ANNUAL REPORT **2005**

Martela

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Martela in brief

Martela is Finland's largest designer, manufacturer and supplier of working environment solutions for offices. The concept behind Martela is the fast and efficient delivery of high-quality, ergonomic and dynamic interior solutions, which support its customers' businesses, and the widest range of services available that support their maintenance and changes. In 2005 Martela celebrated its 60th anniversary as a furnisher of offices and public premises.

Martela's approach to individual customer service, its extensive range of high quality products, innovative solutions, swift deliveries and a functional sales network have strengthened its position as the market leader of office furnishing in Finland. Martela is the third largest office furniture supplier in the Nordic countries and one of the major suppliers in Europe.

Martela Oyj is the parent company of the Group and has its headquarters in Helsinki. Martela has been listed in the Helsinki Stock Exchange since 1986. Martela's subsidiaries are in Finland, Sweden, Norway and Poland.

The Group's production plants are located at Nummela, Kitee and Raisio in Finland, Bodafors in Sweden and Warsaw in Poland. There are logistics centres at 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 2005 Martela Group's revenue was EUR 102.2 million and it employed an average of 610 persons, 489 of them in Finland.

The Year in Brief

		2005	2004
Revenue	€ million	**102,2**	100,7
Growth in revenue	%	**1,5**	-1,4
Operating profit	€ million	**1,5**	-1,6
– as a percentage of revenue	%	**1,5**	-1,5
Pre-tax profit	€ million	**1,0**	-2,1
– as a percentage of revenue %	%	**1,0**	-2,0
Return on investment		**4,3**	-2,2
Balance sheet, total	€ million	**56,1**	59,9
Equity ratio	%	**40,8**	39,3
Earning/share	€	**0**	-0,5
Equity/share	€	**5,6**	5,8
Dividend/share	€	**0,15***	0,15
Capital expenditure	€ million	**1,6**	0,9
Average personnel		**610**	662
– change %		**-7,9**	-13,7

* Proposal of the Board of Directors

Opteam-S

Managing Director's Review

On the whole, the year 2005 went as expected. We made good progress on all fronts and in accordance with our plans. Furthermore, we made a significant profit improvement.

Last year marked the 60th anniversary of Martela. The actual anniversary day was spent working, and only modest staff festivities were arranged. An anniversary book about the company was published, and this received wide acclaim and attention. The Martela 60 Years virtual exhibition, which was executed in the style of the book and can be viewed on our website, was an excellent addition to the celebrations.

In early 2005, we presented the Opteam S desk and the Clash conference chair at the Stockholm Furniture Fair, and their launch was continued visibly through various marketing actions. Opteam S is an electronically adjustable desk range offering the best ergonomic features, easy adjustability and the possibility to work in a way that increases movement and well-being. In some countries, electronically adjustable desks are the most frequently purchased desk models. The electronically adjusted Opteam S desk has become a key sales item which we will continue to focus on.

At the Design Partners event held in Helsinki in September, we launched the new Clash stool and the Fly-Me chair. In the same context, Samuli Naamanka, the designer of Clash, received the esteemed 2005 Furniture Designer of the Year award.

Our active communications campaigning last autumn was acknowledged in various media throughout Finland. Topics covered include the MOVE project we commenced to promote the well-being and health of office workers, our 60th anniversary publication and our speech privacy product to be launched in the near future.

We were able to strengthen our position as a leading player in the Finnish office furniture market. Maintaining our position in the future will yet again present new challenges for our sales resources and their development. The overall demand for office furniture is not expected to grow in 2006, and growth opportunities will thus be sought through our service business, as well as in the school and social sectors. The service business grew substantially last year, as we were able to add new resources, and this growth is expected to continue in 2006 as well. We also expect a boost to growth through new customer relationships for Kidex Oy, our subsidiary that acts as a contract manufacturer, particularly in the area of kitchen furniture component production.

The sales of lobby furniture did not succeed quite as well as expected last year. This was reflected particularly in the operations of P.O. Korhonen Oy, in which capacity cuts had to be made during the autumn.

The operations of our Swedish subsidiary underwent major development measures all through the year, and substantial profitability improvements have been achieved. Our most important goal in Sweden is to further refine our operations so that dealers would consider us their no.1 partner. Growth will be sought in Sweden by increasing the share of Martela's products in the dealers' stores. Thanks to the Group's new information systems set up in Sweden last year, operations now run more smoothly and customer service works better.

In Poland, the trend of our operations continued to be positive, and growth was strong particularly during the autumn. Our new logistics centre in Warsaw enables us to serve our Polish customers better and more efficiently than before. Thanks to the input in sales activities, we have excellent opportunities to achieve substantial growth in that market also in 2006.

In our exports, we were able to get even closer to our customers and major profitability improvements were achieved on all fronts. This trend is expected to continue in 2006.

With overall demand in the sector having remained unchanged or even slightly down in 2005, we achieved a remarkable profit improvement and a profitable result. We do not expect any significant movement in the market in 2006 – neither upwards nor downwards. This year, we aim to take a further big leap forward in profitability through our own initiatives. To achieve our goals, we need to continue increasing the efficiency and flexibility of our order-delivery chain. This will call for the continuous development of our product range, and the correct reading of signals and forecasting of new customer needs in offices, schools, the social sector and a whole range of meeting facilities. We will also constantly develop our new and existing services and focus on sales work as planned. We aim to be the definitive experts in business-to-business sales in our core market area.

Finally, I would like to express my thanks to our customers, personnel, partners and shareholders for the past year.

Martela Head Office, February 2006

Heikki Martela
Managing Director

"We do not expect any significant movement in the market in 2006 – neither upwards nor downwards. This year, we aim to take a further big leap forward in profitability through our own iniatives."

Fly-Me, *design Geir Sætveit*

Martela 60 years (1945–2005)

The beginning

"On New Year's Eve 1937-1938 I had an animated conversation with the head of several Finnish sawmills at his home. He said that Finland would never be able export anything other than sawn timber. I objected to this, saying that I could make furniture, for example, and export it too."

- Matti S. Martela, founder of the company

1940

1940s

Tehokaluste Oy, later to be known as Martela, was founded in 1945. To begin with, the focus was not on production but more on product design and customer-oriented marketing.

The Finnish Government was Tehokaluste's biggest customer in the 1940s. The first order led to a customer relationship with the Government Purchasing Centre that lasted for decades.

Offices furnished by Tehokaluste were minimalistic in style. The first actual product was a desk designed by Vladimir Rumjantsew ("Director's Desk", RP 17/RP), launched in 1945.

1950s

In the early 1950s, Tehokaluste was the first in Finland to introduce the concept of an entire workstation. When Matti S. Martela returned from Sweden to see the latest trends, he is said to have proclaimed: "Now boys, let's start selling workstations!"

Olli Mannermaa's Kilta chair became the generic office chair in 1955. Originally it had a wooden frame, but it was converted into Finland's first plastic chair in 1958. Kilta pioneered the design language of modern office furniture. Kilta has withstood the times and is still a sought-after item as a 1960s vintage design product and a second edition chair made by Martela.

1950

1960

1960s

Office buildings, town halls and central hospitals needed furnishing, and Tehokaluste products became a household name. Nearly all of Finland's Social Insurance Institution (Kela) offices were furnished by Martela, and the Kela contract was one of Tehokaluste's biggest deals in the 1960s. The first order was for 10,000 chairs, distributed to 600 different offices.

The task chair range expanded and developed in the 1960s. There were chairs for all purposes, ranging from a simple chair for typists (T-671) and plywood task chair (T-670) to Olli Mannermaa's Tehka chair, which was an ergonomic showpiece of its time

Martela 60 years (1945-2005)

1970s

Tehokaluste was merged into Martela Oy in 1974. Since then the company has been known as Martela. The name was chosen partly because it is easier for foreigners to pronounce. Exporting began and increased sharply in the 1970s. A new factory was built in Kitee halfway through the decade.

Martela's Finnscape is the first system furniture for open offices in Finland and was used in Tamrock, Oy Tampella Ab's huge 4,000 m^2 office. At the time, it was Finland's largest office in a single space. Potential customers were taken by the trainload to see this miracle.

1970

1980

1980s

Martela's road from a one-man company to a listed company began when Martela was included on the OTC list in 1986. The modest family company had grown into a corporation that offered jobs to almost 900 people and had a profitability that was one of the best in the field. In the late 1980s Martela was a leading office furniture manufacturer in the Nordic countries and was also one of the biggest companies in the field in Europe.

In 1981 Martela introduced InTeam Office, which is more intimate than an open-plan office but more flexible than an office with many small rooms. Since the 1980s, workstation design has been dominated by the importance of terminals and computers in office work.

1990s

Working in teams increased in the 1990s, which meant that conference rooms became more important. The employees moved within the office more freely than before and the intermediate walls disappeared completely while desks in the open-plan office formed islets and groups.

The overall service received an entirely new dimension with Office Maker, Martela's new computer application which made it possible to show three-dimensional models to customers quickly and easily.

The Finnish Businessmen's Association nominated Matti T. Martela as Businessman of the Year in 1991. The serious recession in the early 1990s affected also Martela. The whole market for office furniture plummeted in Finland.

1990

2000

First decade of the 21st century

A new type of furniture ideology was created in the first decade of the 21st century. Martela are developing easily adjustable solutions to enable people to work sitting down, half-sitting or standing up. Adjustable furniture is no longer a privilege of the management, but a right for all employees.

In the autumn of 2001, Martela moved to a new glass office.

The emphasis in the new millennium is on "information employees" and their productivity. Work flexibility, the flow of information between employees and mobility are now key focus areas in a work environment that is constantly changing.

Reviews by market area

Group organisation

The Martela Group has subsidiaries in Finland, Sweden, Norway and Poland. The Group's parent company is Martela Oyj.

The Group's operations are based on a matrix organisation and divided into main market areas and Group functions. Each main market area and Group function has its own head.

Market areas

The Group's main market areas are Finland, Scandinavia, Poland and other export markets, devided according geographical segments.

Finland

Martela is a market leader in office furnishing in Finland, with about a 45 per cent share of the market.

Invoicing in Finland in 2005 totalled EUR 71 million, which is a 0.5 per cent increase over the previous year. Finland accounted for 69.5 per cent of the Group's invoicing.

Martela has an extensive sales and service network which covers the whole of Finland. Sales and showroom facilities are located at the Helsinki Head Office and also at Martela's regional centres in Turku, Tampere, Kuopio and Oulu. Martela's own direct sales organisation is supplemented by six independent Martela Centres throughout Finland. Overall, Martela has a total of 23 service locations in Finland.

Martela's position as a market leader is based on a good understanding of customer needs, a broad service network, collections that can be modified to customer requirements, 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 furniture rental.

Finnish sales and order handling for the independent Martela Centres are managed primarily through Martela's logistics centre in Nummela, which coordinates production and deliveries.

The Nummela logistics centre primarily serves Finnish sales and Martela Oyj's exports, and is a part of the Group's production and logistics function. In addition to control operations, the centre also houses a surface treatment plant, a chair and furniture plant, as well as purchasing operations. Martela's Nummela plants manufacture cabinets, tables, screens and chairs.

The process of office furniture manufacture is highly automated and is based on the extensive subcontracting of components, 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.

Martela Group's other production facilities in Finland are P.O Korhonen Oy's furniture plant in Raisio and Kidex Oy's component plant in Kitee. The operations of these plants are integrated with the systems of the Nummela logistics centre.

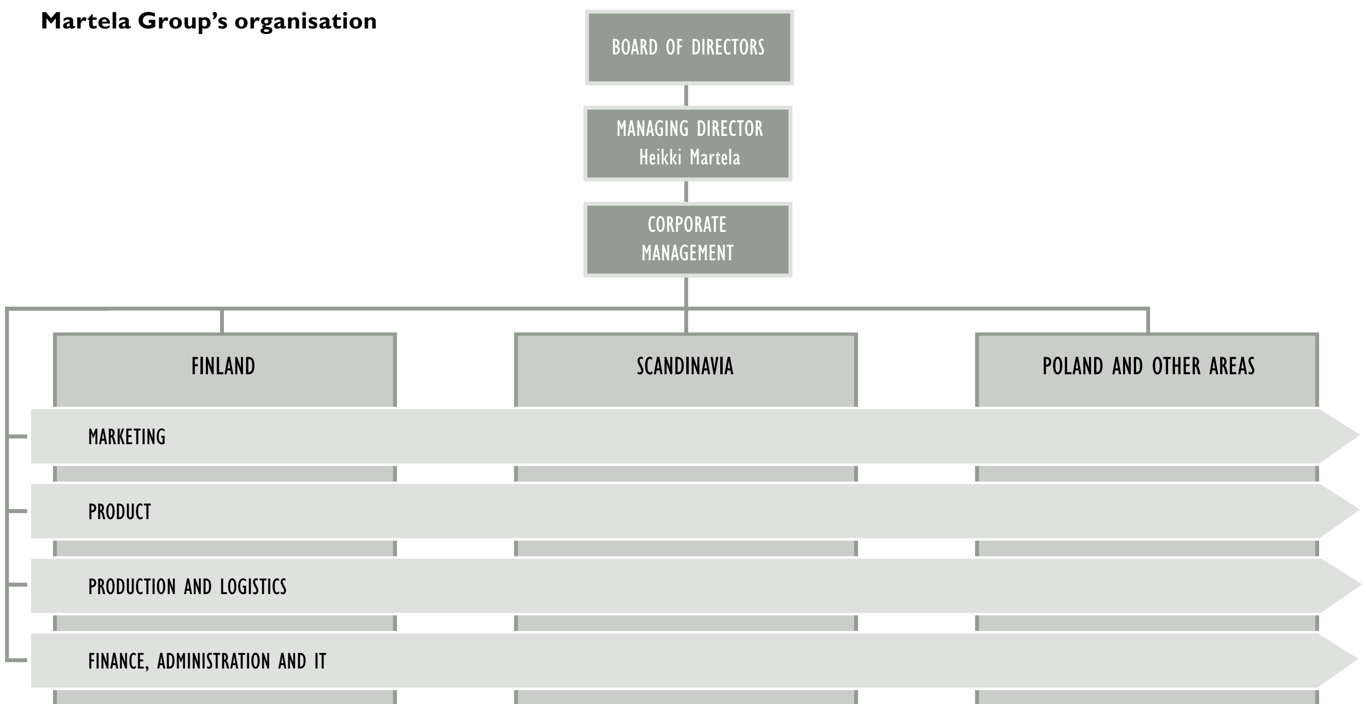
For many years, Martela Oyj, P.O. Korhonen and Kidex Oy have applied the ISO 9001 standard in quality management and the ISO 14001 standard in environmental management.

• Kidex Oy

A fully owned subsidiary of Martela, Kidex Oy is a component factory located in Kitee. Its invoicing for 2005 totalled EUR 10.3 million (9.5) and it employed an average of 84 people (90).

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

Martela Group's organisation



include Martela Group companies and also non-Martela furniture manufacturers, especially kitchen and shop furniture manufacturers.

The plant manufactures components for cabinets and pedestals and free-form tabletops. The materials used are coated particle-boards and MDF boards. In autumn 2005, the assembly of pedestals was transferred from Kitee to Nummela.

Most of the subsidiary's deliveries in 2005 were destined for Martela Oyj and its Nummela plants. The number of customers outside the Group is increasing, recording a 17 per cent share of total sales in 2005.

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 revenue 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.

• **P.O. Korhonen Oy**

P.O. Korhonen, located in Raisio, is a fully owned subsidiary of Martela Oyj. The company manufactures wooden furniture based on moulding technology. Its invoicing in 2005 stood at EUR 7.3 million (8.4) and the average number of employees was 66 (68).

Furniture made by the company is designed for offices and public spaces, for schools, retirement homes and day care centres. In recent years the company has expanded its product portfolio, most notably with its auditorium collection, the sales of which have continued to increase.

Nearly 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. In late autumn, P.O. Korhonen cut its capacity through layoffs.

The company has held an ISO 9001 quality management certificate issued by Det Norske Veritas since 2000. The company was issued an ISO 14001 environmental management certificate in 2001, which was renewed in accordance with new criteria set in 2004.

P.O. Korhonen Oy was awarded an international Investors in People (IiP) human resources certificate at the end of 2003, which was renewed in 2005 in accordance with new criteria.

Scandinavia

Scandinavia is Martela's second largest market and the company has established a strong presence there. 19 per cent (19.1) of the Group's invoicing comes from the Scandinavian market.

Sales in Sweden, Norway and Denmark are organised through dealers. The logistics centre for the Scandinavian companies is situated in Bodafors, Sweden.

Revenue for 2005 was nearly on par with the previous year and stood at EUR 19.5 million. Adjusting for structural changes implemented during 2004, turnover in the Scandinavian market area in 2005 grew by 11 per cent.

Scandinavian operations were strongly developed during 2005, resulting in several improvements. Special emphasis was placed on improving logistics, including the order-delivery chain, as well as on

Clash, *design Samuli Naamanka*

Geographical segment Finland (EUR million)	2005	2004	Change %
Revenue	70,7	69,8	1,3
Segments assets	42,9	42,1	
Investments	1,3	0,6	
Average personnel (person)	489	514	-4,9

improving customer service at the Bodafors plant. All operations in Sweden and Norway were thoroughly reviewed and re-evaluated. The organisation and operating practices were developed in accordance with new strategies and objectives. In addition, special emphasis has been placed on improving cost-efficiency.

The key objective for the near future is to strengthen co-operation with dealers. This will be achieved through better product selections and services, as well as through the measures described above.

• Sweden

Martela AB is Martela Oyj's Swedish subsidiary that 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. Market share in Sweden is estimated at 8 per cent. Martela AB employs 66 people (87).

• 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 (2).

Martela has established itself in the Norwegian market and is among the biggest suppliers of office furniture in the country. Market share is approximately 6 per cent.

• Denmark

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

Poland

Martela's Polish market area developed favourably during 2005, as it had done in the previous year. Invoicing grew by 36,4 per cent to EUR 5.4 million. The company's market position improved and market share increased.

Martela has its own subsidiary in Poland, which sells Martela products in Poland and to central-eastern Europe. The direct sales network in Poland covers sales offices in Warsaw, Wroclaw, Katowice, Gdánsk, Poznan and Kraków. Sales to the Czech Republic, Slovakia, Hungary and the Ukraine are handled through importers.

75 per cent of products sold are Martela's own products. Of these, about two-thirds are assembled in the subsidiary's new Warsaw logistics centre. The remainder are supplied by partners.

Introduced at the beginning of 2005, the new 3,000 m^2 Warsaw logistics centre handles all deliveries in the market area. The centre, which houses efficient assembly lines for chairs, tables and cabinets, allows for the assembly of new products in Warsaw and provides a means to rapidly increase the share of products assembled in Poland. Assembly in Poland and the resulting cost benefits ensure Martela's competitiveness in this price-sensitive market area.

The economic environment in the area in 2005 remained good and is expected to remain favourable also in 2006. Martela was able to grow faster than the market and bolstered its position. Martela's market share is estimated at about 5 per cent of the professional office furniture market, and Martela is among the big players in the market.

The development of the sales network continued. The Gdansk, Poznan, Katowice and Kraków sales offices were strengthened by one new employee each in 2005, and now each has 3-4 sales employees, including the sales office in Wroclaw. Warsaw's sales staff is currently 10 people.

In 2005, efforts continued to improve relations with important big customers, and several new annual contracts were signed. New customer acquisition also reached set objectives.

In addition to private sector contracts, several public sector contracts were won during the year. This is an indication of the price competitiveness of Martela's Polish operations.

Martela employed an average of 51 people in Poland (50).

Considering the economic environment and the measures initiated by Martela before and during 2005, the outlook for 2006 is good and it is expected that growth will continue.

Export operations

Martela Oyj's export function is responsible for the Group's direct exports. In 2005, the function focused on improving internal efficiency and customer service processes, as well as on having a more active presence and influence in the main market areas.

The main market areas for direct exports continued as follows: Denmark, the Netherlands, Germany and the UK in Western Europe; Russia and the Baltic countries in Eastern Europe; as well as Japan in the Far East. The business model for all export markets is to have authorised distributors through which nearly all products and services are sold to end customers. The selection of products

Geographical segment Scandinavia (EUR million)	2005	2004	Change %
Revenue	19,5	19,4	0,3
Segments assets	7,2	7,6	
Investments	0,1	0,2	
Average personnel (person)	70	98	-28,6

exported is broad and covers the Group's entire product range – furniture for offices, lobbies, schools, retirement homes and auditoriums. Some markets have separate distribution channels for specific product ranges.

The export function also supports Martela's subsidiaries in Sweden, Norway and Poland. At the end of 2005, it was decided that the export function would take overall responsibility for sales to Denmark, while Martela AB would have overall responsibility for sales to Norway.

The market situation remained tough in the majority of the markets due to excess capacity and price competition. Nevertheless, as a result of in-house design, a good price-quality ratio and service orientation, Martela was able to maintain and partly improve its market position in the distributor markets. The number of distributors grew slightly in Eastern Europe.

Communications for office furnishing and meeting area furnishing were separated for the first time during the year. This was supported through the production of separate product catalogues, at customer and architects events in Berlin, St. Petersburg, Moscow, Rotterdam and Aichi and at furniture fairs in Stockholm, Nuremberg, London, Copenhagen, Chicago and Moscow.

Martela's 60th Anniversary was strongly present in communications during the latter part of the year.

New Martela showrooms were opened in co-operation with our distributors in Rotterdam and Copenhagen.

Following the feedback questionnaire sent to distributors in the autumn, key development actions have involved the initiation of an export quality project in co-operation with chosen distributors to ensure that customers continue to have a strong perception of Martela quality, and the implementation of a Group-wide sales tool.

* Information of segments is presented as at the notes to the consolidated financial statements, section 1.

Schelectro, *design Kari Asikainen*

* Geographical segment Poland and other areas (EUR million)	2005	2004	Change %
Revenue	12,1	11,6	4,7
Segments assets	4,3	3,8	
Investments	0,2	0,1	
Average personnel (person)	51	50	2

Quality and the environment

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

Martela's quality management model utilises the ISO 9001:2000 standard, and the Group's environmental management model meets the ISO 14001:2004 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. Martela wants to pay particular attention to the recycling and potential re-use of discarded furniture.

Highlights of the year

During the period under review, Martela's quality and environmental management operations have been re-certified to conform with ISO 9001:2000 and ISO 14001:2004. The new certificate will be valid until the end of 2008.

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 the ISO 9001:2000 and ISO 14001:2004 standards. Kidex's operational system is included in Martela Oyj's certification.

The certification of Martela AB operations in 2003 has unified Group operations and has led to the integration of production management systems, creating significant improvements in operation quality – speed and accuracy.

Systematic work has continued in the Nummela furniture factory in co-operation with product development and production to reduce solvent emissions and make the factories more environmentally friendly. New development projects have been started concerning upholstery and gluing. The development projects should result in major improvements in the use of solvents in product manufacturing.

The surface finishing factory has been developing methods to use solvent-free finishing agents in the production chain.

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 2006 will be to carry out extensive development projects to improve the overall quality of the order and delivery process.

The objective in quality and environmental management is to make research an integral part of it.

In 2006, Martela Group will deepen the integration started in 2005 between Group companies in the order and delivery process, in the aim of significantly improving operations and reducing quality costs.

Product development and marketing

Highlights of the year

2005 saw the introduction of the new-generation electrically adjustable desk, Opteam S, which combines ease of use, compatibility with other furniture and a good price/quality ratio. The launch campaign was supported with a web campaign, reaching a large number of people interested in office environments. The marketing of the easily adjustable desk was supported with the LiiKE project, which is based on easy exercises that can be done during the day. The purpose of the project is to activate and motivate office workers to look after themselves. Indeed, many Finnish organisations now consider it a basic requirement that desks are electrically adjustable.

The successful Clash product family was complemented with a larger conference chair and table. Other lobby furniture ranges and task chairs were also complemented with new versions and additional features. The models of the 2F folding chair designed by Hannu Kähönen were published in the autumn. It employs an innovative idea which enables it to be opened in two directions, and so the same chair can have two different colours, depending on which way it has been opened. Both the furniture range for teaching facilities and the welfare furniture range were expanded and the fabrics renewed and modernised.

To celebrate Martela's 60th anniversary, Martela published a book called "Martela 60", which provides an extremely visual insight into Finnish office furniture and design. Edited by Pekka Toivanen and Anuliina Savolainen of Muotohiomo Oy with layout by Aki Suvanto, the book explores the company's archives, history and expertise.

In November 2005, Martela announced that it had signed a co-operation agreement with Panphonics Oy. The purpose of the agreement is to develop a personal loudspeaker used in open spaces. This is based on Finnish flat speaker innovation, which can significantly reduce acoustic disturbances in open spaces and make it easier to concentrate and consequently improve working efficiency and motivation.

The revenue of service products offered by Martela to support the furniture business increased sharply, and focus on both the organisation that provides the services and the marketing of these services continued.

Outlook for the near future

We will continue to focus strongly on product development and marketing and introduce new, significant and interesting products and services in 2006. The new products will increase our competitiveness in the basic furniture sales business and will support it with pioneering solutions for workstations and service product marketing.

Logic 400

Personnel

As the decrease in overall demand ended in 2004, the market situation stabilised and the focus in personnel management shifted in 2005 from reorganisation to future development projects.

Key events of the year in Finland

• Martela Oyj

At the end of December 2005, Martela Oyj employed 338 people. Although the number of staff did not increase as planned in 2005, those who had left were replaced. External application procedures showed that Martela enjoys a strong employer image.

To improve wellbeing at work, a new holiday system was introduced jointly with the employees and their representatives to enable longer holidays. The system works so that an employee saves up holidays and holiday bonuses and then takes a 1-3 month holiday at an agreed time. This system applies to the entire staff. The company promoted staff wellbeing also by supporting employees' sporting and culture-related interests and other leisure time activities. The Martela Rocks event was organised for the staff to celebrate Martela's 60th anniversary.

Occupational health care services were centralised under a single provider in 2005 to streamline them and make them more cost-effective. This did not affect the level of occupational health care services. The salary system for the entire staff and the incentive system concerning sales that were introduced in 2004 were developed further based on the experiences from the year before.

The development of managerial skills continued along the same lines as in 2004. Sales training to improve the sales operating model was started with training focusing on sales management done by supervisors, and starter courses for sales representatives. Training leading up to a vocational degree, which has long traditions at Martela, was continued. A degree in sales was available to distribution employees, and a specialist degree in technology to production employees. Internal system, product and service training was arranged extensively.

The job satisfaction of the personnel was evaluated with an annual survey. One point that stands out regarding in the 2005 survey is that the results were better in all areas. Especially the work atmosphere has improved on last year. The 2005 survey also focused on the efficiency of internal communications. The results show that there is no need to increase the amount of communication but to pay more attention to the quality. The results were used to draw up a communications development plan, the implementation of which was started in 2005.

In 2005 Martela Oyj participated in a Finnish personnel management benchmarking survey for the first time. The results indicate that most aspects of personnel management are very well taken care of.

• P.O. Korhonen Oy

At the end of 2005, P.O. Korhonen employed 64 people. The Investors in People (IIP) human resources certificate that was first granted to the company in 2003 was renewed to correspond with the IIP revision. The evaluation of operations in accordance with the EFQM quality award model was commenced, and the first self-assessment was carried out in late 2005. The development is based on CI operations (Continuous Improvement), and during the year 198 proposals, or 3.0 per employee, were made in the company.

• Kidex Oy

Development work after the 2004 incorporation continued at Kidex Oy in 2005. Operations were modified to develop a new contract manufacturing model. Although the number of external customers increased, the company had to downsize operations due to low production prospects and the poor financial situation. Cabinet assembly operations were transferred from Kitee to Nummela during the autumn. At the end of the year, the staff totalled 76 employees. The production bonus model was introduced in stages and was developed so that the entire production staff of Kidex was included in the production bonus plan at the beginning of 2006. Development discussions were held with all the employees during the year, and departmental meetings were held each month. A personnel satisfaction survey was carried out in August. The work of supervisors was developed by means of various types of internal and external training.

Key events of the year in Scandinavia and Poland

Scandinavian staff totalled 75 persons and Polish staff 51 persons at the end of the year. In Scandinavia, the focus was on measures to improve profitability. Staff numbers were downsized and the organisation was adapted to better respond to the new needs. Extensive development projects were started to reform the production management and sales information systems. The personnel's work satisfaction was surveyed for the first time in 2005.

Martela's Polish unit also carried out a job satisfaction survey. It is a sign of good job satisfaction that the company has been able to keep its key personnel and that staff turnover has remained within normal limits. Several new development projects were started on the basis of the results, however. In the recruitment of new personnel and replacements, special attention is on ensuring that the level of know-how is increased. The training of sales personnel was continued in the year under review to improve professionalism in the long run. In 2006, training will be extended to the company's management and other key personnel.

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 2006 Martela will be investing in both individual and team competencies, as well as in the strategic competence of its organisation. The development project started in 2005 on internal communications, management and expertise management will be continued. New forms of rewarding and flexibility with working hours will also be developed.

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

Martela Group's business area is the furnishing of offices and public premises, and the provision of related services. 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. Customer service and profit responsibility are based on market area organisations. These organisations are served and connected by logistics centres operating in the main market areas and by Group-level core processes.

The main market area organisations are:

- Finland
- Scandinavia
- Poland and other areas

In Finland and Poland, sales are conducted primarily through regional direct sales organisations. In Finland, direct sales are supported by the "Martela Centres," which are run by entrepreneurs, promote Martela products and services exclusively, and are closely integrated in Martela's operations. In Sweden and Norway, sales are organised through a dealer network. Local importers are primarily used in the other export markets.

The market area organisations are co-ordinated by processes which are under Group management. They are:

- Marketing
- Product
- Production and logistics
- Support processes

Each area organisation and Group process has its own responsible manager.

Production is driven by orders. Control of the order-delivery chain and assembly of the products are concentrated in the Finnish, Swedish and Polish logistics centres. The logistics centres are served by Martela's own production plants in Kitee and Raisio, and by a wide network of subcontractors. Kidex Oy, a contract manufacturer of components operating in Kitee, also delivers components to customers outside the Group.

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 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 five and no more than nine members. There are no more than two 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. The Board has confirmed its Charter defining the duties of the Board, the meeting practice, the meeting agendas, 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 agendas of the Board of Directors include:

- Strategies of the Group, its business units and processes
- 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 9 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 Heikki Ala-Ilkka, Tapio Hakakari, Jori Keckman and the staff representatives Matti Lindström and Raimo Santala are independent of the largest shareholders. Based on an overall evaluation, the directors Heikki Ala-Ilkka, Tapio Hakakari and Jori Keckman are independent of the company. In this respect, Martela diverges from section 17 of the Corporate Governance Recommendation, according to which the majority of the directors should be independent of the company.

The Board has formed from its midst a Compensation Committee with a written Charter. According to the Charter, the main duties of the Compensation Committee include:

- Deciding the compensation of the Managing Director and the Group Management Team
- Preparing for the Board the criteria of 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 2005, the Board's Compensation Committee comprised Heikki Ala-Ilkka, Jaakko Palsanen and Tapio Hakakari. The Committee met three times in 2005.

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 and the Managing Director of Martela Oyj acts as the Chairman. The responsible directors for Finland, Scandinavia and Poland, and the managers responsible for the Group's processes are also represented in the Group Management Team. The Team prepares and reviews strategies, budgets and investment proposals, monitors the status of the Group, its business units and processes, and the implementation of targets and plans. The Group 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.

Auditing

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 Reino Tikkanen, Authorised Public Accountant. All the auditors of the Group's companies are in the KPMG chain. In 2005, EUR 106,000 was paid for the Group's auditing, while EUR 20,000 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 22.2 thousand and EUR 11.8 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 181 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 a lump-sum 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 2005, no profit bonuses or other bonuses were paid to the Managing Director of Martela Oyj.

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 prepared by the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers EK and published by the Helsinki Stock Exchange. The following are counted as permanent public insiders in accordance with the company's guidelines for insiders: the members of the Board of Directors, the Managing Director, the auditor, and the members of the Group's and the parent company's management teams. The company-specific permanent insiders are defined as people working in supervisory or expert duties, the execution of which requires regular access to information regarding the financial situation and outlook of the Group and its business units. Martela's Board of Directors has decided that the above-mentioned insiders may only trade in the company's shares during the six weeks following the publication of interim reports or the financial statements, unless project-specific insider information otherwise prevents them from doing so. A list of persons classified as permanent insiders, their shareholdings, and changes therein 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 public insiders.

Martela Group's Board of Directors

CHAIRMAN OF THE BOARD
Heikki Ala-Ilkka, born in 1952, M.Sc. (Econ)
Chairman of the Board of Martela Oyj since 2003, member since 2002
Chief Financial Officer of Onninen Oy from 1996
Other key responsibilities: 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 5,000 Martela A shares

VICE CHAIRMAN
Pekka Martela, born in 1950, M.Sc. (Econ)
Vice Chairman of the Board of Martela Oyj since 2003, member since 1981,
Chairman 2002–2003, Vice Chairman 1994–2001
Managing Director of Marfort Oy since 2002
Other key responsibilities: Board member 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 24,893 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 of KONE Corporation, Managing Director of Security Trading Oy and Holding Manutas Oy
Other key responsibilities: Member of the Board of Cargotec Oyj, Security
Trading Oy, Holding Manutas Oy, Etteplan Oy and Consolis Oy
Other key work experience: Chief Administration Officer of 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 of Lundia Oy since 2003
Other key work experience: Managing Director of Amica Group, 2000-2003; Business Area and Managing Director of Hackman Designor Oy Ab,
1994–2000
Owns 1,000 Martela A shares

Matti Lindström, born in 1948, Packer, Chief Shop Steward
Personnel Representative and member of the Board of Martela Oyj,
1993-1996 and 2005, deputy to Personnel Representative, 2002-2004.
Key work experience: At Martela since 1966.
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 2000–2002
Managing Director of Martela Oyj since 1 March 2002
Other key responsibilities: Board member 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
Owns 52,122 Martela K shares and 106,234 Martela A shares

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 UPM-Kymmene Corporation, 1996-2004; Vice President of Kymmene Oy, 1992-1995;
Managing Director of Caledonian Paper plc, 1987-1992. Prior to that,
production and management tasks at Oy Kaukas Ab, 1974-1987
Owns 2,000 Martela K shares and 77,868 Martela A shares

DEPUTY TO PERSONNEL REPRESENTATIVE
Raimo Santala, born in 1959, Technician, Method Planning Technician
Deputy to Personnel Representative since 2005
Shop Steward of salaried employees at the Nummela Plant
At Martela since 1988
Does not own any Martela shares

SECRETARY OF THE BOARD
Torsten Hästö, see Management Team

Martela Group's Management Team

Heikki Martela, see Board of Directors
Areas of responsibility: Operational management of Martela Group
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

Joakim Brobäck, born 1970, B.A. (Business Administration)
Managing Director of Martela AB since 1 February 2006
At Martela since 1 February 2006
Does not own any Martela shares

Piotr Fic, born 1968, M.Sc. (Pharm)
General Manager of Martela Sp.z.o.o. since 1 January 2006
At Martela since October 2005
Does not own any Martela shares

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

Juha Ihalainen, born in 1946, M.Sc. (Econ)
Managing Director of Martela Sp. z o.o., 2001-2005, retiring in April 2006
At Martela since 1981

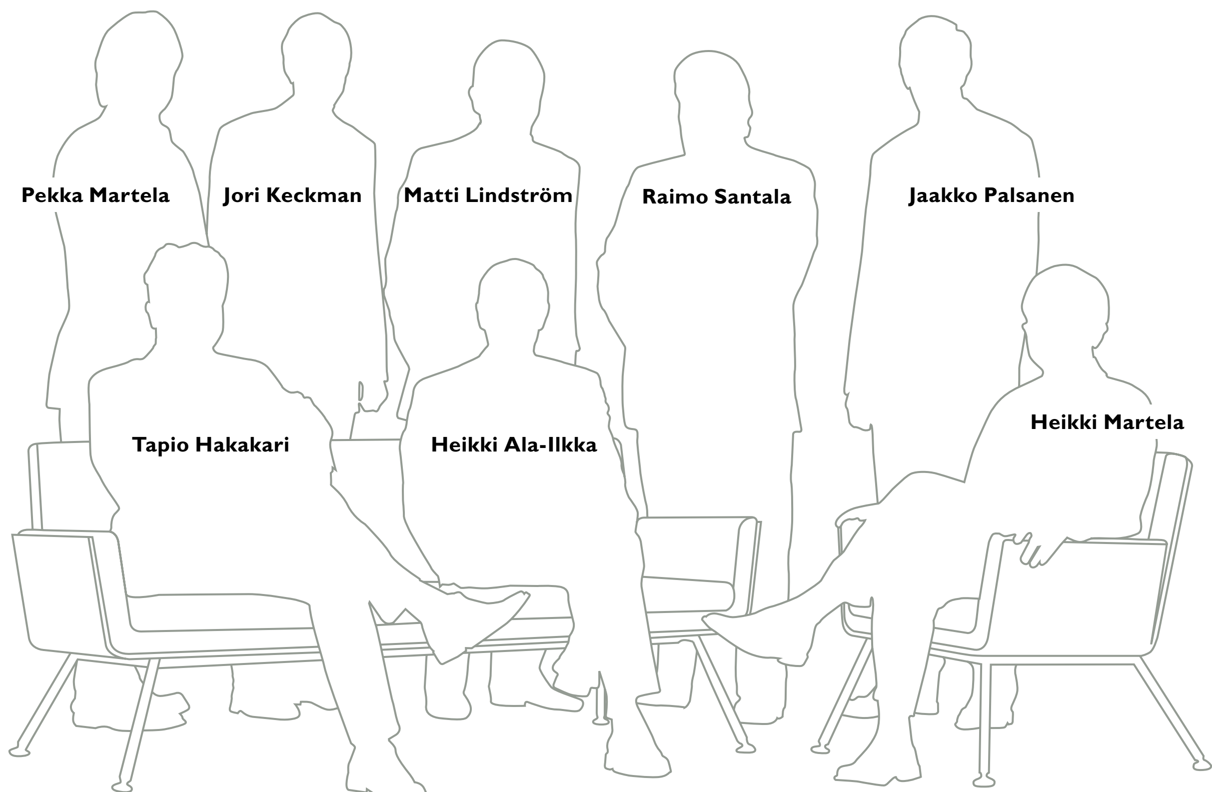
Ilkka Koskimies, born in 1955, M.Sc. (Econ)
Product Development and Marketing Director
Areas of responsibility: Marketing, product process and product development of the Group
At Martela since 1990 (excluding 1999)
Does not own any Martela shares

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

Auditors

Tikkanen Reino, Authorised Public Accountant, KPMG Oy Ab

Deputy: KPMG Oy Ab (firm of authorised public accountants)



"On New Year's Eve 1937-1938 I had an animated conversation with the head of several Finnish sawmills at his home. He said that Finland would never be able export anything other than sawn timber. I objected to this, saying that I could make furniture, for example, and export it too."

- Matti S. Martela, founder of the company

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Information for shareholders

Annual General Meeting

The Annual General Meeting of Martela Oyj will be held on Tuesday, 21 March, 2006, 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, 10 March, 2006, 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 Monday, 20 March, 2006.

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, 2005. Only shareholders registered in the shareholder register maintained at the Finnish Central Securities Depository Ltd on the record date for dividend distribution, Friday, 24 March, 2006, will be entitled to the dividend declared by the Company. Dividend payments will be made on Friday, 31 March, 2006.

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 2006:

First quarter	25 April, 2006
Second quarter	8 August, 2006
Third quarter	24 October, 2006

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

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

Boom-table, *design Martin Pärn*
Picco-chairs, *design Timo Saarnio*

Board of Directors' Report

Martela Group's pre-tax profit became positive at EUR 1.0 million (-2.0). The improved result is due to a more efficient cost structure and a reversal of a EUR 0.7 million impairment realised earlier. Revenue totalled EUR 102.2 million (100.7). The financing situation remained good and the equity-to-assets ratio improved to 40.8 per cent (39.3). The market situation is expected to remain stable, revenue to increase slightly, and the profit level to improve.

Accounting policies

Since the beginning of 2005, Martela Oyj has published its consolidated annual accounts and 2004 comparison figures in accordance with the International Financial Reporting Standards (IFRS). The financial statements have been prepared in compliance with IFRS recognition and measurement principles. A separate stock exchange release was issued on 17 March 2005 on the transition to IFRS. The new IFRS principles applied by Martela were also included in the release.

Market

The market remained stable in Finland and the other Nordic countries. In Poland, the demand for office furniture continued to rise.

Group structure

No changes have taken place in the Group structure during 2005. The comparability of the financial statements figures to the previous year is affected by the structural changes carried out in Sweden in August 2004, when Martela AB's partition wall business and the operations of Aski Inredningscenter AB, a sales company, were sold.

Revenue

Consolidated revenue totalled EUR 102.2 million (100.7), representing an increase of 1.5 per cent. The revenue increase, adjusted for structural changes, is approx. 3 per cent.

Segment reporting

One primary segment has been defined for Martela, namely the furnishing of offices and public places. The revenue and result are in accordance with the consolidated financial statements. The Group's secondary reporting segment has been defined according to the geographic location of customers.

Group result

The improving profit trend continued and the Group's pre-tax result became positive at EUR 1.0 million (-2.0). The result improvement is due to the measures undertaken in recent years and in 2005 to improve the cost structure.

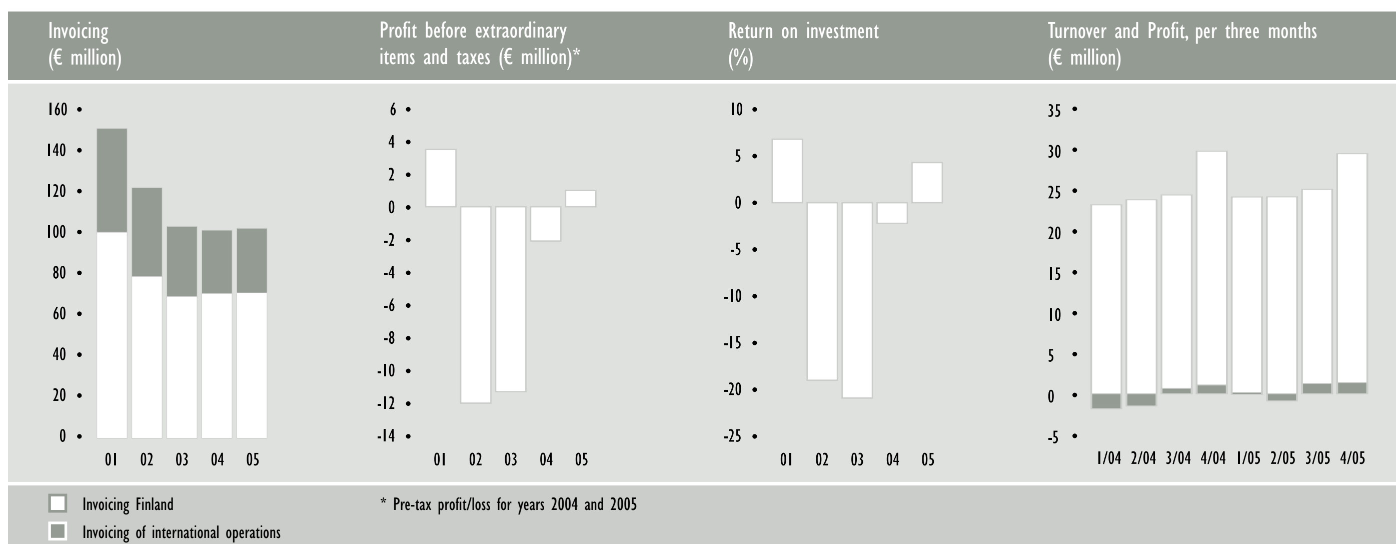
The result for 2005 is also boosted by capital gains arising from the disposal of assets, totalling EUR 0.3 million (1.1), and the reversal of a EUR 0.7 million impairment recognised in the 2004 IFRS balance sheet. A EUR 1 million impairment of Martela AB's assets, the carrying amount of which was estimated to exceed the recoverable amount, had been recognised in the 2004 IFRS balance sheet. On the basis of developments in 2005, the efficiency improvement measures and the judgements of the company's executive management, the previously recognised impairment was reversed.

The result for 2004 also includes items that affect the comparability of the results. Structural changes, corrections in the measurement of assets and changes in the Finnish Employee Pensions Act (TEL) affected the 2004 result by a total of EUR -0.5 million.

The taxes for 2005 include a EUR 1,079,000 change in deferred taxes. The change in deferred taxes is due mainly to the utilisation of the parent company's losses confirmed in taxation, and adjustments to deferred tax assets recognised previously to the extent that impairments are not accepted in statutory taxation.

The result for the last quarter of 2005 is EUR 0.5 million without the above-mentioned reversal of the 0.7 million impairment. The comparable result for the last quarter of 2004 is EUR 0.2 million without the above-mentioned nonrecurring items.

Results continued to improve in all of the Group's units.



Capital expenditure

The Group's gross capital expenditure totalled EUR 1.6 million (0.9). Investments primarily involved production replacement investments, information technology, and machinery and equipment for the new logistics centre of the company in Poland. The new logistics centre in Poland was launched in February 2005, and operates in leased premises.

Staff

The Group employed 610 (662) people on average, down by 8 per cent on the previous year. There were 604 (613) employees at the end of the year.

Due to the retirement of Juha Ihalainen, Managing Director of Martela Sp. z o.o in April 2006, Piotr Fic was appointed as the new Managing Director of the company as of 1 January, 2006. Joakim Brobäck was appointed Managing Director of Martela AB. He took up the post on 1 February, 2006.

Product development

Product development employed 20 (22) people during the year. Product development expenses accounted for 2.0 percent (2.7) of revenue. At the beginning of the year a new, electrically adjustable desk range called Opteam S was launched. It combines a high level of ergonomics, easy adjustments and the possibility of increasing physical movement at the workspace in a natural way. Several new models were also launched for lobbies and conference areas.

Finance

Cash flow from operations was EUR 1.0 million (2.5). Working capital increased by EUR 2.0 million from the beginning of the year. The majority of the growth was due to an increase in trade receivables in December and a decrease in non-interest- bearing short-term debt. Cash flow from investments was EUR -1.1 million (-0.3). Interest-bearing debt decreased by EUR 1.8 million and totalled EUR 19.3 million (21.1) at the end of the year. Liquid assets at the end of the year amounted to EUR 5.0 million (7.8). The equity-to-assets ratio was 40.8 per cent (39.3) and gearing was 62.8 per cent (56.4).

Shares

During the financial year, 966,453 of the company's A shares were traded on the Helsinki Stock Exchange (590,996), corresponding to 27.2 per cent (16.6) of the entire stock. The value of trading turnover was EUR 6.8 million (3.4). The value of a share was EUR 6.35 at the beginning of the year and EUR 7.26 at the end of the year. During the financial year the share price was EUR 8.99 at its highest and EUR 6.08 at its lowest. At the end of 2005, equity per share was EUR 5.6.

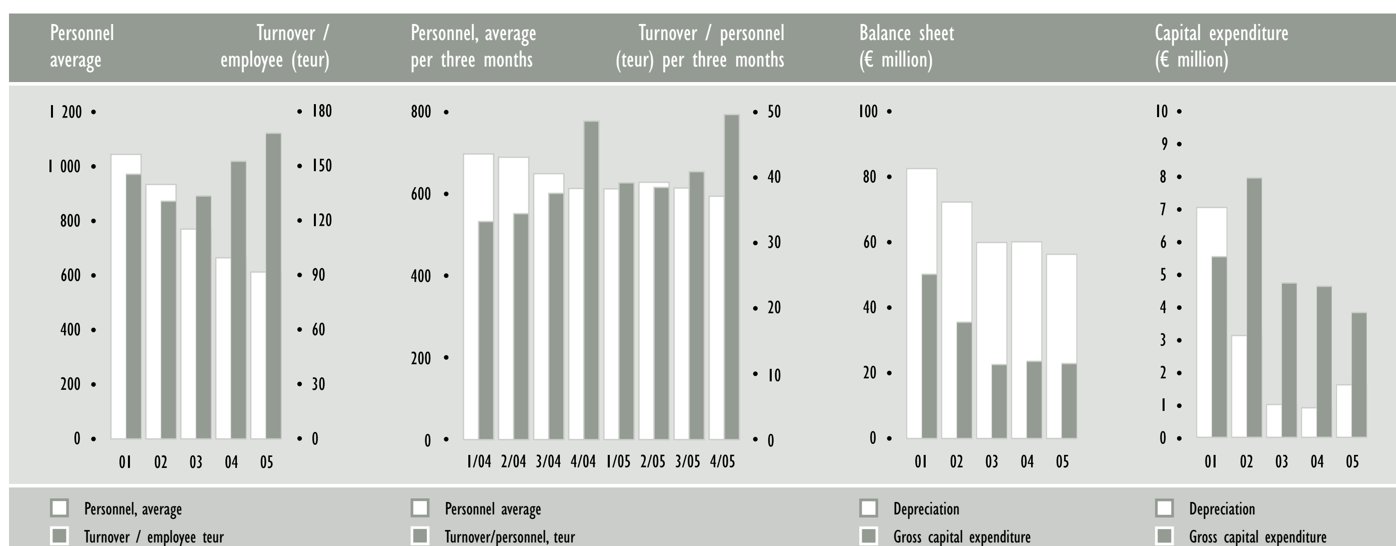
Annual General Meeting

The Annual General Meeting held on 16 March 2005 decided to distribute a dividend of EUR 0.15 per share. The Meeting appointed Heikki Ala-Ilkka, Tapio Hakakari, Heikki Martela, Pekka Martela, Jori Keckman and Jaakko Palsanen to the Board of Directors for the next term, and elected Matti Lindström as the staff representative and Raimo Santala as his deputy. The Board elected Heikki Ala- Ilkka as Chairman and Pekka Martela as Deputy Chairman. Reino Tikkanen, Authorised Public Accountant, was elected as the auditor of the company, with KPMG Oy Ab as the deputy auditor.

The Annual General Meeting decided to grant the Board of Directors an authorisation for the following year to decide on increasing the share capital, issuing convertible bonds, and acquiring and/or disposing of the company's own shares in deviation from the pre-emptive rights of shareholders.

Own shares

Martela did not purchase any of its own shares in 2005. On 31 December, 2005, 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.



Insider rules

The insider rules were supplemented in December 2005 in accordance with the instructions issued by the Board of Directors of the Helsinki Stock Exchange.

Martela 60 years

5 October, 2005 marked the 60th anniversary of the company's founding. The company's original name, Tehokaluste Oy, was later changed to Martela Oyj. Martela has since grown to become the Finnish market leader in office furniture and one of the largest European companies in the field. Today, the company has production facilities in Finland, Sweden and Poland. All through its existence, Martela has been committed to promoting ergonomics in the workplace and an extension of this is the MOVE project, commenced during the anniversary year, the content of which has been created in co-operation with ergonomics professionals. The project aims to increase physical movement at the workspace in a natural way during the day and to facilitate discussion about the significance of such movement and workspace solutions supporting it.

Outlook for 2006

No material changes are expected in the demand for office furniture in 2006. Measures to improve the cost structure will continue in all of the Group's units.

In Finland, growth will be sought through increasing service sales, through furniture sales to schools and retirement homes, and by further increasing the manufacture of components to Kidex's outside customers.

In Scandinavia, emphasis has been on improving the order/delivery chain and delivery reliability. This, combined with the launching of new products, supports continued growth.

In Poland and the other markets, the objective will be to strengthen and increase the number of distribution channels. In Poland the new logistics centre taken into use in 2005 gives further possibilities.

Should economic growth in the main markets unexpectedly start to weaken, this can have a negative effect on the demand for office furniture. This we estimate to constitute the biggest risk and uncertainty factor.

New, more competitive products to be launched give rise to new opportunities. This was verified by the success of Martela ’s new products at the Stockholm Furniture Fair at the beginning of February 2006.

Martela Group's revenue is expected to increase slightly in 2006, and the improving profit trend is expected to continue. Cash flows are expected to be positive, and the equity-to-assets ratio is expected to improve.

Invoicing in 2006 is likely to develop according to the seasonal fluctuation patterns of previous years. Therefore, the profit level for the first half of the year is expected to decrease from that achieved in the latter half of 2005, but is expected to improve towards the end of the year.

Helsinki, 15 February, 2005
Martela Oyj
Board of Directors

Invoicing by main market areas

	2005	%	2004	%	Change %
Finland	71,0	69,2 %	70,7	69,5 %	0,5 %
Scandinavia	19,5	19,0 %	19,4	19,1 %	0,6 %
Other regions	12,1	11,8 %	11,6	11,4 %	4,7 %
Total	102,7	100,0 %	101,7	100,0 %	1,0 %

Scandinavian invoicing growth, adjusted for structural changes, is approx. 11 per cent.

Quarterly invoicing by main market areas

	1/2004	2/2004	3/2004	4/2004	1/2005	2/2005	3/2005	4/2005
Finland	15,4	16,5	17,3	21,5	16,3	17,0	17,0	20,6
Scandinavia	5,4	4,9	4,1	5,0	4,5	4,3	5,5	5,3
Other regions	2,6	2,5	3,0	3,4	3,2	2,9	2,5	3,5
Total	23,4	23,9	24,4	29,9	24,0	24,2	25,0	29,5

Result by quarter-year

	1/2004	2/2004	3/2004	4/2004	1/2005	2/2005	3/2005	4/2005
Result before taxes	-1,9	-1,7	+0,5	+1,1	-0,4	-0,9	+1,1	+1,2

Staff

	2005	2004	Change %
Average staff	610	662	- 7,9
Staff at end of year	604	613	- 1,5
Revenue/person (EUR 1,000)	167,6	152,2	+10,1

Staff by quarter-year

	1/2004	2/2004	3/2004	4/2004	1/2005	2/2005	3/2005	4/2005
Average staff	696	688	648	612	611	627	613	593
Staff at end of year	688	694	622	613	610	641	600	604
Revenue/person (EUR 1,000)	33,2	34,4	37,5	48,5	39,1	38,4	40,8	49,5

Average staff by region

	2005	2004	Change %
Finland	489	514	-4,9
Scandinavia	70	98	-28,6
Poland	51	50	+2,0
Group total	610	662	-7,9

Consolidated financial statements, IFRS

Consolidated income statement (EUR 1,000)

(EUR 1,000)	Note	1.1.–31.12.2005	1.1.–31.12.2004
REVENUE	1	102 246	100 747
Other operating income	2	987	1 652
Changes in inventories of finished goods and work in progress		-436	-851
Raw material and consumables used		-49 258	-50 515
Production for own use		29	20
Employee benefits expenses	4	-24 617	-25 196
Depreciation and impairment	5	-2 756	-4 603
Other operating expenses	3	-24 680	-22 807
OPERATING PROFIT(-LOSS)		1 516	-1 553
Financial income	7	360	563
Financial expenses	7	-904	-1 066
PROFIT (-LOSS) BEFORE TAXES		972	-2 056
Income taxes	8	-1 085	36
PROFIT (-LOSS) FOR THE FINANCIAL YEAR		-112	-2 020
Attributable to:			
Equity holders of the parent		-112	-2 020
Minority interest		0	0
Earnings per share for the profit attributable to the equity holders of the parent:			
Basic earnings/share, €	9	0	-0,5
Diluted earnings/share, €	9	0	-0,5

Consolidated cash flow statement (EUR 1,000)

(EUR 1,000)	1.1.–31.12.2005	1.1.–31.12.2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flow from saless	100 325	101 567
Cash flow from other operating income	635	1 267
Payments on operating costs	-99 364	-100 079
Net cash from operating activities before financial items and taxes	1 596	2 755
Interest paid	-734	-720
Interest received	43	279
Other financial items	123	254
Dividends received	2	56
Taxes paid	-76	-137
Net cash from operating activities (A)	954	2 487
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure on tangible and intangible assets	-1 664	-928
Proceeds from sale of tangible and intangible assets	580	715
Loans granted	0	-142
Repayments on loan receivables	0	7
Net cash used in investing activities (B)	-1 084	-348
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of short-term loans	-1 443	-108
Proceeds from long-term loans	170	2 001
Repayments of long-term loans	-818	-3 143
Dividends paid and other profit distribution	-613	-511
Net cash used in financing activities (C)	-2 704	-1 761
CHANGE IN CASH AND CASH EQUIVALENTS	-2 834	378
Cash and cash equivalents at beginning of year 1)	7 812	7 421
Translation differences	-15	13
Cash and cash equivalents at end of year 1)	4 963	7 812

1. Liquid funds include cash in hand and at bank, and securities (see notes 18,19)

Description of essential differences in cash flow statement

The cash flow statement compiled under previous Finnish accounting practice treated finance lease costs as rental expense under cash flows from operating activities. In the IFRS cash flow statement, finance lease costs are recognised as a change in short-term loans under cash flows from financing activities, and as interest expense under cash flows from operating activities.

Consolidated balance sheet (EUR 1,000)

(EUR 1,000)	Note	31.12.2005	31.12.2004
ASSETS			
Non-current assets			
Intangible assets	10	517	480
Tangible assets	11	18 991	20 846
Investments in associates	12	22	22
Available-for-sale financial assets	13	55	91
Investment properties	14	1 161	600
Deferred tax assets	15	1 819	3 035
Non-current assets, total		22 566	25 074
Current assets			
Inventories	16	10 057	9 956
Trade receivables	17	17 319	15 753
Loan receivables	17	371	460
Accrued income and prepaid expenses	17	746	850
Current tax receivable		77	0
Liquid asset securities	18	2 875	3 667
Cash and cash equivalents	19	2 088	4 145
Current assets, total		33 532	34 831
ASSETS, TOTAL		56 098	59 905

Consolidated balance sheet

(EUR 1,000)	Note	31.12.2005	31.12.2004
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent	20		
Share capital		7 000	7 000
Share premium account		1 116	1 116
Other reserves		117	122
Treasury shares		-721	-721
Translation differences		-108	-165
Retained earnings		15 432	16 157
Equity, total		22 836	23 509
Non-current liabilities			
Interest-bearing liabilities	21	15 605	13 407
Deferred tax liabilities	15	297	434
Pension obligations	22	1	66
Other liabilities		0	0
Non-current liabilities, total		15 902	13 907
Current liabilities			
Interest-bearing			
Current portion of interest-bearing borrowings	21	3 010	3 938
Bank overdrafts	21	698	3 731
Interest-bearing current liabilities, total		3 707	7 669
Advances received		126	95
Trade payables		5 965	6 363
Accrued liabilities and prepaid income	23	4 370	5 014
Current tax payable		0	0
Other current liabilities		3 192	3 349
Non-interest-bearing current liabilities, total		13 653	14 821
LIABILITIES, TOTAL		33 262	36 397
EQUITY AND LIABILITIES, TOTAL		56 098	59 905

Statement of changes in equity (EUR 1,000)

(EUR 1,000)

Equity attributable to equity holders of the parent

	Share capital	Share premium account	Other reserves	Treasury shares	Translation differences	Retained earnings	Equity, total
Equity 1.1.2004	3 500	4 616	122	-721	0	18 688	26 205
Translation differences			0		-165		-165
Taxes on items recognised in equity or transferred from equity							0
Net income recognised directly in equity	0	0	0	0	-165	0	-165
Profit for the financial year						-2 020	-2 020
Total recognized income and expense for the financial year	0	0	0	0	-165	-2 020	-2 185
Dividends						-511	-511
Share issue	3 500	-3 500					0
	3 500	-3 500	0	0	-165	-2 531	-2 696
Equity 31.12.2004	7 000	1 116	122	-721	-165	16 157	23 509
Cash flow hedges							0
Translation differences			-5		57		52
Taxes on items recognised in equity or transferred from equity							0
Net income recognised directly in equity	0	0	-5	0	57	0	52
Profit for the financial year						-112	-112
Total recognized income and expense for the financial year	0	0	-5	0	57	-112	-60
Dividends						-613	-613
Share issue							0
	0	0	-5	0	57	-725	-673
Equity 31.12.2005	7 000	1 116	117	-721	-108	15 432	22 836

Notes to the Consolidated Financial Statements

The Martela Group

The Martela Group makes office furniture and designs and implements a wide range of solutions for the working environment.

The Group's parent company is Martela Oyj, a Finnish public limited company domiciled in Helsinki, street address Takkatie 1.

Copies of the Group's financial statements are available at Takkatie 1, FI-00370 Helsinki, and on the Internet at Martela's home pages www.martela.com.

Accounting Policies

Policies used in compiling the financial statements

These are Martela's first consolidated financial statements of prepared in accordance with the International Financial Reporting Standards (IFRS). As referred to in the Finnish Accounting Act and in ordinances issued pursuant to the provisions of this Act, the International Financial Reporting Standards refer to the standards and their interpretations adopted in accordance with the procedure laid down in regulation (EC) No 1606/2002 of the EU. The notes to the consolidated financial statements also conform with the Finnish accounting and company legislation.

Martela adopted the IFRS as of 1 January 2005. Prior to the IFRS, Martela's financial statements were based on Finnish accounting standards (FAS) applicable to listed companies in Finland. Martela's date of transition to the IFRS was 1 January 2004. An explanation of the effects of the IFRS adjustments made is provided in the reconciliations included in note 29 to the consolidated financial statements. The comparative information for the 2004 financial year has been restated to comply with IFRS.

The consolidated financial statements are presented in thousands of euros and have been prepared on the historical cost basis except as disclosed in the accounting policies.

Use of estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the contents of the financial statements, and to use judgement when applying accounting policies. The section "Accounting policies requiring management's judgement and key sources of estimation uncertainty" refers to the judgements made by management and those financial statement items on which judgements have a significant effect.

Principles of consolidation

The consolidated financial statements include the parent company, Martela Oyj, and all the subsidiaries in which the parent company controls, directly or indirectly, more than 50 per cent of the voting power of the shares, or otherwise has control.

Associates are companies in which the Group has significant influence. Significant influence occurs when a group controls more than 20 % of a company's voting power or when a group otherwise has significant influence but no control.

Subsidiaries are included in the financial statements by using the purchase method. The Group's internal business transactions, unrealised margins on internal deliveries, internal receivables and liabilities and internal profit distribution are eliminated.

Under an exemption permitted by IFRS 1, business combinations before the IFRS adoption date have not been restated to comply with the IFRS. In accordance with the previous Finnish practice, the difference between the cost of a business combination and its equity on the acquisition date has been allocated to buildings. The difference allocated to buildings is amortised in line with the planned depreciation of the buildings.

Items denominated in foreign currency

Transactions in foreign currencies are translated at the exchange rate prevailing on the date of the transaction – in practice, for transactions taking place within any given month, a rate is used that approximates the rate of the transaction date. On the balance sheet date, the monetary receivables and liabilities are translated into functional currencies at the exchange rate of the balance sheet date. Exchange rate gains and losses related to purchases and sales are treated as adjustments to the respective items. Exchange rate gains and losses in financing are treated as adjustments to financial income and expenses.

The income statements of foreign subsidiaries are translated into euros at the weighted average rates for the financial year, and the balance sheets at the average rates of the European Central Bank on the balance sheet date. The translation of the profit/loss for the year at different exchange rates in the income statement and balance sheet cause a translation difference which is recognised in shareholders' equity. The exchange rate differences arising from elimination of the acquisition cost of foreign subsidiaries and the exchange rate differences arising from the post-acquisition equity are recognised in shareholders' equity. Similar treatment has been applied to intragroup long-term loans which in substance are equity and form a part of net investment. When a subsidiary is disposed of, the accumulated translation differences are recognised in the income statement as part of the sales gains or losses. Translation differences arising prior to 1.1.2004 are recognised in retained earnings at the transition to IFRS and are not later recognised as sales gains or losses.

Government grants

Grants received from the government or other sources are entered in the income statement as income from other operations when they are to be recognised as income. Grants related to the acquisition of fixed assets are recognised as deductions from the carrying amount of the asset. Grants are recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

Intangible assets

Research and development

Although research and development is active and continuous in the group, individual development projects are of such a scope in relation to operations that the capitalisation criteria are not fulfilled. Research and development expenditure is recognised as an expense as incurred.

R&D-related equipment is capitalised in machinery and equipment.

Other intangible assets

Other intangible assets include software licences, patents and other corresponding rights. Patents, licences and other rights are measured at the original cost, less depreciation and any impairment.

The useful lives of intangible assets are as follows:

Licences	3 – 5 years
Patents and other corresponding rights	10 years

Tangible fixed assets

Land, buildings, machinery and equipment constitute the majority of tangible fixed assets. They are measured in the balance sheet at original cost or deemed cost, less accumulated depreciation and any impairment. Under an exemption permitted by IFRS 1, an item of property, plant and equipment may be measured at the date of transition to IFRSs at its fair value, and that value may be used as its deemed cost at that date.

When a separate asset item is renewed, the expenditure related to the new item is capitalised. Other expenditure arising later is capitalised only when future economic benefits flow to the company. Other expenditure for repairs or maintenance is recognised through profit or loss when it is incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Land is not depreciated. The depreciation periods are as follows:

Buildings	15 - 30 years
Machinery and equipment	3 - 8 years

The residual value and useful life of assets is reviewed in each financial statements and, if necessary, is adjusted to reflect changes in the expected useful life.

Profits and losses from the sale or disposal of fixed assets are recognised in the income statement.

Investment properties

Land that is held for a currently undetermined future use is classified as an investment property. It is measured at original cost, less impairment loss.

Impairment

The carrying amounts of asset items are assessed at each balance sheet date to observe whether there are any indications that an asset may be impaired. If such indications exist, the recoverable amount of the asset will be estimated at the higher of its fair value less the costs of disposal or of its value in use. An impairment loss is recognised if the balance sheet value of an asset or cash generating unit exceeds the recoverable amount. Impairment losses are recognised in the income statement.

If there are indications that impairment losses no longer exist or that they have diminished, the recoverable amount is estimated. A previously recognised impairment in the income statement is reversed if the estimates used in measuring the recoverable income are materially changed. However, an impairment loss cannot be reversed to an extent more than what the carrying amount of the asset or cash generating unit would be without recognition of an impairment loss.

Leases

Leases concerning tangible assets in which the Group has substantially all the risks and rewards incident to ownership are classified as finance leases. Asset items purchased by finance leasing, less accumulated depreciation, are capitalised in tangible assets These asset items are depreciated in accordance with the shorter of 1) the useful lives of the tangible asset, or 2) the lease term. Lease obligations are included in interest-bearing liabilities.

Leases in which substantially all the risks and rewards incident to ownership of an asset remain with the lessor are classified as operating leases and are recognised as an expense in the income statement on a straight line basis over the lease term.

Inventories

Inventories are recognised at the lower of cost or net realisable value. The value of inventories is determined by the FIFO method and it includes all direct expenditure incurred by acquiring the inventories and also a part of the variable and fixed overhead costs of manufacture.

Employee benefits

The Group has arranged defined contribution plans and defined benefit plans for retirement. Contributions made to defined contribution plans are recognised in the income statement as an expense as incurred.

The obligations of defined benefit plans are calculated separately for each plan. The projected unit credit method is used in the calculation. Pension costs are recognised as an expense for the service period of personnel on the basis of calculations performed by qualified actuaries. In calculating the present value of a pension obligation, the market yield of corporate high-grade bonds or the interest rate of government bonds are used as the discount rate. Their maturity corresponds to a significant extent with the maturity of the computed pension liability.

Under an exemption permitted by IFRS 1, the cumulative actuarial gains and losses of defined benefit plans are recognised on the transition date, 1.1.2004, in retained earnings. The actuarial gains and losses arising after this are recognised in the income statement for the average remaining service period of personnel to the extent that they exceed the larger of the following: 10% of the present value of the defined benefit obligation or 10% of the fair value of the plan assets.

Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, and it is probable that on outflow of economic benefits will be required to settle the obligation. If it is possible to receive compensation for part of the obligation from a third party, the compensation is recognised as a separate asset item, but only when receipt of the compensation is virtually certain.

Income taxes

The taxes recognised in the consolidated income statement include current tax, taxes for previous years and changes in deferred taxes.

Deferred tax assets and liabilities are recognised, in accordance with the liability method, on temporary differences between the tax values and IFRS carrying values of asset and liability items.

A deferred tax asset is recognised only to the extent that it is probable that taxable profit will be available against which it can be used.

The main temporary differences arise in Martela Oyj's unused tax losses and in the measurement of buildings at fair value in accordance with the exemption permitted by the IFRS 1 transition standard.

Deferred taxes are calculated by using the tax rates enacted by the balance sheet date.

Recognition of income

Revenue is recognised in the income statement when the significant risks and rewards of ownership of the sold goods have been transferred to the buyer. In general, revenue is recognised in the income statement at the time of delivery of the goods in compliance with contract terms.

Revenue from the services rendered is recognised when the service has been performed.

Operating profit

Operating profit is the Group's profit from operations before financial items and taxes. Exchange rate differences in the measurement of trade receivables and payables are recognised as part of operating profit.

Financial assets and liabilities

The Group has applied the IAS 39 Financial Instruments: Recognition and Measurement standard since January 1, 2005. Under the standard, the Group's financial assets have been classified into the following groups: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose of acquiring the financial assets, and they are classified at the time of initial acquisition. All purchases and sales of financial assets are recognised on the date when the transaction was made.

Derivatives and investments in mutual fund units are classified as financial assets at fair value through profit or loss. Investments are measured at fair value on the basis of published price quotations in an active market, and changes in fair value are recognised in the income statement in the year in which they arise. Derivative instruments are measured at fair value and the change in fair value is recognised in the income statement. The fair values of forward exchanges are based on market prices at the balance sheet date.

Loans and receivables include non-derivative financial assets with fixed or determinable payments and which are not quoted in an active market or are not held by the company for trading purposes. This group includes the Group's financial assets gained by transferring money, goods or services to debtors. They are measured at amortised cost and are included in either current or non-current financial assets (they are included in the latter if they mature over 12 months later).

Available-for-sale financial assets include various unlisted shares that are measured at cost in the financial statements, because their fair value cannot be reliably defined and the acquisition cost is deemed to be the best estimate of fair value. They are included in non-current assets.

Cash and cash equivalents comprise cash in hand and in demand bank deposits, as well as other current, very liquid investments.

Financial liabilities are initially recognised at fair value on the basis of the consideration received. Financial liabilities are included in current and non-current liabilities and they can be interest-bearing or non-interest-bearing. Bank overdrafts are included in current interest-bearing liabilities. Borrowing costs are recognised as an expense in the period in which they are incurred.

Accounting policies requiring management's judgement and key sources of estimation uncertainty

In preparing the financial statements it is necessary to make forward-looking estimates and assumptions which may not, in fact, turn out to be true. In addition, it is necessary to use judgement in applying accounting policies to the financial statements.

New standards

In 2005 the IASB announced new standards and interpretations to come into force and which the Martela Group will adopt when they come into force. In 2006, IFRIC 4: Determining whether an arrangement contains a lease, amended IAS 19: Employee benefits, amended IAS 39: Financial instruments: measurement, and amended IAS 21: Changes in foreign exchange rates, and in 2007 IFRS 7: Financial instruments: disclosure. It is apparent that these new standards and interpretations will mainly affect the notes to the consolidated financial statements.

Notes to the consolidated financial statements

(EUR 1,000)

1. Segment reporting

The group's business segment, i.e. the furnishing of offices and public spaces, is the primary reporting format. The group's geographical segments are the secondary reporting format. Revenue from the geographical segments is reported according to the location of customers, and assets are reported according to their location. The segments' assets include intangible and tangible assets, inventories and receivables excluding tax-related items and liquid asset securities. Capital expenditure comprises increases in tangible fixed assets and intangible assets that are in use for more than one year.

The geographical segment is shown for three areas: Finland, Scandinavia, Other areas.

2005 (EUR 1,000)

Geographical segments	Finland	Scandinavia	Other areas	Elim.	Unallocated	Total
Revenue	70 680	19 450	12 115	0	0	102 246
Segment assets	42 895	7 191	4 286	-3 538	5 264	56 098
Capital expenditure	1 290	113	207	0	0	1 610

2004 (1000 eur)

Geographical segments	Finland	Scandinavia	Other areas	Elim.	Unallocated	Total
Revenue	69 778	19 401	11 568	0	0	100 747
Segment assets	42 127	7 578	3 775	-2 112	8 537	59 905
Capital expenditure	599	196	155	0	0	950

2. Other operating income

	1.1.–31.12.2005	1.1.–31.12.2004
Gains on sale of fixed assets	350	218
Gain on sale of fixed assets of operations of Aski Inredningscenter AB	0	797
Rental income	370	269
Public subsidies	98	167
Other income from operations	168	201
Total	987	1 652

3. Other operating expenses

Other operating expenses are reported by type of expense.
They include all sales, marketing, administration, production and product development expenses allocated to actual business operations.

Other operating expenses also include auditor's fees for auditing, EUR 106 thousand (EUR 104 thousand in 2004) and for other services, EUR 20 thousand (EUR 47 thousand in 2004).

Notes to the consolidated financial statements

(EUR 1,000)

4. Employee benefits expenses

	1.1.–31.12.2005	1.1.–31.12.2004
Salaries, CEO	171	174
Salaries, group managing directors	389	430
Salaries, boards of directors	69	72
Salaries of boards and managing directors, total	629	676
Other salaries and wages	18 751	19 206
Pension expenses, defined contribution plans	3 180	3 635
Pension expenses, defined benefit plans	69	-688
Other salary-related expenses	1 988	2 367
Personnel expenses in the income statement	24 617	25 196
Other fringe benefits	477	499
Total	25 094	25 695
Personnel		
Average personnel, workers	324	351
Average personnel, officials	286	311
Personnel at year end	604	613
Average personnel in Finland	489	514
Average personnel in Sweden	66	96
Average personnel in Norway	4	2
Average personnel in Poland	51	50
Total	610	662

5. Depreciation and impairment

Depreciation		
Intangible assets	167	222
Tangible assets		
Buildings and structures	1 109	1 648
Machinery and equipment	2 479	2 733
Depreciation, total	3 755	4 603
Impairment/cancellation of impairment by type of asset		
Land areas	-250	0
Machinery and equipment	-400	0
Buildings and structures	-350	0
Total	-1 000	0

6. Research and development expenses

The income statement recognised research and development expenses of EUR 1, 900,000 in 2005 (EUR 2,469,000 in 2004)

Notes to the consolidated financial statements

(EUR 1,000)

7. Financial income and expenses

	1.1.–31.12.2005	1.1.–31.12.2004
Financial income		
Dividend income	2	56
Interest income on short-term investments	43	47
Foreign exchange gains	194	214
Other financial income	0	144
Gains on sale of assets at fair value through profit or loss	111	102
Change in value of assets at fair value through profit or loss	10	0
	360	563
Financial expenses		
Interest expenses	-744	-852
Foreign exchange losses	-56	-71
Other financial expenses	-104	-139
Impairment of financial assets	0	0
Losses on sale of assets at fair value through profit or loss	0	0
Change in value of assets at fair value through profit or loss	0	-4
Total	-904	-1 066
Financial income and expenses, total	-544	-503
Total exchange rate differences affecting profit or loss are as follows:		
Exchange rate differences, sales	-52	-55
Exchange rate differences, purchases	176	89
Exchange rate difference, financial items	138	143
Exchange rate differences, total	262	177

Notes to the consolidated financial statements

(EUR 1,000)

8. Income taxes

	1.1.–31.12.2005	1.1.–31.12.2004
Current taxes	-6	-15
Taxes for previous years	0	-44
Change in deferred tax liabilities and assets	-1 079	95
Total	-1 085	36

Reconciliation between the income statement's tax expense
and the income tax expense calculated using the Martela
Group's domestic corporation tax rate (26% for 2005, 29% for 2004).

Profit before taxes	973	-2 056
Taxes calculated using the domestic corporation tax rate	253	0
Taxes for previous years	0	-44
Effect of tax rates in foreign jurisdictions	0	-336
Tax-exempt income	-17	-231
Corporate tax credits	0	-15
Non-deductible expenses	93	259
Impairment	157	0
Depreciation difference	131	403
Use of previously unrecognised tax losses	-1 702	0
Income taxes for the year in the income statement	-1 085	36

A change in deferred taxes amounting to EUR 1,079,00 was recognised for the financial year.
The change in deferred taxes is due mainly to the utilisation of the parent company's losses
confirmed on taxation, and adjustment to deferred tax assets recognised previously to the extent
that impairment are not accepted in statutory taxation.

9. Earnings per share

The basic earnings per share is calculated by dividing the profit
attributable to equity holders of the parent by the weighted average number
of shares outstanding during the year.

Profit attributable to equity holders of the parent	-112	-2 020
Weighted average number of shares (1,000)	4 088	4 088
Basic earnings per share (EUR/share)	0	-0,5

The company has no diluting instruments.

Notes to the consolidated financial statements

(EUR 1,000)

10. Intangible assets

	Intangible assets	Work in progress	1.1.2005 – 31.12.2005 Total	Intangible assets	Work in progress	1.1.2004 – 31.12.2004 Total
Acquisition cost 1.1.	2 210	73	2 283	3 970	18	3 988
Increases	184	141	325	175	57	232
Decreases	-1	-62	-63	-2 039	-2	-2 041
Regroupings	-61	0	-61	0	0	0
Exchange rate differences	26	0	26	104	0	104
Acquisition cost 31.12.	2 358	152	2 510	2 210	73	2 283
Accumulated depreciation 1.1.	-1 803	0	-1 803	-3 499	0	-3 499
Accumulated depreciation, decreases	0	0	0	2 023	0	2 023
Depreciation for the year 1.1.-31.12	-167	0	-167	-222	0	-222
Exchange rate differences	-23	0	-23	-105	0	-105
Accumulated depreciation 31.12.	-1 993	0	-1 993	-1 803	0	-1 803
Carrying amount 1.1.	407	73	480	471	18	489
Carrying amount 31.12.	365	152	517	407	73	480

11. Tangible assets

1.1.2005 – 31.12.2005	Land areas	Buildings	Machinery and equipment	Other tangible assets	Work in progress	Total
Acquisition cost 1.1.	1 097	33 271	40 157	24	579	75 128
Increases	0	94	1 172	102	417	1 785
Decreases	-4	-32	-433	-169	-438	-1 076
Regroupings	-561	-150	-40	252	0	-499
Exchange rate differences	15	-99	-181	0	11	-254
Cancellation of impairment	250	350	400	0	0	1 000
Acquisition cost 31.12.	797	33 434	41 075	209	569	76 084
Accumulated depreciation 1.1.	0	-20 583	-33 699	-186	0	-54 468
Accumulated depreciation, decreases	0	165	436	144	0	745
Depreciation for the year 1.1.-31.12.	0	-1 109	-2 455	-24	0	-3 588
Exchange rate differences	0	56	164	0	0	220
Accumulated depreciation 31.12.	0	-21 471	-35 554	-66	0	-57 091
Carrying amount 1.1.	1 097	12 688	6 458	24	579	20 846
Carrying amount 31.12.	797	11 963	5 521	143	569	18 991

Notes to the consolidated financial statements

(EUR 1,000)

1.1.2004 – 31.12.2004	Land areas	Buildings	Machinery and equipment	Other tangible assets	Work in progress	Total
Acquisition cost 1.1.	1 015	32 314	42 111	24	538	76 002
Increases	4	6 393	10 175	0	377	16 949
Decreases	-4	-5 517	-12 231	0	-347	-18 099
Regroupings	0	0	0	0	0	0
Exchange rate differences	82	81	102	0	11	276
Acquisition cost 31.12.	1 097	33 271	40 157	24	579	75 128
Accumulated depreciation 1.1.	0	-19 610	-33 516	0	0	-53 126
Accumulated depreciation, decreases	0	774	2 632	0	0	3 406
Depreciation for the year 1.1.-31.12.	0	-1 648	-2 733	0	0	-4 381
Exchange rate differences	0	-99	-82	0	0	-181
Accumulated depreciation 31.12.	0	-20 583	-33 699	0	0	-54 282
Carrying amount 1.1.	1 015	12 704	8 595	24	538	22 876
Carrying amount 31.12.	1 097	12 688	6 458	24	579	20 846

	31.12.2005	31.12.2004
Carrying amount of production machinery and equipment	4 227	5 442

Tangible assets, finance leases

Tangible assets include machinery and equipment acquired through finance leases as follows:

	1.1.2005 – 31.12.2005	1.1.2004 – 31.12.2004
Acquisition cost 1.1.	306	83
Increases	313	223
Decreases	0	0
Acquisition cost 31.12.	619	306
Accumulated depreciation 1.1.	-126	0
Accumulated depreciation, decreases	0	0
Depreciation for the year 1.1.-31.12.	-172	-126
Accumulated depreciation 31.12.	-298	-126
Carrying amount 1.1.	181	83
Carrying amount 31.12.	322	181

12. Investments in associates

	Parent company holding %	Number of shares	Nominal value of share (CHF 1,000)	Book value of share (EUR 1,000)
Essa Office Systems AG, Sveitsi	30	34	34	22

13. Available-for-sale financial assets

	1.1.2005 – 31.12.2005	1.1.2004 – 31.12.2004
Balance sheet value at beginning of year	91	369
Increases	0	0
Decreases	-36	-278
Balance sheet value at end of year	55	91

(EUR 1,000)

14. Investment properties

The land belonging to Kiinteistö Oy Ylähanka and the land in Poland have been classified as investment properties. The balance sheet value of the land belonging to Kiinteistö Oy Ylähanka at the beginning and end of financial year was EUR 600,000, which is also the property's fair value. The balance sheet value of the land in Poland at the end of the financial year was EUR 561,000. At the beginning of the year, it was included in land areas. The fair values have been appraised by a third-party valuer.

15. Deferred tax assets and liabilities

Changes in deferred taxes during 2005	1.1.2005	Recognised income statement	Recognised in equity	Exchange rate differences	31.12.2005
Deferred tax assets					
Tax losses carried forward	4 648	-1 286	0	0	3 362
Pension obligations	17	-17	0	0	0
Other temporary differences	0	0	0	0	0
Total	4 665	-1 303	0	0	3 362
Deferred tax liabilities					
On buildings measured at fair value on the transition date	1 726	-93	0	0	1 633
Cumulative depreciation difference	338	-131	0	0	207
Other temporary differences	0	0	0	0	0
Total	2 064	-224	0	0	1 840
Deferred tax assets and liabilities, total	2 601	-1 079	0	0	1 522
Due to set-off, divided in the balance sheet as follows:					
Deferred tax assets	3 035				1 819
Deferred tax liabilities	434				297
Deferred tax assets and liabilities, total	2 601				1 522

Changes in deferred taxes during 2004	1.1.2004	Recognised income statement	Recognised in equity	Exchange rate differences	31.12.2004
Deferred tax assets					
Tax losses carried forward	5 184	-536	0	0	4 648
Pension obligations	278	-261	0	0	17
Other temporary differences	0	0	0	0	0
Total	5 462	-797	0	0	4 665
Deferred tax liabilities					
On buildings measured at fair value on the transition date	2 028	-302	0	0	1 726
Cumulative depreciation difference	741	-403	0	0	338
Other temporary differences	187	-187	0	0	0
Total	2 956	-892	0	0	2 064
Deferred tax assets and liabilities, total	2 506	95	0	0	2 601
Due to set-off, divided in the balance sheet as follows:					
Deferred tax assets	3 409				3 035
Deferred tax liabilities	903				434
Deferred tax assets and liabilities, total	2 506				2 601

Deferred tax assets have not been recognised on unused tax losses that probably cannot be utilised in the future against taxable income.
Tax losses carried forward including 2005 results and decreased by undervaluations total about MEUR 22.

Notes to the consolidated financial statements

(EUR 1,000)

16. Inventories

	31.12.2005	31.12.2004
Raw materials and consumables	5 941	5 937
Work in progress	1 625	1 524
Finished goods	2 484	2 483
Advances	7	12
	10 057	9 956

The value of inventories has been written down by EUR 997 thousand (EUR 1,094 thousand in 2004).

17. Receivables

Trade receivables		
Trade receivables maturing within 12 months	17 319	15 753
Trade receivables maturing after 12 months	0	0
Loan receivables		
Loan receivables maturing within 12 months	44	0
Loan receivables maturing after 12 months	327	460
Accrued income and prepaid expenses		
Personnel expenses	81	170
Royalties	34	33
Interest income	0	0
Other financial assets	0	80
Advances	418	230
Other	213	337
Accrued income and prepaid expenses, total	746	850

18. Financial assets at fair value through profit or loss

Fund units	2 875	3 667

19. Cash and cash equivalents

	31.12.2005	31.12.2004
Cash in hand and at bank	2 088	2 545
Certificates of deposit	0	1 600
	2 088	4 145

Notes to the consolidated financial statements

(EUR 1,000)

20. Equity

Share capital

The paid share capital entered in the Trade Register is EUR 7,000,000.

According to the Articles of Association, the maximum capital is EUR 14,000,000 and the minimum capital is EUR 3,500,000.

The counter value of a share is EUR 1.68. The K shares carry 20 votes at a general meeting and the A shares 1 vote.

Both share series have the same dividend rights.

Changes in share capital	Number of shares	Share capital	Share premium account	Treasury shares	Total
01.01.2004	2 043 950	3 500	4 616	-721	7 395
Share issue	2 043 950	3 500	-3 500	0	0
31.12.2004	4 087 900	7 000	1 116	-721	7 395
Share issue	0	0	0	0	0
31.12.2005	4 087 900	7 000	1 116	-721	7 395

Martela Oyj owns 67,700 A shares purchased at an average price of EUR 10.65. The number of treasury shares is equivalent to 1.6 % of all shares and 0.4 % of all votes. The consolidated distributable equity was EUR 8,571 thousand in 2005 and EUR 9,225 thousand in 2004.

Share capital translation differences are due to the measurements made between Group companies. .

Other reserves consist of reserve funds

21. Interest-bearing liabilities

	2005 Balance sheet value	2004 Balance sheet value
Non-current		
Bank loans	13 010	11 020
Pension loans	2 422	2 253
Finance leases	173	134
Total	15 605	13 407
Current portion of interest-bearing borrowings		
Bank loans	2 299	3 231
Pension loans	533	706
Finance leases	178	61
Total	3 010	3 998
Current		
Bank loans	0	1 700
Bank overdrafts used	698	1 970
Total	698	3 670

Non-current interest-bearing liabilities in foreign currency as follow (EUR thousand):	14 508 EUR	1 096 SEK

Loans have been restructured and the loan terms have been lengthened. The balance sheet value at 31 December 2005 does not differ significantly from the fair values.

Non-current liabilities mature as follows:	2006	2007	2008	2009	2010	Later	Total
Bank loans	2 299	2 186	1 995	1 889	1 889	5 050	15 308
Pension loans	533	404	404	404	404	807	2 956
Finance leases	178	168	5	0	0	0	351
	3 010	2 758	2 404	2 293	2 293	5 857	18 615

(EUR 1,000)

Finance lease liabilities are payable as follows:

	31.12.2005	31.12.2004
Finance leases - total amount of minimum lease payments		
Not later than one year	187	64
Later than one year and not later than five years	177	141
Later than five years	0	0
	364	205
Finance leases - present value of minimum lease payments		
Not later than one year	178	61
Later than one year and not later than five years	173	133
Later than five years	0	0
	351	194

22. Pension obligations

In Finland, pension security is managed through a pension insurance company within the TEL system. In transferring to IFRS reporting on 1 January 2004, the portion of disabilty pensions included in the system was classified as a defined benefit plan. According to the amendment approved late 2004, the TEL disability pension part was treated as a defined contribution plan. As a result of this amendment, the group recognised EUR 868. 1 thousand in 2004 and EUR 54.1 thousand in 2005 as adjustments to income statement pension expenses, and, with respect to this plan, the pension obligation was entirely eliminated from the balance sheet on 31.12.2005.

The pension plans of foreign subsidiaries follow the local legislation and have been classified as defined contribution plans. In addition, in Finland, the group has one supplementary pension plan classified as a defined benefit plan.

The following presents the impact of the group's defined benefit plans on the consolidated result and balance sheet, calculated in accordance with IAS 19.

The amounts recognized in the balance sheet were determined as follows:

	1.1.2005–31.12.2005	1.1.2004–31.12.2004
Present value of unfunded obligations	0	0
Present value of funded obligations	705	665
Fair value of plan assets	-622	-556
Deficit / Excess	0	0
Unrecognised actuarial gains (+) and losses (-)	-82	-43
Unrecognised past service cost	0	0
Pension liability in balance sheet	1	66

Notes to the consolidated financial statements

(EUR 1,000)

The amount recognised in the income statement were determined as follows:

	1.1.–31.12.2005	1.1.–31.12.2004
Current service cost	117	174
Interest cost	37	77
Expected return on plan assets recognized during the year	-30	-21
Actuarial gains (-) and losses (+)	2	33
Past service cost	0	-112
Losses/profits on curtailment	-57	-839
Total	69	-688
The actual return on plan assets (EUR 1,000)	30	70

The changes in the liability recognized in the balance sheet were as follows:

Pension liability at beginning of year	66	957
Contributions paid	-134	-203
Expenses recognised in income statement	69	-688
Pension liability at end of year	1	66

Actuarial assumptions used were as follows:

Discount rate (%)	4,5	5,3
Expected return on plan assets (%)	4,5	5,3
Future salary increases (%)	3,3	3,5

23. Accrued liabilities and prepaid income

Personnel expenses	3 117	3 423
Interests	134	184
Other financial expenses	0	119
Royalties	128	119
Residual expenses	991	855
Other	0	314
Total	4 370	5 014

Notes to the consolidated financial statements

24. Management of financial risks

Financial risks are unexpected exceptions relating to currencies, liquidity, customer liquidity, investments and interest rates. The objective of financial risk management is to ensure that the company has cost-efficient and sufficient funding alternatives and to reduce the unfavourable effects of financial market fluctuations on the group's net assets. The general principles of risk management are approved by the Board of Directors, and the practical implementation of financial risk management is the responsibility of the parent company's financial administration.

Currency risks

The group has operations in Finland, Sweden, Norway and Poland, and it is therefore exposed to currency risks that arise in intra-group transactions, exports and imports, the financing of foreign subsidiaries and equity that is denominated in foreign currencies.

Transaction risks arise when the cash flows of contracts made at the exchange rates of certain dates are realised at different exchange rates.

Translation risks arise when the value of the capital invested in the parent company's foreign subsidiaries, annual profits and loans changes as a result of exchange rate fluctuations.

Transaction risks

Martela's major trading currencies are the EUR, SEK and PLN. The SEK and PLN currency positions are reviewed mainly on a half-yearly basis. The group's policy is to hedge the net positions remaining after reconciliation of forecast income and expenses. The hedging instruments used are mainly forward contracts maturing within 3-12 months. The Group does not apply hedge accounting.

Translation risks

The main translation risks derive from equity or subordinated loans provided by the parent company to its subsidiaries in Sweden and Poland. The company selectively hedges against translation risks by using currency loans and options. Hedging decisions are based on the estimated effect of each currency on the group's result, cash flow and equity and on the hedging cost. On the balance sheet date there were no open hedge positions.

Liquidity risks

The group strives to assess and monitor the amount of funding required by business operations, so that the group would have sufficient liquid assets for operating expenses and the repayment of maturing loans. In addition, the group continually maintains sufficient liquidity by means of effective cash management solutions such as cash reserves and bank overdrafts. The refinancing risk is managed by balancing the maturity schedules of loans and bank overdrafts according to forecast cash flows and by using several banks in financial operations.

Cash and cash equivalents at the end of the financial year totalled EUR 4,963 thousand, and unused bank overdrafts totalled EUR 1,152 thousand.

Credit risks

The group invests excess funds in short-term bank deposits at partner banks and in liquid, low-risk fixed income funds based on government treasury bills and commercial papers. The group's policy determines the investment policy and the credit rating requirements of customers and counterparties in investment transactions and derivative contracts. The turnover and maturity structure of group companies' trade receivables are reported monthly and are monitored by the parent company's financial management.

Interest rate risks

The group's interest rate risks relate to the group's loan portfolio and to changes in the value of the cash reserve due to interest rate variations. About half of the loan portfolio is at a fixed interest rate, while the other half is at variable rates. The duration of loans varies between 6 months and 7 years. The group can raise either fixed-interest or variable-interest loans and can use interest rate swaps. Excess cash assets are invested in both short- and long-term fixed income funds.

Interest rate risks were not hedged with derivatives during the financial year.

25. Derivative contracts

The Group has partly hedged the net SEK position remaining after the reconciliation of forecast revenues and expenses by using currency forward contracts maturing within 3-12 months. The Group does nor apply hedge accounting as in IAS 39. Changes in fair value are recognised through profit or loss.

At the balance sheet date, currency forward contracts totalled EUR 1,709 thousand at cost, and EUR 1,718 thousand measured at fair value.

Notes to the consolidated financial statements

(EUR 1,000)

26. Operating leases

	31.12.2005	31.12.2004
Minimum lease payments under non-cancellable operating leases are as follows:		
Not later than one year	2 423	2 391
Later than one year and not later than five years	7 064	7 203
Later than five years	2 133	3 452
	11 620	13 046

The group has leased many of the premises it uses. The lengths of operating leases are from 3 to 15 years, and normally they include the option to extend the lease after the initial expiry date. The income statement for 2005 includes rents paid on the basis of operating leases totalling EUR 2,565 thousand (EUR 2,573 thousand in 2004).

27. Pledges granted and contingent liabilities

	31.12.2005	31.12.2004
Debts secured by mortgages		
Pension loans	2 954	2 959
Property mortgages	2 478	2 481
Corporate mortgages	0	0
Bank loans	15 309	15 940
Property mortgages	11 006	11 076
Corporate mortgages	7 063	7 194
Shares pledged	13	18
Total mortgages	20 560	20 769

Mortgages given for financial institution loans also include general collateral securing Martela Oyj's pension loans of EUR 0.7 million (3.6)

	31.12.2005	31.12.2004
Other pledges		
Shares pledged as security for rents	0	0
Guarantees as security for rents	123	58
Collateral granted on behalf of others		
Guarantees	113	131
Repurchase sureties	192	253

(EUR 1,000)

28. Related party transactions

Group's parent and subsidiary relationships are as follows:

	Domicile	Holding (%)	Voting power (%)
Parent company			
Martela Oyj	Finland		
Subsidiaries			
Kidex Oy	Finland	100	100
P.O. Korhonen Oy	Finland	100	100
Kiinteistö Oy Ylähanka	Finland	100	100
Kiinteistö Oy Oulun Kaarnatie 14	Finland	100	100
Martela AB, Bodafors	Sweden	100	100
Aski Inredningscenter AB, Malmö	Sweden	100	100
Martela AS, Oslo	Norway	100	100
Martela Sp.z o.o., Warsaw	Poland	100	100

Martela Group's related party comprise the CEO, members of the board and the group's management team.

Members of the company's board and the CEO hold a total of 8.2 % of the share capital and 17.2 % of the votes.

Compensation, benefits and incentive systems of key management personnel classified as related party:

	2005	2004
Salaries and other short-term employee benefits		
Board members	69	72
CEO	181	184
Management team members	695	657
	945	913

Fees based on board membership are not paid to members employed by the company

The CEO is entitled, if he wishes, to retire with a full pension after reaching the age of 60.
Retirement benefits are included in pension expenses, defined benefit plans, presented in note 4.
The period of notice is 6 months with respect to both the CEO and the company, and in the event of a dismissal by the company, the CEO is entitled to a lump-sum compensation equalling his salary for 18 months.

The retirement benefits of former management personnel are also included in pension expenses, defined benefit plans, presented in note 4.

The CEO and the company's management are included in a long-term incentive scheme, extending from 2004 to the end of 2006. This incentive scheme is based on the group's combined profit performance for the period 2004-2006.

(EUR 1,000)

29. Transition to IFRS reporting

As stated in the accounting policies, these are Martela group's first IFRS-compliant financial statements. Prior to the adoption of the IFRS, Martela Group's financial statements were prepared in accordance with Finnish Accounting Standards (FAS).

Transition to IFRS reporting has changed the reported financial statement figures, notes and accounting policies compared with earlier years. The present accounting policies have been applied in the financial statements for the year ended 31.12.2005, comparison figures for the year ended 31.12.2004 and the opening IFRS balance at 1.1.2004.

The reconciliations and explanations hereinafter presented indicate the differences between IFRS and FAS for the year 2004 and for the date of transition to the IFRS on 1.1.2004.

Reconciliation of equity at 1.1.2004 and at 31.12.2004	Note	FAS 31.12.2003	Effect of transition to IFRS	IFRS 1.1.2004	FAS 31.12.2004	Effect of transition to IFRS	IFRS 31.12.2004
Assets							
Non-current assets							
Intangible assets	(a)	1 333	-844	489	1 001	-521	480
Tangible assets	(b,a,c)	20 516	4 192	24 708	16 653	4 193	20 846
Investments in associates		22	0	22	22	0	22
Available-for-sale financial assets	(c,b)	2 882	-2 505	377	2 631	-2 540	91
Investment properties	(d,b)	0	600	600	0	600	600
Deferred tax assets		0	3 409	3 409	0	3 035	3 035
Non-current assets, total		24 753	4 852	29 605	20 307	4 767	25 074
Current assets							
Inventories	(e)	10 127	495	10 622	9 956	0	9 956
Receivables	(f)	17 447	-250	17 197	17 118	-55	17 063
Liquid asset securities	(g)	5 187	3	5 190	3 667	0	3 667
Cash and cash equivalents		2 234	0	2 234	4 145	0	4 145
Current assets, total		34 995	248	35 243	34 886	-55	34 831
Assets, total		59 748	5 100	64 848	55 193	4 712	59 905
Equity and liabilities							
Distributable equity							
Share capital		3 500	0	3 500	7 000	0	7 000
Share premium account		4 616	0	4 616	1 116	0	1 116
Other reserves		121	0	121	122	0	122
Treasury shares		721	-1 442	-721	721	-1 442	-721
Translation differences	(i)	0	0	0	0	-165	-165
Retained earnings	(h)	13 500	5 188	18 688	10 152	6 005	16 157
Equity, total		22 458	3 746	26 205	19 111	4 398	23 509
Non-current liabilities							
Interest-bearing liabilities	(k)	15 859	156	16 015	13 272	134	13 406
Deferred tax liabilities	(l)	742	161	903	378	56	434
Pension obligations	(j)	0	957	957	0	66	66
Other liabilities		382	0	382	0	0	0
Non-current liabilities, total		16 983	1 274	18 257	13 650	256	13 906
Current liabilities							
Interest-bearing current liabilities	(k)	6 269	104	6 373	7 608	61	7 669
Non-interest-bearing current liabilities		14 038	-24	14 014	14 824	-3	14 821
Current liabilities, total		20 307	80	20 387	22 432	58	22 490
Liabilities, total		59 748	5 100	64 848	55 193	4 712	59 905

Notes to the consolidated financial statements

(EUR 1,000)

Reconciliation of profit for year 1.1.- 31.12.2004	Note	FAS 1.1.–31.12.2004	Effect of transition to IFRS	IFRS 1.1.–31.12.2004
Revenue		100 747	0	100 747
Other operating income	(n)	1 796	-144	1 652
Changes in inventories of finished goods and work in progress		-493	-358	-851
Raw material and consumables used		-50 378	-137	-50 515
Production for own use		20	0	20
Employee benefits expenses	(j)	-26 088	892	-25 196
Depreciation and impairment	(m,b)	-4 881	278	-4 603
Other operating expenses	(o)	-22 941	134	-22 807
Operating profit (-loss)		-2 218	665	-1 553
Financial income	(p)	355	208	563
Financial expenses	(p,b)	-1 113	47	-1 066
Profit (-loss) before taxes		-2 976	920	-2 056
Income taxes		305	-269	36
Profit (-loss) for the financial year		-2 671	651	-2 020
Attributable to:				
Equity holders of the parent		-2 671		-2 020
Minority interest				
Earnings per share for the profit attributable to the equity holders of the parent:				
Basic earnings/share, EUR		0		-0,5
Diluted earnings/share, EUR		0		-0,5

Notes to the reconciliation of equity at 1.1.2004 and 31.12.2004, and of the profit for the year 1.1.-31.12.2004

(a) Intangible assets

Expenditure for basic improvements to properties and other long-term expenditure capitalised under Finnish accounting standards (FAS) has been transferred to tangible assets (EUR 775.8 thousand in 2004).

Goodwill was tested for impairment at the transition date and, as a result, an impairment was recognised in retained earnings (EUR 68.3 thousand).

(b) Tangible assets

Under FAS, leases were treated as operating leases. After adoption of IFRS, leases of office machinery and equipment have been classified as finance leases and capitalised in tangible assets (EUR 260 thousand). These asset items are depreciated under depreciation plans for tangible assets during their useful lifetimes. Lease obligations are correspondingly entered in interest-bearing liabilities, and lease-related interests in interest expenses.

Under IFRS the holdings of housing companies that were previously recognised in investments are now transferred to tangible assets.

Investment properties classified under IFRS 40 have been transferred from tangible assets and now constitute a separate balance sheet item.

Increases and decreases in value and measurement at fair value at the transition date to IFRS:

On the transition date, the Group's buildings were measured at fair value in accordance with the exemption permitted by IFRS 1, and these values are used as the deemed cost under IFRS. The adoption of deemed cost has increased the balance sheet value of buildings by EUR 6,993 thousand. The buildings are depreciated during their useful lifetimes. The depreciation periods are defined as 15 or 20 years. Correspondingly, revaluations totalling EUR 2,809 thousand made under FAS have been cancelled.

IAS 36 requires assessment of the carrying amounts of asset items for indications of impairment, and, if such indications exist, the measurement of the recoverable amount. Following such assessments, impairments totalling EUR 2,354 thousand were recognised for certain properties.

(c) Available-for-sale financial assets

Under FAS, investments included the shares of mutually owned real estate companies and housing companies. These shares have been transferred to tangible assets.

Non-current investments also include, at the transition date, shares listed in Finland which are measured under FAS at acquisition price. Since 1.1.2004 these shares have been treated under IAS 39 and are classified as available-for-sale financial assets measured at fair value. The shares were sold in 2004 at which time the changes in fair value were realised. Thus, on 31.12.2005, the available-for-sale financial assets include only unlisted shares measured at acquisition cost.

Treasury shares have been eliminated from investments and reported in accordance with IAS 32 as a deduction from equity.

(d) Investment properties

Property classified as investment property has been transferred from tangible fixed asset items and constitutes a separate balance sheet item. An impairment loss was recognised on investment property at the date of transition to IFRS.

Notes to the consolidated financial statements

(e) Inventories
Changes in inventories derive from the fact that, in deviation from previous practice, certain overhead costs of production have been interpreted as acquisition costs of inventories.

(f) Receivables
The exchange rate differences of intra-group loans, which were included in receivables under FAS, were transferred to retained earnings at the transition phase.

(g) Liquid asset securities
Liquid securities include fund units at fair value through profit or loss.

(h) Equity
The summary below shows the effects of transition to the IFRS on the Group's retained earnings:

EUR 1,000		1.1.2004	31.12.2004
Retained earnings, FAS		13 500	10 152
IAS 2	Inventories	494	0
IAS 12	Income taxes	3 248	2 980
IAS 19	Employee benefits	-957	-66
IAS 21	Changes in foreign exchange rates	-226	-52
IAS 39	Financial instruments: measurement	147	0
IAS 36	Impairment	-1 818	-1 557
IAS 40	Investment property	-604	0
IFRS 1	Transition standard/ fair values	4 184	3 814
SIC 16	Treasury shares	721	721
Retained earnings, IFRS		18 688	15 992

(i) Translation differences
Translation differences arising earlier than on the transition date to IFRS and deriving from foreign units are not presented as a separate equity item. This has no influence on the Group's net assets or result.

(j) Expenses due to pension obligations and employee benefits
Under FAS, pension expenses are recognised in accordance with local regulations. After the transition to IFRS, all pension plans are divided into defined contribution plans and defined benefit plans, and the latter are dealt with in the way required by IAS 19. With respect to the Finnish TEL system arranged by an insurance company, the part related to pension benefits for work disability was treated as a defined benefit plan at the transition date on 1.1.2004.

With respect to defined benefit plans, the opening balance sheet included a liability of EUR 957 thousand which arose from the difference between the current value of pension obligations and the fair value of assets belonging to the plan. In accordance with the possibility permitted by IFRS 1, the cumulative actuarial profits and losses of defined benefit plans were recognised in retained earnings on the date of transition.

Under the change approved in late 2004, the TEL disability pension portion will be treated in the future as a defined contribution plan. Accordingly, the pension expense will be recognised in the 2004 financial year as a deduction of EUR 892 thousand.

(k) Interest-bearing liabilities
Under IFRS, asset items acquired through finance leases are capitalised in the balance sheet and correspondingly increase non-current, interest-bearing liabilities by EUR 156 thousand on 1.1.2004 and by EUR 134 thousand on 31.12.2004 and current interest-bearing liabilities by EUR 104 thousand on 1.1.2004 and by EUR 61 thousand on 31.12.2004

(l) Deferred tax assets – and liabilities and income tax
Changes in accounting policies in the transition to compliance with the IFRS increased net deferred tax assets by EUR 3,247 thousand on 1.1.2004 and by EUR 2,939 thousand on 31.12.2004. The major changes derived from Martela's Oyj's confirmed taxational losses and from recognition of properties at fair values in accordance with the exemption permitted by the IFRS 1 transition standard.

The change in accounting policies of deferred taxes decreased income taxes by EUR 95 thousand in the 2004 financial year.

(m) Depreciation
The use of fair values as the deemed cost at the transition date, under IFRS 1: First-time adoption of International Financial Reporting Standards, led to an increase in the balance sheet values of tangible fixed asset items and a consequent increase in depreciation by EUR 356 thousand.

Unlike FAS, depreciation was also increased due to fixed assets acquired through finance leases and capitalised in the balance sheet. This increased depreciation by EUR 126 thousand in the 2004 financial year.

Due to the impairment recognised in the IFRS balance sheet in the transition phase in accordance with the requirements of IAS 36, a write-down of EUR –604,000 on investment property was also recognised in the Finnish financial statements for the 2004 financial year. With respect to the IFRS impairment recognised on 1.1.2004, write-down has also been adjusted concerning Martela Ab's impairment and P.O.Korhonen Oy's amortisation of goodwill.

(n)Other operating income
A portion (EUR 144 thousand) of the sales gains realised under FAS from listed shares sold in 2004 was recognised in retained earnings at the transition date in connection with measurement at fair value under IAS 39.

(o)Other operating expenses
The decrease in 'other operating expenses' derives from leases that are treated as finance leases. Under Finnish accounting practice, the recognised lease expenses were EUR 134 thousand, whereas under IFRS these expenses were divided between interest expenses reported in financial items and repayments on loans, which decreases the finance lease liability in the balance sheet.

(p) Financial expenses and financial income
The change in financial expenses derives e.g. from a change in accounting policy related to finance leases. Financial expenses and income have also been adjusted by the exchange rate differences of the Group's loans which, under FAS, were recognised in the 2004 financial year under the balance sheet items, 'accrued income and prepaid expenses' and 'accrued liabilities and prepaid income'.

Martela Group 2001 – 2005

30. Five-year comparisons

Key financial indicators for the group

		IFRS 2005	IFRS 2004	FAS 2004	FAS 2003	FAS 2002	FAS 2001
Revenue	meur	102,2	100,7	100,7	102,1	121,2	150,9
Change in revenue	%	1,5	-1,4	-1,4	-15,7	-19,7	-13,2
Export and operations outside Finland	meur	31,6	31,0	31,0	34,2	43,4	50,6
In relation to revenue	%	30,9	30,8	30,8	33,5	35,8	33,5
Exports from Finland	meur	13,8	13,2	13,2	10,8	13,7	15,4
Gross capital expenditure	meur	1,6	0,9	0,9	1,0	3,1	7,0
In relation to revenue	%	1,6	0,9	0,9	1,0	2,6	4,6
Depreciation	meur	3,8	4,6	4,9	4,7	7,9	5,5
Research and development expenses	meur	2,0	2,7	2,7	2,6	3,1	2,2
In relation to revenue	%	2,0	2,7	2,7	2,5	2,6	1,5
Average personnel		610	662	662	767	930	1 040
Change in personnel	%	-7,9	-13,7	-13,7	-17,5	-10,6	-0,6
Personnel at end of year		604	613	613	715	856	987
Of which in Finland		478	488	488	531	621	689
PROFITABILITY							
Operating profit	meur	1,5	-1,6	-2,2	-10,7	-11,7	4,1
In relation to revenue	%	1,5	-1,5	-2,2	-10,5	-9,7	2,7
Profit before appropriations and taxes	meur	1,0	-2,1	-3,0	-12,6	-12,0	3,5
In relation to revenue	%	1,0	-2,0	-3,0	-12,4	-9,9	2,3
Profit for the year *)	meur	-0,1	-2,0	-2,7	-12,3	-12,2	1,6
In relation to revenue	%	-0,1	-2,0	-2,7	-12,0	-10,0	1,0
Revenue/employee	teur	167,6	152,2	152,2	133,2	130,3	145,1
Return on equity (ROE)	%	-0,5	-8,1	-13,3	-38,6	-27,9	3,1
Return on investment (ROI)	%	4,3	-2,2	-4,7	-20,9	-19,0	6,8
FINANCE AND FINANCIAL POSITION							
Balance sheet total	meur	56,1	59,9	55,2	59,7	72,0	82,2
Equity	meur	22,8	23,5	19,1	22,5	35,4	50,0
Interest-bearing net liabilities	meur	14,3	13,3	13,1	15,1	10,1	5,9
In relation to revenue	%	14,0	13,2	13,0	14,8	8,3	3,9
Equity ratio	%	40,8	39,3	33,8	36,8	49,3	60,9
Gearing	%	62,8	56,4	71,1	69,4	28,3	11,8
Net cash flow from operations	meur	1,0	2,5	2,5	-5,6	2,2	10,4
Dividends paid	meur	0,6	0,5	0,5	0,5	2,5	4,2

*) Change in deferred tax liability included in profit for the year

Statistics on Martela Oyj shares

31. Key share-related figures

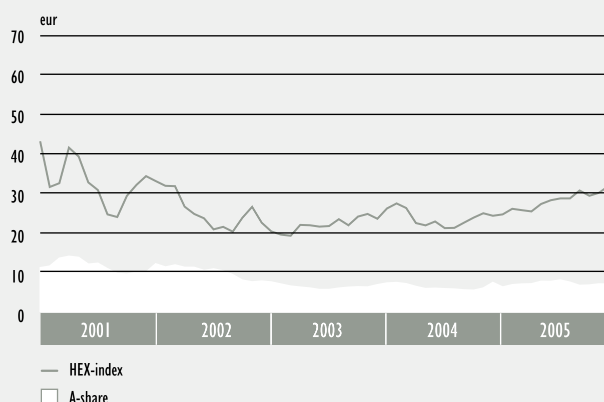
The comparison figures for 2001 - 2003 have been adjusted for the number of shares in the bonus issue of 2004

		IFRS 2005	IFRS 2004	FAS 2004	FAS 2003	FAS 2002	FAS 2001
Earnings per share	EUR	0,0	-0,5	-0,7	-2,7	-2,9	0,4
Earnings per share (diluted)	EUR	0,0	-0,5	-0,7	-2,7	-2,9	0,4
Share par value	EUR	1,7	1,7	1,7	1,7	1,7	1,7
Dividend	EUR	0,15*	0,15	0,15	0,13	0,13	0,60
Dividend/earnings per share	%	-547,9	-30,4	-23,1	-4,7	-4,3	160,0
Effective dividend yield	%	2,1	2,4	2,4	1,7	1,8	5,0
Equity per share	EUR	5,6	5,8	4,5	5,3	8,7	12,0
Price of A share 31.12.	EUR	7,26	6,35	6,4	7,15	7,01	11,95
Share issue-adjusted number of shares	thousands	4 155,6	4 155,6	4 155,6	4 155,6	4 155,6	4 155,6
Average share issue-adjusted number of shares	thousands	4 155,6	4 155,6	4 155,6	4 155,6	4 155,6	4 155,6
Price/earnings ratio (P/E)		-265,2	-12,8	-9,8	-2,7	-2,4	31,9
Market value of shares **)	EUR	29,7	26,0	26,0	29,2	28,7	49,3

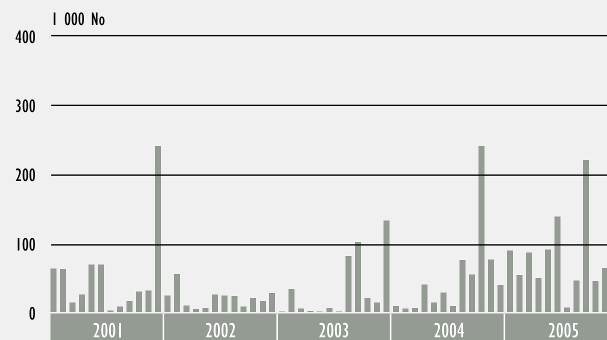
*) Board proposal

**) Price of A shares used as value of K shares

Shares A share compared with the Hex index



Monthly trading values of series A shares



32. Shares and shareholder

Share capital

The number of registered Martela Oyj shares on 31.12.2005 was 4,155,600. The shares are divided into A and K shares. Each A share carries 1 vote and each K share 20 votes in a general shareholders' meeting. Both share series have the same dividend rights. The company's maximum share capital is EUR 14,000,000 and the minimum is EUR 3,500,000.

Martela Oyj's shares were entered in the book-entry register on 10.2.1995. The counter-book value of each share is EUR 1.68. The A shares are quoted on the I list of the Helsinki Stock Exchange. A trading lot is 100 shares. Martela Oyj has made a Liquidity Providing (LP) market-making agreement with Nordea Bank Finland plc

Distribution of shares 31.12.2005

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

Statistics on Martela Oyj shares

The largest shareholders by number of shares, 31.12.2005

	K-series shares	A-series shares	Number of shares	%	Number of votes	% of total votes
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
Odin Forvaltning AS	0	228 400	228 400	5,5	228 400	1,5
Palsanen Leena	68 486	131 148	199 634	4,8	1 500 868	9,6
Pohjola P&C Insurance Company	0	180 000	180 000	4,3	180 000	1,2
Martela Heikki	52 122	106 234	158 356	3,8	1 148 674	7,3
FIM Fenno Mutual Fund	0	150 500	150 500	3,6	150 500	1,0
Pohjola Finland Value Mutual Fund	0	134 600	134 600	3,2	134 600	0,9
Mutual Fund Mandatum Finland	0	123 700	123 700	3,0	123 700	0,8
Lindholm Tuija	43 122	78 624	121 746	2,9	941 064	6,0
Suomen Argentor Oy	0	121 500	121 500	2,9	121 500	0,8
Martela Matti	58 256	61 982	120 238	2,9	1 227 102	7,8
Mutual Fund Alfred Berg Finland	0	119 500	119 500	2,9	119 500	0,8
Placeringsfonden Aktia Capital	0	106 500	106 500	2,6	106 500	0,7
Martela Pekka	69 274	24 893	94 167	2,3	1 410 373	9,0
Other shareholders	21 540	1 415 245	1 436 785	34,6	1 846 045	11,8
Total	604 800	3 550 800	4 155 600	100,0	15 646 800	100,0

The list includes all shareholders holding over 5% of the shares and votes. The company's board of directors and CEO together hold 8.2% of the shares and 17.2% of the votes.

Martela Oyj owns 67,700 A shares. Of these 33,850 shares have been purchased at an average price of EUR 10.65 and 33,850 shares have been received in share issue. The number treasury shares is equivalent to 1.6% of all shares and 0.4% of all votes.

The Annual General Meeting has in 2005 re-authorized 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.

Breakdown of share ownership by number of shares held, 31.12.2005

Number of shares	Number of shareholders	% of total shareholders	Number of shares	%	Number of votes	% of total votes
1-500	462	62,1	84 107	2,0	98 547	0,6
501-1 000	112	15,1	91 190	2,2	102 210	0,7
1 001-5 000	94	12,6	216 378	5,2	379 778	2,4
over 5 000	76	10,2	3 762 487	90,5	15 061 027	96,3
Total	744	100,0	4 154 162	100,0	15 641 562	100,0
In the waiting list and collective account			1 438	0,0	5 238	0,0
Total			4 155 600	100,0	15 646 800	100,0

Breakdown of shareholding by sector, 31.12.2005

	Number of shareholders	%	Number of shares	%	Number of votes	%
Private companies	48	6,5	921 950	22,2	6 469 950	41,3
Financial and insurance institutions	17	2,3	886 500	21,3	982 222	6,3
Public corporations	7	0,9	387 500	9,3	387 500	2,5
Non-profit entities	15	2,0	239 748	5,8	239 748	1,5
Households	655	88,0	1 391 342	33,5	7 330 742	46,9
Foreign investors	2	0,3	231 400	5,6	231 400	1,5
Total	744	100,0	4 058 440	97,7	15 641 562	100,0
of which nominee-registered	3		95 722	2,3		
In the waiting list and collective account	1		1 438	0,0	5 238	0,0
Total			4 155 600	100,0	15 646 800	100,0

Formulae for calculation of financial indicators

Earnings / share = $\frac{\text{Profit attributable to the equity holders of the parent}}{\text{Average share issue-adjusted number of shares}}$

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

Equity / share, EUR = $\frac{\text{Equity attributable to the equity holders of the parent}}{\text{Share issue-adjusted number of shares at year end}}$

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

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, EUR = Total number of shares at year end X share price on the balance sheet date

Return on equity, % = $\frac{\text{Profit/loss for the financial year}}{\text{Equity (average during the year)}} \times 100$

Return on investment, % = $\frac{\text{(Pre-tax profit/loss + interest expenses + other financial expenses)}}{\text{Balance sheet total - Non-interest-bearing liabilities (average during year)}} \times 100$

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

Gearing, % = $\frac{\text{Interest-bearing liabilities-cash and cash equivalents and liquid asset securities}}{\text{Equity}} \times 100$

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

Parent Company Financial Statement, FAS

Parent Company Income Statement

(EUR 1,000)	Note	1.1.–31.12.2005	1.1.–31.12.2004
REVENUE	1	80 394	79 667
Changes in inventories of finished goods and work in progress		431	150
Production for own use		23	15
Other operating income	2	617	467
Materials and services	3	-48 001	-48 970
Personnel expenses	4	-14 991	-14 882
Depreciation and impairment	5	-1 454	-1 782
Other operating expenses		-13 400	-12 420
OPERATING PROFIT (-LOSS)		3 619	2 245
Financial income and expenses	6	-131	-2 281
PROFIT (-LOSS) BEFORE EXTRAORDINARY ITEMS		3 488	-36
Extraordinary expenses		-1 600	0
Extraordinary income	7	0	400
PROFIT (-LOSS) BEFORE APPROPRIATIONS AND TAXES		1 888	364
Appropriations		0	0
Income taxes	8	0	-51
PROFIT (-LOSS) FOR THE FINANCIAL YEAR		1 888	313

Parent Company's Cash Flow Statement

(EUR 1,000)	1.1.–31.12.2005	1.1.–31.12.2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flow from sales	76 013	77 318
Cash flow from other operating income	339	211
Payments on operating costs	-76 112	-74 054
Net cash from operating activities before financial items and taxes	240	3 475
Interests paid and other financial payments	-212	-93
Taxes paid	0	-95
Net cash from operating activities before extraordinary items	28	3 287
Cash flow from extraordinary items (net)	-1 600	0
Net cash from operating activities (A)	-1 572	3 287
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure on tangible and intangible assets	-822	-606
Proceeds from sale of tangible and intangible assets	334	580
Loans granted	-465	-528
Investments in other securities	-1 268	-2 920
Repayments of loan receivables	1 600	711
Net cash used in investing activities (B)	-621	-2 763
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term loans	170	2 000
Repayments of long-term loans	-170	-1 981
Dividends and other profit distribution	-613	-511
Net cash used in financing activities (C)	-613	-492
CHANGE IN LIQUID FUNDS (A+B+C) (+ increase, - decrease)	-2 806	32
Liquid funds at beginning of financial year 1)	6 860	6 829
Liquid funds at end of financial year 1)	4 054	6 860

1. Liquid funds include cash in hand and at bank and securities

Parent Company Balance Sheet

(EUR 1,000)	Note	31.12.2005	31.12.2004
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	9		
Intangible rights		158	226
Other long-term expenditure		405	397
Advance payments		152	57
		716	680
Tangible assets	10		
Land and water areas		211	215
Buildings and structures		3 088	3 323
Machinery and equipment		2 214	2 651
Other tangible assets		20	20
Advance payments and purchases in progress		406	387
		5 939	6 596
Investments	11		
Shares in subsidiaries		6 483	6 484
Shares in associates		22	22
Treasury shares		0	721
Other shares and participations		1 831	1 855
Loan receivables		10 730	9 694
		19 067	18 776
CURRENT ASSETS			
Inventories			
Materials and supplies		3 015	3 184
Work in progress		713	500
Finished goods		1 836	1 504
Advance payments		0	0
		5 565	5 188
Receivables	12		
Trade receivables		14 949	11 823
Loan receivables		5 670	6 833
Accrued income and prepaid expenses		621	303
		21 241	18 959
Liquid asset securities			
Other securities	13	2 875	3 667
		2 875	3 667
Cash and cash equivalents		1 179	3 193
		56 581	57 059

Parent Company Balance Sheet

(EUR 1,000)	Note	31.12.2005	31.12.2004
LIABILITIES			
SHAREHOLDERS' EQUITY			
Shareholders' equity	14		
Share capital		7 000	7 000
Share premium account		1 116	1 116
Treasury shares' fund		0	721
Reserve fund		11	11
Retained earnings		19 917	20 218
Profit for the year		1 888	313
Total		29 932	29 379
APPROPRIATIONS			
		0	0
LIABILITIES	15		
Non-current			
Loans from financial institutions		11 723	9 102
Pension loans		2 422	2 119
Other long-term liabilities		0	0
		14 145	11 221
Current			
Interest-bearing			
Loans from financial institutions		1 723	4 344
Pension loans		404	706
Bank overdrafts		0	0
Other current liabilities		720	680
		2 846	5 730
Non-interest-bearing			
Advances received		0	0
Trade payables		5 017	5 019
Accrued liabilities and prepaid income		2 870	3 655
Other current liabilities		1 772	2 055
		9 659	10 729
Liabilities, total		26 650	27 680
		56 582	57 059

Accounting Policies for Parent Company Financial Statements 31.12.2005

Martela Oyj's financial statements have been prepared in accordance with Finnish Accounting Standards (FAS). Items in the financial statements have been recognised at cost. No account has been taken of increases in value, unless separately mentioned.

Items denominated in foreign currency:
Transactions denominated in foreign currencies are recognised at the rate of exchange on the date of their occurrence, and receivables and liabilities in the balance sheet are translated at the average rate on the balance sheet date. Exchange rate differences arising from trade receivables are recognised in revenue and those of trade payables in adjustment items for purchases. Exchange rate differences arising from balance sheet financial items, such as loans, are recognised in exchange rate differences of finance.

Intangible assets:
Intangible assets are depreciated according to their estimated useful life in either 5 or 10 years.

Tangible assets:
Buildings, machinery, equipment and other tangible assets are reported in the balance sheet at cost. No depreciation is recognised on revaluations of buildings or on land areas. Otherwise, depreciation is calculated on a straight line basis according to the estimated useful life.

Depreciation periods for tangible assets:

Buildings and structures	20 - 30 years
Machinery and equipment	4 - 8 years
Other tangible assets	3 - 5 years

Investments:
Stock exchange listed shares are recognised at market value and changes are entered in financial items. Other shares are recognised at cost. On the balance sheet date, Martela Oyj held no stock exchange listed shares.Investments in subsidiaries and associated companies are recognised at cost and permanent impairments are deducted.

Inventories:
Inventories are recognised at cost using the FIFO method. The value of inventories is reduced with respect to unsaleable items. The cost of finished goods includes not only the direct manufacturing costs, but also a share of the overhead costs of production.

Liquid asset securities:
Investments in fund units are classified as financial assets at fair value through profit or loss. Investments are measured at fair value on the basis of price quotations published on functioning markets, and changes in fair value are recognised in the income statement in the year in which they were incurred.

Income tax:
The company's income taxes are recognised on an accrual basis and are calculated according to local tax legislation with adjustments from previous financial years. Deferred tax liabilities are reported in the Notes.

Revenue and recognition policies:
Revenue is recognised on an accrual basis. Direct taxes, discounts and exchange rate differences are deducted from sales income in calculating revenue.

Research and development:
Research and development expenses are recognised normally through profit or loss in the year they arose. R&D-related equipment is capitalised in machinery and equipment.

Other operating income and expenses:
Proceeds from sale of assets and other income (e.g. rent income) than that from actual operations are recognised in "Other operating income". Losses from disposal of assets and other costs than those from actual operations are recognised in "Other operating expenses".

Extraordinary income and expenses:
Extraordinary income and expenses are deemed as those based on events in the company that are extraordinary, non-recurring and substantial, such as group contribution and items related to corporate restructuring.

Operating leases:
All leasing payments are treated as rent expenses.

Pension plans:
The companies' pension security has been arranged through pension companies. Martela Oyj's CEO is entitled to transfer to a full pension after reaching the age of 60 years.

Treasury shares:
The treasury shares in the parent company's financial statements have been eliminated from investments due to a change in Companies Act and are reported in the future as a deduction from equity.

Notes to Parent Company Financial Statements

(EUR 1,000)	2005	2004
1. Breakdown of revenue by market area, % of revenue		
Finland	85,0	85,2
Scandinavia	6,7	5,6
Other	8,3	9,2
Total	100,0	100,0
2. Other operating income		
Gains on sale of fixed assets	296	335
Rental income	223	132
Other operating income	98	0
Total	617	467
3. Materials and services		
Materials and supplies		
Purchases during the financial year	45 371	46 750
Change in inventories of materials and supplies	54	-142
External services	2 577	2 362
Materials and supplies, total	48 001	48 970
Auditor's fees		
Auditing	60	46
Other services	13	29
Auditor's fees, total	73	75
4. Personnel expenses and number of personnel		
Salaries, CEO	171	174
Salaries of boards of directors	69	72
Salaries of boards of directors and managing directors, total	240	246
Other salaries	11 581	11 490
Pension expenses	2 167	2 173
Other salary-related expenses	1 002	973
Personnel expenses in the income statement	14 991	14 882
Fringe benefits	377	416
Total	15 368	15 298
Personnel		
Average personnel, workers	160	169
Average personnel, officials	179	187
Personnel at year end	338	339

The retirement benefits of former management personnel are also included as part of supplementary pension plan.

5. Depreciation and write-down		
Depreciation according to plan		
Intangible assets	325	374
Tangible assets		
Buildings and structures	234	244
Machinery and equipment	895	1 164
Depreciation according to plan, total	1 454	1 782

Notes to Parent Company Financial Statements

(EUR 1,000)	2005	2004

6. Rahoitustuotot ja -kulut

Financial income and expenses		
Dividend income	1	53
Interest income on short-term investments	30	33
Interest income on short-term investments from Group companies	266	255
Foreign exchange gains	93	14
Other financial income	0	0
Interest expenses	-581	-624
Losses on foreign exchange	-4	-14
Other financial expenses	-57	-69
Gains and losses on sale of assets recognised at fair value through profit or loss	111	233
Change in value of assets recognised at kfair value through profit or loss	10	0
Impairment of investments	0	-2 162
Total	-131	-2 281

7. Extraordinary items

Extraordinary income/expenses comprise group contribution.	-1 600	400

8. Income taxes

Income taxes from operations	0	0
Taxes from previous years	0	51
Total	0	51

Deferred tax liabilities and assets have not been included in the income statement or balance sheet. Deferred tax assets due to matching differences and losses total EUR 3.2 million.

9. Intangible assets

1.1.2005 – 31.12.2005	Intangible rights	Other long-term expenses	Work in progress	Intangible assets, total
Acquisition cost 1.1.	404	3 868	57	4 329
Increases	19	248	110	377
Decreases	-1	0	-15	-16
Acquisition cost 31.12.	421	4 116	152	4 690
Accumulated depreciation 1.1.	-178	-3 471	0	-3 649
Accumulated depreciation, decreases	0	0	0	0
Depreciation for the year 1.1.-31.12.	-85	-240	0	-325
Accumulated depreciation 31.12.	-264	-3 711	0	-3 975
Carrying amount 1.1.	225	397	57	679
Carrying amount 31.12.	158	405	152	715

Notes to Parent Company Financial Statements

(EUR 1,000)

1.1.2004–31.12.2004	Intangible rights	Other long-term expenses	Work in progress	Intangible assets, total.
Acquisition cost 1.1.	806	5 845	18	6 669
Increases	37	81	41	159
Decreases	-439	-2 058	-2	-2 499
Acquisition cost 31.12.	404	3 868	57	4 329
Accumulated depreciation 1.1.	-451	-5 114	0	-5 565
Accumulated depreciation, decreases	370	1 900	0	2 270
Depreciation for the year 1.1.-31.12.	-97	-257	0	-354
Accumulated depreciation 31.12.	-178	-3 471	0	-3 649
Carrying amount 1.1.	355	731	18	1 104
Carrying amount 31.12.	225	397	57	679

10. Tangible assets

1.1.2005 - 31.12.2005	Land areas	Buildings	Machinery and equipment	Other tangible assets	Work in progress	Total
Acquisition cost 1.1.	215	11 783	22 958	20	386	35 362
Increases	0	4	463	0	337	804
Decreases	-4	-20	-185	0	-318	-527
Acquisition cost 31.12.	211	11 767	23 236	20	406	35 640
Accumulated depreciation 1.1.	0	-8 460	-20 307	0	0	-28 767
Accumulated depreciation, decreases	0	15	180	0	0	195
Depreciation for the year 1.1.-31.12.	0	-234	-894	0	0	-1 128
Accumulated depreciation 31.12.	0	-8 680	-21 021	0	0	-29 701
Carrying amount 1.1.	215	3 323	2 651	20	386	6 595
Carrying amount 31.12.	211	3 088	2 214	20	406	5 939

1.1.2004 - 31.12.2004	Land areas	Buildings	Machinery and equipment	Other tangible assets	Work in progress	Total
Acquisition cost 1.1.	219	16 079	34 448	20	463	51 229
Increases	0	31	355	0	270	656
Decreases	-4	-4 327	-11 845	0	-347	-16 523
Acquisition cost 31.12.	215	11 783	22 958	20	386	35 362
Accumulated depreciation 1.1.	0	-10 819	-27 061	0	0	-37 880
Accumulated depreciation, decreases	0	2 603	7 918	0	0	10 521
Depreciation for the year 1.1.-31.12.	0	-244	-1 164	0	0	-1 408
Accumulated depreciation 31.12.	0	-8 460	-20 307	0	0	-28 767
Carrying amount 1.1.	219	5 260	7 387	20	463	13 349
Carrying amount 31.12.t	215	3 323	2 651	20	386	6 595

Revaluations included in buildings total EUR 1,851 thousand in 2005 (EUR 1,851 thousand in 2004).
Carrying amount of production machinery and equipment in 2005 total EUR 1,820 thousand (EUR 2,217 thousand in 2004).
Tranfers of fixed assets from Martela Oyj to Kidex Oy due to incorporation of furniture plant in Kitee are shown in increases and decreases.

Notes to Parent Company Financial Statements

(EUR 1,000)

11. Investments

1.1.2005–31.12.2005 Balance sheet value at beginning	Subsidiary shares	Associate shares	Treasury shares	Other shares and participations	Loan receivables	Total
of year	6 484	22	721	1 855	9 694	18 776
Increases	0	0	0	-23	1 036	1 013
Decreases	0	0	-721	0	0	-721
Balance sheet value at end of year	6 484	22	0	1 831	10 730	19 067

1.1.2004–31.12.2004 Balance sheet value at beginning	Subsidiary shares	Associate shares	Treasury shares	Other shares and participations	Capital loan receivables	Total
of year	5 162	22	721	2 096	7 418	15 419
Increases	2 200	0	0	0	3 451	5 651
Decreases	-878	0	0	-241	-1 175	-2 294
Balance sheet value at end of year	6 484	22	721	1 855	9 694	18 776

Subsidiary shares:		Parent company's holding %	Voting power %	No. of shares	Par value	Book value EUR 1,000
Kidex Oy	Finland	100	100	200	2 208 teur	2 208
P.O. Korhonen Oy	Finland	100	100	50 000	967 teur	976
Kiinteistö Oy Ylähanka	Finland	100	100	12 500	9 teur	8
Kiinteistö Oy Oulun Kaarnatie 14	Finland	100	100	200	3 teur	1 651
Martela AB, Bodafors	Sweden	100	100	150	5 000 tsek	550
Aski Inredningscenter AB, Malmö	Sweden	100	100	510	1 250 tsek	132
Martela AS, Oslo	Norway	100	100	5 720	200 tnok	24
Martela Sp.z o.o., Warsaw	Poland	100	100	3 483	3 483 tpln	935
Total						6 484
Associated companies:						
Essa Office Systems AG, Switzerland		30	30	34	34 tchf	22
Other shares and participations:						
As.Oy Kivipellonpolku				287	1 teur	21
As.Oy Kivipellonpiha				2 590	1 teur	30
Kiinteistö Oy Turun Pitkämäki				306	5 teur	1 700
Other shares and participations						80
Total						1 831

12. Receivables

	2005	2004
Receivables from companies in same group		
Trade receivables	2 806	1 414
Loan receivables	3 659	6 378
Accrued income and prepaid expenses	6	0
Trade receivables		
Trade receivables maturing within 12 months	14 949	11 823
Trade receivables maturing after 12 months	0	0
Loan receivables		
Loan receivables maturing within 12 months	3 698	3 212
Loan receivables maturing after 12 months	1 972	3 621
Accrued income and prepaid expenses	621	303
Receivables, total	21 240	18 959

Notes to Parent Company Financial Statements

Accrued income and prepaid expenses include prepaid royalties and expenses, as well as personnel expense and other assorted prepayments.

13. Financial assets at fair value through profit or loss

Fund units	2 875	3 667

14. Changes in shareholders' equity

Distribution of shares 31.12.2005	Number	Total EUR	% of share capital	Votes	% of votes
K shares (20 votes/share)	604 800	1 018 500	15	12 096 000	77
A shares (1 vote/share)	3 550 800	5 981 500	85	3 550 800	23
Total	4 155 600	7 000 000	100	15 646 800	100
Treasury shares	67 700				
No. of shares	4 087 900				

Share capital 1.1.	7 000	3 500
Share capital increase	0	3 500
Share capital 31.12.	7 000	7 000
Share premium account 1.1.	1 116	4 616
Change in share premium account	0	-3 500
Share premium account 31.12.	1 116	1 116
Treasury shares fund 1.1.	721	721
Cancellation of treasury shares fund	-721	0
Treasury shares fund 31.12.	0	721
Reserve fund 1.1.	11	11
Transfer of retained earnings	0	0
Other change	0	0
Reserve fund 31.12.	11	11
Retained earnings 1.1.	20 531	20 730
Dividends	-613	-511
Cancellation of treasury shares fund	721	0
Treasury shares from investments	-721	0
Profit for the year	1 888	312
Retained earnings 31.12.	21 805	20 531
Shareholders' equity, total	29 932	29 379

The distributable equity of the parent company is EUR 21,805 thousand in 2005 (EUR 20,530 thousand 2004)

The treasury shares fund and investments of own shares were eliminated from the balance sheet in 2005.
In the future, treasury shares held by Martela Oyj will be reported as a deduction from retained earnings.
Martela Oyj owns 67,700 A shares and they were purchased at an average price of EUR 10.65.
Market value of treasury shares on 31.12.2005: EUR 7,26/share; EUR 492 thousand.

Notes to Parent Company Financial Statements

(EUR 1,000)	2005	2004
15. Liabilities		
Non-current liabilities		
Bank loans	11 723	9 102
Pension loans	2 422	2 119
Non-current liabilities, total	14 145	11 221
Current liabilities		
Next year's repayments		
Bank loans	1 723	4 344
Pension loans	404	706
Total	2 126	5 050
Other current liabilities		
Trade payables	3 397	2 927
Trade payables to group companies	1 620	2 092
Trade payables, total	5 017	5 019
Other current liabilities	1 772	2 055
Other current liabilities to group companies	720	680
Other current liabilities, total	2 492	2 735
Accrued liabilities on personnel expenses	2 332	2 179
Interest and financing accruals	130	254
Other accrued liabilities	377	667
Accrued liabilities to group companies	31	555
Accrued liabilities, total	2 870	3 655
Liabilities, total	26 650	27 680

Changes and repayments on long-term loans	2005		2004	
	Bank loans	Pension loans	Bank loans	Pension loans
Loans 1.1.	13 446	2 825	12 721	3 531
Increases	0	0	2000	0
Repayments	-1 723	-403	-1 275	-706
Loans 31.12.	11 723	2 422	13 446	2 825

Repayments	2006	2007	2008	2009	2010	2011 –
Finance loans	1 723	1 914	1 914	1 914	1 914	4 068
Pension loans	404	404	404	404	404	807

Notes to Parent Company Financial Statements

(EUR 1,000)	2005	2004
16. Pledges granted and contingent liabilities		
Debts secured by mortgages		
Pension loans	2 826	2 826
Property mortgages	2 478	2 481
Corporate mortgages	0	0
Bank loans	13 446	13 446
Property mortgages	9 071	9 072
Corporate mortgages	3 868	3 868
Shares pledged	13	18
Total mortgages	15 429	15 439
Mortgages given for financial institution loans also include general collateral securing Martela Ojy's pension loans of EUR 0.7 million (0,7)		
Other pledges		
Guarantees as security for rents	58	58
Guarantees given on behalf of companies in the same group.	2 635	3 080
Collateral granted on behalf of others		
Guarantees	102	0
Leasing commitments		
falling due within 12 monthst	702	624
falling due after 12 months	609	657
Total	1 311	1 281
Repurchase sureties	192	250
Other commitments		
Rent commitments	8 953	10 261

Board of Directors' proposal for the distribution of profit

The consolidated distributable funds are EUR 8,571,255.55, after deduction from consolidated unrestricted equity of the amount transferred from optional reserves and depreciation difference to shareholders' equity, and the fair value changes made in shareholders' equity on 31 December, 2005 upon transition to IFRS.

The parent company's distributable funds are EUR 21,804,920.41, of which the profit for the financial year is EUR 1,887,700.24.

The Board of Directors proposes to the Annual General Meeting that the distributable funds be used as follows:

- distribution of a dividend of EUR 0.15 per share, totalling	EUR	613,185,00
- to be left in shareholders' equity	EUR	21,191,735,41

Helsinki, 15 February 2006

The Board of Directors' Report and the Financial Statements are signed by:

Heikki Ala-Ilkka Chairman of the Board	Pekka Martela Vice Chairman	Heikki Martela Managing Director
Jaakko Palsanen	Jori Keckman	
Tapio Hakakari	Matti Lindström	

The above financial statements and the Report of the Board of Directors have been prepared in accordance with good accounting practice. We have today issued a report on the audit performed by us.

Helsinki, 16 February 2006
Authorised Public Accountant

Auditor’s Report

To the shareholders of Martela Oyj

I have audited the accounting records, the financial statements, the Report of the Board of Directors and the administration of Martela Oyj for the period January 1 – December 31 2005. The Board of Directors and the Managing Director have prepared the Report of the Board of Directors and the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU, containing the consolidated balance sheet, income statement, cash flow statement, statement on the changes in equity and notes to the financial statements, and the parent company’s financial statements prepared in accordance with prevailing regulations in Finland, that include parent company’s balance sheet, income statement, cash flow statement and the notes to the financial statements. Based on our audit, I express an opinion on the consolidated financial statements, the Report of the Board of Directors, the parent company’s financial statements and on the administration.

I have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that I perform the audit 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 administration is to examine that the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies Act.

Consolidated financial statements

In my opinion the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU give a true and fair view, as referred to in the International Financial Reporting Standards as adopted by the EU and defined in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position. The consolidated financial statements can be adopted.

Parent company’s financial statements and administration

In my opinion the parent company’s financial statements and the Report of the Board of Directors have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements and Report of Board of Directors in Finland. The financial statements and the Report of the Board of Directors give a true and fair view, as defined in the Finnish Accounting Act, of the parent company’s result of operations as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by me. The proposal by the Board of Directors regarding the result from the period is in compliance with the Companies Act.

Helsinki, 16. February 2006
Reino Tikkanen
Authorised Public Accountant

Savoy-chair, *design Kari Asikainen*

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