separate announcement will be published about the IFRS opening balance 2004 and the effects of changes on balance sheet.

Notes to the financial statement

(EUR 1 000)	Group 31.12.2004	Group 31.12.2003	Parent company 31.12.2004	Parent company 31.12.2003
INCOME STATEMENT				
1. Turnover				
Breakdown of turnover by market area, % of turnover				
Finland	69.5	67.0	85.2	90.1
Sweden	12.6	15.9	2.2	1.1
Norway	5.2	5.3	2.6	1.5
Denmark	1.3	1.5	0.8	0.8
United Kingdom	0.5	1.0	0.6	0.4
Germany	0.4	0.6	0.5	0.4
Other Western Europe	1.5	1.3	1.1	0.9
Poland	3.9	3.5	1.7	1.5
Russia	1.4	1.3	1.8	1.8
The Baltic countries	0.6	0.5	0.7	0.7
Other Eastern Europe	1.0	0.6	0.5	0.5
Other exports	2.1	1.5	2.3	0.3
Total	100.0	100.0	100.0	100.0
2. Other income from operations				
Gains on sale of assets	362	158	335	144
Rental income	269	257	132	100
Other income from operations	998	159	0	16
Total	1 629	574	467	260
3. Materials and services				
Materials and supplies				
Purchases during the financial year	50 493	53 290	46 572	40 875
Change in inventories of materials and supplies	-115	1 426	-142	929
Total	50 378	54 716	46 430	41 804
External services and other costs from operations	22 774	25 461	14 960	16 141
Materials and services, total	73 152	80 177	61 390	57 945
Auditor's fees				
Auditing	104		46	
Other services	47		29	
Auditor's fees, total	151		75	
4. Personnel expenses and number of persons				
Salaries, CEO	174		174	
Salaries, group managing directors	430			
Salaries of board of directors	72		72	
Salaries of board of directors and managing directors,total	676	805	246	278
Other salaries	19 409	20 753	11 490	13 694
Pension expenses	3 636	4 055	2 173	2 858
Other salary-related expenses	2 367	2 644	973	1 117
Personnel expenses in the income statement	26 088	28 257	14 882	17 947
Fringe benefits	499	558	416	436
Total	26 587	28 815	15 298	18 383
Personnel				
Average personnel	662	767	356	486
Personnel at year-end	613	715	339	457
Average personnel in Finland	514	564	356	486
Average personnel in Sweden	96	145	0	0
Average personnel in Norway	2	5	0	0
Average personnel in Poland	50	53	0	0
Total	662	767	356	486

Notes to the financial statement

(EUR 1 000)	Group 31.12.2004	31.12.2003	Parent company 31.12.2004	31.12.2003
5. Depreciation				
Depreciation according to plan				
Intangible assets				
Goodwill	0	0	0	0
Other long-term expenditure	520	908	374	739
Tangible assets				
Buildings and constructions	1 049	607	244	356
Machinery and equipment	2 708	3 184	1 164	2 453
Decrease in value of land and water areas	604	0	0	0
Depreciation according to plan, total	4 881	4 699	1 782	3 548
6. Financial income and expenses				
Financial income and expenses				
Dividend income	56	21	53	19
Interest income on short-term investments	46	120	33	58
Interest income on short-term investments from Group companies	0	0	255	157
Gains on foreign exchange and other financial income	258	442	247	439
Interest expenses	-830	-882	-624	-609
Losses on foreign exchange	-50	-174	-14	-193
Other financial expenses	-126	-110	-69	-53
Value adjustment of loan receivables	-112		-2 162	-2 127
Total	-758	-583	-2 281	-2 309
Foreign exchange differences				
Realized	-31	-91	0	-112
Unrealized	0	1	0	0
Total	-31	-90	0	-112
7. Extraordinary items				
Costs for sold subsidiaries (2003) and group contribution (2004)				
8. Appropriations				
Change in depreciation reserve (- increase, + decrease)				
Other long-term expenditure			0	0
Buildings and constructions			0	121
Machinery and equipment			0	1 309
Total			0	1 430
9. Income taxes				
Income taxes from operation	59	59	51	55
Change in deferred tax liability	-364	-431	0	0
Total	-305	-372	51	55
BALANCE SHEET				
10. Fixed assets and other long-term investments				
Intangible rights				
Acquisition cost 1.1.	931	775	806	650
Increases 1.1.-31.12.	115	155	37	155
Decreases 1.1. - 31.12.	-434	0	-434	0
Accumulated depreciation 1.1.	-523	-302	-451	-260
Accumulated depreciations, decreases	370		370	
Depreciation 1.1.-31.12.	-131	-221	-102	-190
Book value 31.12.	328	407	226	355
Other long-term expenditure				
Acquisition cost 1.1.	7 814	8 089	5 845	5 803
Increases 1.1.-31.12.	536	42	81	42
Decreases 1.1. - 31.12.	-2 053	-517	-2 043	0
Foreign exchange differences 1.1. - 31.12.	116	200	0	0
Accumulated depreciation 1.1.	-7 323	-6 377	-5 114	-4 565
Accumulated depreciation, decreases	1 900	379	1 900	
Depreciation 1.1.-31.12.	-389	-908	-272	-549
Book value 31.12.	601	908	397	731

Notes to the financial statement

(EUR 1 000)	Group 31.12.2004	Group 31.12.2003	Parent company 31.12.2004	Parent company 31.12.2003
Advance payments				
Acquisition cost 1.1.	18	13	18	13
Increases 1.1.-31.12.	57	25	41	25
Decreases 1.1. - 31.12.	-2	-20	-2	-20
Foreign exchange differences 1.1. - 31.12.	0	0	0	0
Book value 31.12.	73	18	57	18
Intangible assets book value 31.12.	1 001	1 333	680	1 104
Tangible assets				
Land and water areas				
Acquisition cost 1.1.	2 446	3 215	219	219
Increases 1.1.-31.12.	0	0	0	0
Decreases 1.1. - 31.12.	-604	-684	-4	0
Foreign exchange differences 1.1. - 31.12.	82	-85	0	0
Book value 31.12.	1 924	2 446	215	219
Buildings and constructions				
Acquisition cost 1.1.	23 765	26 637	16 079	16 416
Increases 1.1.-31.12.	4 295	2	31	0
Decreases 1.1. - 31.12.	-4 546	-2 848	-4 327	-336
Foreign exchange differences 1.1. - 31.12.	44	-26	0	0
Accumulated depreciation 1.1.	-14 992	-15 660	-10 819	-10 463
Accumulated depreciation, decreases	31	1 275	2 604	
Depreciation 1.1.-31.12.	-1 049	-607	-244	-356
Book value 31.12.	7 548	8 773	3 323	5 260
Machinery and equipment				
Acquisition cost 1.1.	42 506	43 637	34 448	34 326
Increases 1.1.-31.12.	10 116	456	355	156
Decreases 1.1. - 31.12.	-12 016	-1 640	-11 845	-34
Foreign exchange differences 1.1. - 31.12.	191	53	0	0
Accumulated depreciation 1.1.	-33 771	-31 944	-27 061	-24 608
Accumulated depreciation, decreases	2 259	1 357	7 918	
Depreciation 1.1.-31.12.	-2 708	-3 184	-1 164	-2 453
Book value 31.12.	6 577	8 735	2 651	7 387
Manufacturing machinery and equipment, book value 31.12.	5 442	6 927	2 217	6 447
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.	538	260	463	177
Increases 1.1.-31.12.	377	399	270	395
Decreases 1.1. - 31.12.	-347	-109	-347	-109
Foreign exchange differences 1.1. - 31.12.	11	-12	0	0
Book value 31.12.	579	538	386	463
Tangible assets book value 31.12	16 652	20 516	6 596	13 349

Transfers of fixed assets from Martela Oyj to Kidex Oy due to incorporation of furniture plant in Kitee are shown in increases and decreases

Revaluations of fixed assets				
Buildings	2 809	2 809	1 850	1 850

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

Shares, participations and loan receivables booked under long-term investments				
Group companies				
Shares	0	8	6 484	5 162
Capital Loan receivables			9 694	7 418
Total	0	8	16 178	12 580
Shares in associated companies	22	22	22	22

Notes to the financial statement

(EUR 1 000)	Group 31.12.2004	Group 31.12.2003	Parent company 31.12.2004	Parent company 31.12.2003
11. Inventories				
Unlike earlier practice, the inventories' cost now include a share of fixed general production costs.	423		158	
12. Receivables				
Receivables from Group and associated companies				
Trade receivables from Group companies			1 414	1 836
Loan receivables from Group companies			6 378	3 413
Trade receivables				
Trade receivables falling due within 12 months	15 753	16 178	11 823	11 453
Trade receivables falling due after 12 months	0	0	0	0
Loan receivables				
Loan receivables falling due within 12 months	460	292	3 212	2 109
Loan receivables falling due after 12 months	0	0	3 621	1 591
Loans to the buyer of subsidiary in England, repayment of loans depends on future earnings.				
13. Shareholders' equity				
Share capital 1.1.	3 500	3 500	3 500	3 500
Increase in share capital	3 500	0	3 500	0
Share capital 31.12.	7 000	3 500	7 000	3 500
Share premium account 1.1.	4 616	4 616	4 616	4 616
Change in share premium account	-3 500	0	-3 500	0
Share premium account 31.12.	1 116	4 616	1 116	4 616
Own shares fund 1.1	721	721	721	721
Payment of own shares	0	0	0	0
Own shares fund 31.12.	721	721	721	721
Reserve fund 1.1.	121	121	11	11
Transferred from retained earnings	0	0	0	0
Other change	0	0	0	0
Reserve fund 31.12.	121	121	11	11
Retained earnings 1.1.	13 500	26 478	20 731	31 815
Foreign exchange differences and translation adjustments	-166	143	0	0
Payment of dividend	-511	-511	-511	-511
Payment of own shares	0	0	0	0
Increase in share capital	0	0	0	0
Value adjustment of buildings	0	-336	0	-336
Retained earnings 31.12.	12 823	25 774	20 220	30 968
Profit for the year	-2 671	-12 274	313	-10 237
Shareholders' equity 31.12.	19 110	22 458	29 379	29 577
Appropriations 1.1.			0	3 518
Change in the income statement			0	-1 430
Appropriations 31.12.			0	2 088
The appropriations of Martela Oyj are from accumulated depreciation difference.				
Market value of own shares 31.12.2004: 429895 EUR				
14. Deferred tax liability				
Accumulated depreciation difference	1 303	2 558		
29% of above	378	742		
Transferred to equity	925	1 816		
15. Creditors				
Debts falling due in five years or more				
Loans from financial institutions	684	2 520	0	1 951
Pension loans	0	134	0	0
Total	684	2 654	0	1 951

Notes to the financial statement

	Group		Parent company	
(EUR 1 000)	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Debts to Group and associated companies				
Trade payables to Group companies			2 092	578
Other short-term debts to Group companies			679	639
Accrued liabilities to Group companies			555	224
Current liabilities				
Non-interest bearing debts	14 824	14 038	10 729	9 081
Next year's repayments on long-term loans	5 638	4 191	5 050	3 581
Other interest-bearing debts	1 970	2 078	680	639
Total	22 432	20 307	16 459	13 301
Accrued liabilities and prepaid income				
Accrued liabilities, personnel expenses	3 077	3 076	2 179	1 843
Accrued liabilities, taxes	4	72	0	44
Other accrued liabilities and prepaid income	1 936	919	1 476	673
Total	5 017	4 067	3 655	2 560
16. Pledges granted and contingent liabilities				
Debts, mortgages given as securities				
Pension loans	2 826	3 666	2 826	3 532
Real estate mortgages	2 481	2 502	2 481	2 502
Corporate mortgages	0	0	0	0
Loans from financial institutions	15 940	16 367	13 446	12 721
Real estate mortgages	11 076	10 434	9 072	7 891
Corporate mortgages	7 194	7 511	3 868	3 700
Shares pledged	18	37	18	37
Securities total	20 769	20 484	15 439	14 130

Mortgages to financial institutions include general securities of parent company's pension loans 0.7 Meur (3.6)

Other pledges				
Other pledges concerning rents	0	28	0	28
Guarantees concerning rents	58		58	
Securities granted for Group companies				
Real estate mortgages			0	1 160
Corporate mortgages			0	168
Securities for Group companies total			0	1 328
Guarantees for Group companies			3 080	3 471
On behalf of others				
Guarantees	131	67		
Leasing commitments				
Leasing commitments falling due within 12 months	763	671	624	517
Leasing commitments falling due after 12 months	803	614	657	477
Total	1 566	1 285	1 281	994
Repurchase sureties	253	364	250	361
Other commitments				
Rent commitments	12 061	12 088	10 261	11 787

Notes to the financial statement

	Parent company's holding (%)	No of shares	Par value (EUR 1,000)	Book value (EUR 1,000)
17. Shares and participations 31.12. 2004				
Group companies				
The Group's holding is 100%. The Group's share of voting rights is 100%.				
Kidex Oy	100	200	2 208	2 208
Martela AB, Bodafors, Sweden	100	50 000	T SEK 5 000	550
Aski inredningscenter AB, Malmö, Sweden	100	12 500	T SEK 1 250	132
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 Sp.z o.o., Warsaw, Poland	100	3 483	T PLN 3 483	935
Total				**6 484**
Associated companies				
Essa Office Systems AG, Switzerland	30	34	TCHF 34	22
Rom for Design AS, Norway				
Total				**22**
Own shares		67 700	114	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
Kiinteistö Oy Turun Pitkämäki (real-estate company)		306	5	1 700
Other shares and participations				104
Total				**1 855**

Statistics on Martela Oyj shares

Share capital

The paid-in share capital. which has been entered in the Trade Register, is EUR 7.000.000.
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.
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.
One round lots is 100 shares. Martela Oyj and Nordea Bank Finland Plc have concluded a "Liquidity Providing" (LP) market maker contract.

Breakdown of share capital 31.12.2004

	Number of shares	Total, EUR	%	Number of votes	%
Series K	604 800	1 018 500	15	12 096 000	77
Series A	3 550 800	5 981 500	85	3 550 800	23
Total	**4 155 600**	**7 000 000**	**100**	**15 646 800**	**100**

10 largest shareholders and all the shareholders who own more than 5% of the shares and the voting rights 31.12.2004

	Series K, no	Series A, no	Total no	%	Votes no	%
Marfort Oy	292 000	232 574	524 574	12.6	6 072 574	38.8
Ilmarinen Mutual Pension Insurance Company	0	335 400	335 400	8.1	335 400	2.1
Palsanen Leena	68 486	131 148	199 634	4.8	1 500 868	9.6
Vahinkovakuutusosakeyhtiö Pohjola	0	190 200	190 200	4.6	190 200	1.2
Sijoitusrahasto Alfred Berg Finland	0	187 400	187 400	4.5	187 400	1.2
Martela Heikki	52 122	106 234	158 356	3.8	1 148 674	7.3
Odin Forvaltning AS	0	147 200	147 200	3.5	147 200	0.9
Martela Matti T.	58 256	83 982	142 238	3.4	1 249 102	8.0
Lindholm Tuija	43 122	94 024	137 146	3.3	956 464	6.1
Pohjola Finland Value sijoitusrahasto	0	134 600	134 600	3.2	134 600	0.9
Martela Pekka	69 274	50 646	119 920	2.9	1 436 126	9.2
Other shareholders	21 540	1 857 392	1 878 932	45.2	2 288 192	14.6
Total	**604 800**	**3 550 800**	**4 155 600**	**100.0**	**15 646 800**	**100.0**

The members of the Board of Directors and the Managing Director own a total of 12 % of the company's shares and 25.3.% of the voting rights. Martela Oyj owns 67700 pcs series A shares and they have been bought at an average price of eur 10.65. The amount of own shares corresponds to 1.6% of all shares and 0.4% of all votes.

Breakdown of share ownership by number of shares held

Number of shares	Number of shareholders	%	Number of shares	%	Number of votes	%
1-500	469	62.8	88 484	2.1	118 124	0.8
501-1000	109	14.6	86 790	2.1	97 810	0.6
1001-5000	93	12.4	215 478	5.2	348 478	2.2
Over 5000	76	10.2	3 763 340	90.6	15 077 080	96.4
Total	**747**	**100.0**	**4 154 092**	**100.0**	**15 641 492**	**100.0**
Shares not converted into book-entries			1 508	0.0	5 308	0.0
Total			**4 155 600**	**100.0**	**15 646 800**	**100.0**

Statistics on Martela Oyj shares

Breakdown of share ownership by sector as at 31 December 2004

	Owners number	%	Shares number	%	Votes number	%
Private companies	47	6.3	888 750	21.4	6 436 750	41.1
Financial institutions and insurance companies	11	1.5	881 400	21.2	881 400	5.6
Public sector entities	8	1.1	464 840	11.2	464 840	3.0
Non-profit entities	13	1.7	182 348	4.4	182 348	1.2
Households	663	88.8	1 456 432	35.0	7 395 832	47.3
Foreign investors	4	0.5	248 200	6.0	248 200	1.6
Nominee-registered shares	1	0.1	32 122	0.8	32 122	0.2
Total	**747**	**100.0**	**4 154 092**	**100.0**	**15 641 492**	**100.0**
Shares not converted into book-entries			1 508	0.0	5 308	0.0
Total	**747**	**100.0**	**4 155 600**	**100.0**	**15 646 800**	**100.0**

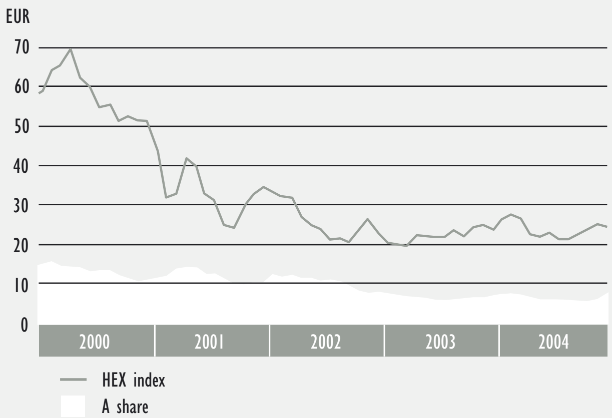
Share issue-adjusted indicators

	2004	2003	2002	2001	2000
Earning/share, EUR	-0.7	-2.7	-2.9	0.4	2.7
Price/earnings multiple, P/E	-9.8	-2.7	-2.4	31.9	4.8
Share par value	1.7	1.7	1.7	1.7	1.7
Equity/share, EUR	4.5	5.3	8.7	12.0	12.7
Dividend/share, EUR	0.15*	0.13	0.13	0.60	1.01
Dividend/earnings, %	-23.1	-4.7	-4.3	160.0	37.7
Effective dividend yield, %	2.4	1.7	1.8	5.0	7.8
Market value capitalization, EUR million **)	26.0	29.2	28.7	49.3	54.0
Share issue adjusted number of shares (thousands)	4155.6	4155.6	4155.6	4155.6	4155.6
Average issue-adjusted number of shares (thousands)	4155.6	4155.6	4155.6	4155.6	4155.6
Series A share					
Lowest price, EUR	5.00	5.38	7.01	8.90	10.25
Highest price, EUR	7.50	7.50	13.00	14.88	15.90
Average price, EUR	5.82	6.41	10.18	11.15	11.09
Price at 31.12.	6.35	7.15	7.01	11.95	13.00
Turnover, EUR million	3.4	2.5	2.4	7.0	7.6
Turnover, No. of shares, thousands	591	392.8	237.8	624.8	685.4
Turnover as a percentage of shares outstanding, %	14.2	9.5	5.7	15.0	16.5

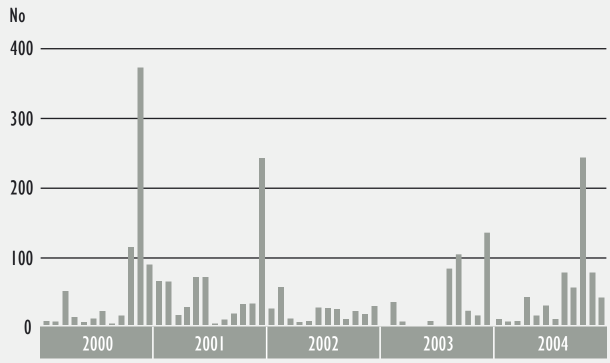
*) Proposal of the Board of Directors
**) The price of Series A shares has been used as the value of Series K shares.

The formulae for calculation the indicators are given on page 40

Shares A share compared with the HEX index



Monthly trading values of serie A shares



The Martela Group 2000–2004

SCOPE OF OPERATIONS

		2004	2003	2002	2001	2000
Turnover	EUR million	100.7	102.1	121.2	150.9	173.7
Change in turnover	%	-1.4	-15.7	-19.7	-13.2	15.6
Exports and international operations	EUR million	31.0	34.2	43.4	50.6	66.1
As a percentage of turnover	%	30.8	33.5	35.8	33.5	38.1
Export from Finland	EUR million	13.2	10.8	13.7	15.4	18.2
Gross capital expenditure on fixed assets	EUR million	0.9	1.0	3.1	7.0	6.6
As a percentage of turnover	%	0.9	1.0	2.6	4.6	3.8
Depreciation	EUR million	4.9	4.7	7.9	5.5	5.1
Research and development expenses	EUR million	2.7	2.6	3.1	2.2	1.9
As a percentage of turnover	%	2.7	2.5	2.6	1.5	1.1
Average personnel		662	767	930	1 040	1 046
Change in personnel	%	-13.7	-17.5	-10.6	-0.6	5.2
Personnel at year end		613	715	856	987	1 038
Of whom in Finland		488	531	621	689	738
PROFITABILITY						
Operating profit	EUR million	-2.2	-10.7	-11.7	4.1	15.7
As a percentage of turnover	%	-2.2	-10.5	-9.7	2.7	9.0
Profit before appropriations and taxes	EUR million	-3.0	-12.6	-12.0	3.5	15.3
As a percentage of turnover	%	-3.0	-12.4	-9.9	2.3	8.8
Profit for the year *)	EUR million	-2.7	-12.3	-12.2	1.6	11.1
As a percentage of turnover	%	-2.7	-12.0	-10.0	1.0	6.4
Turnover/employee	EUR 1000	152.2	133.2	130.3	145.1	166.1
Return on equity	%	-13.3	-38.6	-27.9	3.1	22.8
Return on investment	%	-4.7	-20.9	-19.0	6.8	23.8
FINANCING AND FINANCIAL POSITION						
Balance sheet total	EUR million	55.2	59.7	72.0	82.2	91.7
Equity	EUR million	19.1	22.5	35.4	50.0	52.9
Interest-bearing net debt	EUR million	13.1	15.1	10.1	5.9	5.8
As a percentage of turnover	%	13.0	14.8	8.3	3.9	3.4
Equity ratio	%	33.8	36.8	49.3	60.9	57.7
Gearing ratio	%	71.1	69.4	28.3	11.8	11.1
Cash flow from operations	EUR million	2.5	-5.6	2.2	10.4	12.1
Dividend paid	EUR million	0.5	0.5	2.5	4.2	2.8

*) Profit includes changes in deferred tax liability.

Proposal of the Board of Directors for the distribution of profit

The consolidated distributable equity is EUR 9,225,576.45 after the deduction from the consolidated non-restricted equity of the item transferred from optional reserves and depreciation difference to shareholder' equity. The parent company's distributable equity is EUR 20,530,405.17 of which the profit for the financial years is EUR 312,680.88.
The Board of Directors proposes to the Annual General Meeting that the distributable equity be used as follows:

- distribution of a dividend of EUR 0.15 per share, totalling	EUR 613,185.00
- to be left in retained earnings	EUR 19,917,220.17

Helsinki, 16 February 2005

Heikki Ala-Ilkka Chairman of the Board	Pekka Martela Vice Chairman	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, 17 February 2005

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 2004. 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, 17 February 2005
Reino Tikkanen
Authorized Public Accountant

***Tangent table**, design Pekka Toivola*

Corporate Governance

Martela Oyj is a Finnish limited liability company that complies with the Finnish Companies Act, other regulations concerning public listed companies, and Martela Oyj's Articles of Association in its decision-making and management.

The company complies with the Helsinki Stock Exchange's Guidelines for Insiders, and the Corporate Governance Recommendation for Listed Companies issued by HEX Plc, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers, that came into force on 1 July 2004, excluding the exceptions indicated in the text.

Organisation

The Group is governed according to both its operational organisation and the legal Group structure. The Group is managed primarily through an operational matrix organisation. It is divided into three business units: Finland, Scandinavia and Poland.

The Finnish business unit comprises the Group's companies operating in Finland: Martela Oyj, P.O. Korhonen Oy and Kidex Oy. The majority of the turnover of the business unit is derived from the Finnish market.

The Scandinavian business unit comprises the Swedish Martela AB and the Norwegian Martela AS. The businesses of the companies are focused almost entirely on the Scandinavian markets.

The Polish subsidiary, Martela Sp.z o.o, forms the third business unit.

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

General Meetings

The General Meeting is the company's supreme decision-making body. The Annual General Meeting must be held before the end of June. Martela has two share series ("K shares" and "A shares"), with each K share entitling its holder to 20 votes at a General Meeting and each A share entitling its holder to one vote.

Board of Directors

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 less 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 staff elect their representative for a three-year period, and this choice must be confirmed annually by the Annual General Meeting. More information on the composition of the Board and the backgrounds of Board members can be found later in the Annual Report. In its meeting on 20 September 2004, the Board confirmed its Charter defining the duties of the Board, the meeting practice, the matters to be dealt with at meetings, the targets set for the Board's operations, a self-evaluation of these operations, and the Board's committees.

In accordance with the Charter, the matters to be dealt with by the Board of Directors include:

- Group and business strategies
- Consolidated financial statements and interim reports
- Group action plans, budgets and investments
- Business expansions or reductions, acquisitions and divestments
- Risk management policy and principles of internal control
- Appointment and discharge of Managing Director
- Composition of Group Management Team
- Management's bonus and incentive plans
- Approval and regular review of corporate governance
- Appointment of committees and their reporting

The Board met 13 times during the financial year and the average attendance was 97 per cent. The Board evaluated the independence of the directors on 9 November 2004 and determined that, of the company's largest shareholders, Heikki Ala-Ilkka, Tapio Hakakari, Jori Keckman and the staff representatives Hannu Kosonen and Matti Lindström are independent. Based on an overall evaluation, Heikki Ala-Ilkka, Tapio Hakakari and Jori Keckman are the independent directors. In this respect, we diverge from section 17 of the Corporate Governance Recommendation, according to which the majority of the Board members must be independent of the company.

The Board has formed from among its members a Compensation Committee which also has a written Charter. According to the Charter, the main duties of the Compensation Committee include:

- Deciding the salaries and bonuses of the Managing Director and the Group Management Team
- Preparing for the Board the criteria of the incentive plans for key personnel
- Preparing for the Board the general principles of the bonus and incentive plans for the Group's entire staff

In 2004, the Board's Compensation Committee comprised Heikki Ala-Ilkka, Jaakko Palsanen and Tapio Hakakari. The Committee met two times in 2004.

Managing Director

The Board appoints the Managing Director of Martela Oyj and decides on the terms and conditions of his service relationship, which are defined in a written Managing Director's contract. The Managing Director is responsible for the operational management and control of the parent company and the Group in accordance with the guidelines set by the Board.

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 profit-responsible managers of the Finnish, Scandinavian and Polish business units, the Sales and Marketing Directors in Finland and the directors responsible for the Group's processes are represented in the Group Management Team.

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.

Financial reporting in the Group

Martela Oyj's Board of Directors is provided with monthly reports on the financial performance and forecasts of the Group and its business units. The reports and forecasts are reviewed at the Board meetings at the initiative of the Managing Director. For the purposes of reviewing the interim reports and annual financial statements, the Board of Directors receives the financial statements information and analyses in advance.

The Group Management Team meets once per month to evaluate the financial performance, outlook and risks of the Group and its business units. The Group Management Team also monitors the fulfilment of the strategies and action plans of the Group's business units and processes, and discusses the larger investments.

Auditors

The auditing of Group companies is carried out in accordance with each country's valid laws and each company's Articles of Association. The principally responsible auditor of the parent company co-ordinates the auditing of the Group's subsidiaries together with the Group's Managing Director and the Financial and Administration Director. The auditors of Martela Oyj and the Group are the KPMG firm of authorised public accountants, with the principally responsible auditor being Mr Reino Tikkanen, Authorised Public Accountant. All the auditors of the Group's companies are in the KPMG chain. In 2004, a total of EUR 104,000 was paid for the Group's auditing, while EUR 47,000 was paid for other services.

Internal control and risk management

Internal control is the responsibility of the Board of Directors and the operating management. The objective of internal control is to ensure the efficiency and profitability of operations, the reliability of information, adherence to regulations and operating principles, and the application of appropriate internal control procedures. The Board of Directors and the operating management carry out this control by means of the reporting system described above and regular inspections.

The forming of a separate internal audit has not been deemed appropriate, considering the Group's size. The company's auditors have taken into consideration in their audit plan that the company has no internal audit and have extended their audit to include the functioning of the internal control system.

Martela's Board of Directors has confirmed its risk management principles. The purpose of risk management is to identify, monitor and manage risks that could pose a threat to business and to the achievement of business objectives. Risk management is an integral part of normal business operations and management. In the Group, risks are analysed and decisions are made to manage these risks as a part of the regular monitoring of the Board and the Management Teams described above. Risks are also evaluated when planning and making decisions on significant projects and investments.

Risk management is also integrated in the strategy process as a separate stage of analysis. There is no separate risk management organisation, but its responsibilities are divided in line with the other business operations and organisation. The company's Board of Directors has included an annual review of risk management in its schedule of work.

Management compensation, benefits and incentive plans

The fees paid to the Chairman and to the members of the Board totalled EUR 16.8 thousand and EUR 11.1 thousand respectively. No fees are paid to Board members employed by the company, however.

The total salaries and other benefits paid to Martela Oyj's Managing Director were EUR 174 thousand. The age at which the Managing Director may retire on a full pension is 60 years. The period of notice of termination of contract is six months on both sides, and if the company gives notice of termination of contract, the Managing Director is entitled to compensation equivalent to 18 months' salary.

Annual performance-based bonus and incentive plans are used in the Group to promote the achievement of short-term objectives. The amount of the incentive is generally influenced by performance indicators. In 2004, there were no annual performance-based incentive plans for the Managing Director or the Group Management Team.

The Managing Director and the company's management are participating in a long-term incentive plan extending from 2004 to the end of 2006. The incentive plan is based on the Group's overall profit performance during 2004-2006. No other compensation based on membership of the Board or a subsidiary is paid.

Insider administration

Martela complies with the Guideline for Insiders approved by the Helsinki Stock Exchange, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers.

The following are counted as permanent insiders in accordance with the company's guidelines for insiders: the members of the Board of Directors, the Managing Director, the auditor, the members of the Group's and the parent company's management teams, the Managing Directors of subsidiaries, and the secretary of the parent company's Managing Director. Martela's Board of Directors has decided that the restriction on trading in the company's shares by insiders is 30 days before the publication of the interim report or the financial statements.

A list of the persons classified as permanent insiders is available on Martela's website. The company makes use of the Insider Register kept by the Finnish Central Securities Depository Ltd, which makes available for public scrutiny the up-to-date share ownership data on insiders. Additionally, information on the shareholdings of the members of the Board of Directors and the Management Team, which is updated quarterly, is available on the company's website.

__Clash chair, Clash table__, design Samuli Naamanka

Martela Group's Board of Directors 2004

CHAIRMAN OF THE BOARD

Heikki Ala-Ilkka, born in 1952, M.Sc. (Econ)
Chairman of the Board of Martela Oyj since 2003, Member of the Board since 2002.
Chief Financial Officer: Onninen Oy from 1996.
Other key tasks: The Finnish Medical Foundation, Vice Chairman of the Board.
Other key work experience: Tuko Oy, Chief Administrative Officer, Vice President 1988–1996; prior to that financial management tasks at Rintekno Oy, Vesto Oy and Lemminkäinen Oy.
Owns 4,000 Martela A shares.

VICE CHAIRMAN

Pekka Martela, born in 1950, M.Sc. (Econ)
Vice Chairman of the Board of Martela Oyj since 2003, Member of the Board since 1981, Chairman of the Board 2002–2003, Vice Chairman of the Board 1994–2001.
Managing Director: Marfort Oy since 2002.
Other key tasks: Member of the Board of Marfort Oy.
Other key work experience: At Martela 1971–2001 as Director of Product Development, Development Director and in export tasks.
Owns 69,274 Martela K shares and 50,646 Martela A shares.

BOARD MEMBERS

Tapio Hakakari, born in 1953, LL.M
Member of the Board of Martela Oyj since 2003.
Secretary to the Board: Kone Corporation, Managing Director: Security Trading Oy and Holding Manutas Oy.
Other key tasks: Member of the Board of Security Trading Oy, Holding Manutas Oy, Etteplan Oy and Consolis Oy.
Other key work experience: Chief Administration Officer: KCI Konecranes International Oy 1994–1998.
Owns 1,000 Martela A shares.

Jori Keckman, born in 1961, M.Sc. (Econ)
Member of the Board of Martela Oyj since 2000.
Managing Director: Lundia Oy since 2003.
Other key work experience: Amica Group, Managing Director 2000–2003, Hackman Designor Oy Ab, Business Director and Managing Director 1994–2000.
Does not own any Martela shares.

Hannu Kosonen, born in 1961, Technician
Personnel Representative and Member of the Board of Martela Oyj since 2002, Deputy of Personnel Representative 1999–2001.
Sales Director: Kidex Oy since 2004.
Other key work experience: Various supervisory tasks at the Martela Kitee plant from 1980, Liaison Person 1994–2002.
Does not own any Martela shares.

Heikki Martela, born in 1956, M.Sc. (Econ), MBA
Member of the Board of Martela Oyj since 1986, Chairman of the Board 2000–2002.
Managing Director of Martela Oyj since 1 March 2002.
Other key tasks: Member of the Board of Marfort Oy.
Other key work experience: Managing Director of Martela AB and Aski Inredningscenter AB 1993–1999, Sales Director of Oy Crawford Door Ab 1987–1993, Sales Director of Oy Lundia Ab 1984–1987. Prior to that financial planning and sales tasks at Digital Equipment Corporation Oy.
Owns 52,122 Martela K shares and 106,234 Martela A shares.

Matti T. Martela, born in 1939, M.Sc. (Econ)
Member of the Board of Martela Oyj since 1965, Chairman of the Board 1986–2000.
Other key tasks: Chairman of the Board of Marfort Oy.
Key work experience: Managing Director of Martela Oyj 1976–1986. Prior to that marketing and export executive tasks and export tasks 1961–1975.
Owns 58,256 Martela K shares and 83,982 Martela A shares.

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

Jaakko Palsanen, born in 1944, M.Sc. (Eng)
Member of the Board of Martela Oyj since 1993.
Key work experience: Vice President, Business Development of UPC-Kymmene Corporation 1996–2004, Vice President of Kymmene Oy 1992–1995, Managing Director of Caledonian Paper plc 1987–1995. Prior to that production and management tasks at Oy Kaukas Ab 1974–1987.
Owns 2,800 Martela K shares and 69,968 Martela A shares.

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

SECRETARY TO THE BOARD
Torsten Hästö, see Management Team

Martela Group's Management Team 2004

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

Panu Ala-Nikkola, born in 1965, M.Sc. (Econ)
Sales Director
Areas of responsibility: Sales in Finland.
At Martela since 2001.
Owns 1,400 Martela A shares.

Hans Biéth, born in 1958, M.Sc. (Econ)
Areas of responsibility: Management of the Scandinavian business unit.
Managing Director: Martela AB and Martela AS.
At Martela since 1 December 2004.
Does not own any Martela shares.

Torsten Hästö, born in 1948, M.Sc. (Econ)
Financial and Administration Director
Areas of responsibility: Financial and IT Administration for the Martela Group and Martela Oyj.
At Martela since 1993.
Owns 1,400 Martela A shares.

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

Ilkka Koskimies, born in 1955, M.Sc. (Econ)
Marketing Director
Areas of responsibility: Marketing activities, product process and product development of the Martela Group.
At Martela since 1990 (excluding 1999).
Does not own any Martela shares.

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

Formulae for the Calculation of Financial Indicators

Earnings / share $$= \frac{\text{Profit before extraordinary items} \pm \text{minority interest - taxes}}{\text{Average share issue-adjusted number of shares}}$$

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

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

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

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

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

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

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

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

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

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

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