ANNUAL REPORT 2006

Martela

Contents

Martela in brief

Martela is Finland's largest designer, manufacturer and supplier of working environment solutions for offices and public premises. 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 modification. Founded in 1945, Martela has furnished offices and public premises for over 60 years.

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 has subsidiaries in Finland, Sweden, Norway and Poland.

The Group's production plants are located in Nummela, Kitee and Raisio in Finland, Bodafors in Sweden and Warsaw in Poland. There are logistics centres in Nummela, Bodafors and Warsaw.

In 2006 the Martela Group's revenue was EUR 119,7 million and it employed an average of 626 persons, 501 of them in Finland.

The Year in Brief

		2006	2005
Revenue	€ million	**119,7**	102,2
Growth in revenue	%	**17,1**	1,5
Operating profit	€ million	**4,5**	1,5
– as a percentage of revenue	%	**3,8**	1,5
Pre-tax profit	€ million	**3,7**	1,0
– as a percentage of revenue	%	**3,1**	1,0
Return on investment		**11,0**	4,3
Balance sheet, total	€ million	**59,1**	56,1
Equity ratio	%	**42,4**	40,8
Earning/share	€	**0,7**	0
Equity/share	€	**6,1**	5,6
Dividend/share	€	**0,25***	0,15
Capital expenditure	€ million	**1,8**	1,6
Average personnel		**626**	610
– change %		**2,6**	-7,9

* Proposal of the Board of Directors

***Pinta III desk**, design Pekka Toivola and Iiro Viljanen*

Managing Director's Review

A key driver behind the growth of Martela's net sales in 2006 was improved sales efficiency in our main market areas, reinforced by the successful product launches of recent years. The development of our service business in Finland also contributed to the rising trend. Our profit performance was favourable compared with earlier years, even though strong competition and rising costs continued to be a challenge.

We have worked systematically and hard since 2001 to ensure that Martela would grow despite the difficult market prevailing in our sector. A market upturn – slightly better than we had anticipated – finally materialised in 2006. Contributing to this were lively economic growth, a pick-up in office construction and changes in the corporate world. The office vacancy rate is down, and there is an increasing need to replace outdated furniture.

Although the net sales of companies in the field have begun to increase, there is still plenty of idle capacity. Under these circumstances, we can be satisfied with the 17,1 per cent increase in Martela's net sales for 2006.

Further success will depend upon how the above-mentioned factors evolve in the future. However, we are unlikely see such extreme changes in our field as we experienced over recent years for a long time to come.

We achieved growth during the year under review in all our main market areas – Finland, Sweden, Norway and exports. Although the biggest growth and result improvement was experienced in Finland, the strongest relative upward trend in sales was in Poland. We believe that sales will continue to grow faster in Poland than elsewhere. We will soon establish our seventh brand-exclusive sales point in Lodz, Poland.

At the beginning of last April, we restructured our organisation to better support our strategy. In conjunction with this, the office furniture business was reorganised as the Office business unit, and the surroundings furniture business as the Surroundings business unit. We aim to increase our market share particularly in the Surroundings business that comprises conference spaces, school furniture, auditoriums and special-purpose furniture for the care of the elderly and rehabilitation. We also aim to increase our foothold in the provision of furniture for hotels and restaurants.

The proportion of surroundings (i.e. meeting place) furniture has been growing for some years already, and we wanted to accelerate this development through the reorganisation. A good example of our competitiveness and quality in this sector is the delivery of furniture for the Chamber of the Swedish Parliament last autumn. The sales of surroundings furniture increased notably faster than those of office furniture.

The transformation of Kidex Oy, a Martela subsidiary, into a contract manufacturer continued strongly in 2006. Customers outside the Group already account for almost 25 per cent of the company's sales. As half of sales derive from contract manufacturing for external customers, Kidex Oy's operations can be considered to be on a healthy footing. This is naturally our goal for the near future.

In February 2007, we will go to the Stockholm Furniture Fair with a significant addition to our product offering, the extensive Pinta desk range. Pinta will enable increasingly tailored solutions and efficient space solutions that can also be adapted for future changes. Also on display at Stockholm will be acoustics solutions. Last year we presented our concept range at the fair, achieving wide acclaim and excellent visibility.

I am of the opinion that many companies have made short-sighted investments in their offices. After all, furniture costs represent only a marginal share of companies' total space-related costs – we are talking about a few percentage points. But investing in good, purposeful and ergonomic furniture and solutions serves to improve employee well-being and office work efficiency a great deal, even by dozens of percentage points. The right kind of investments in furniture can substantially support operations, and the effective pay-back time may actually be very short. In addition, the efficiency of furniture replacements and the management of change situations can be substantially improved by outsourcing the responsibility to Martela.

Assuming that favourable economic growth continues and that the operating environment remains positive, we expect Martela to grow and improve its profit for 2007.

I would like to express my gratitude to our customers, employees, partners and shareholders for the past year.

Martela Head Office, February 2007

Heikki Martela
Managing Director

"A key driver behind the growth of Martela's net sales in 2006 was improved sales efficiency in our main market areas, reinforced by the successful product launches of recent years."

"Assuming that favourable economic growth continues and that the operating environment remains positive, we expect Martela to grow and improve its profit for 2007."

PINTA

Martela Designs

The people who were most intensively involved in the project group that created the new Pinta desk range tell how the novelty product was born. Pinta was publicly unveiled for the first time at the Stockholm Furniture Fair at the start of February 2007.

The undertaking of a large project requires co-operation between a surprisingly large number of people and years of hard work from the key people of the project – as well as a lot of patience. What is also certain is that surprises cannot be avoided and creative solutions to problems have to be used throughout the project.

Martela Design

This is how it was born – Pinta

Pinta is a new desk range, which combines Martela's best solutions. Pinta offers plenty of alternatives, more efficient use of space and easy adaptability. The extensive collection of uniform desktops offers several new possibilities.

Pekka Toivola and Iiro Viljanen will always be mentioned as the designers of the Pinta range, but the design and implementation of the extensive desk range took the efforts of a good number of Martela employees. Some of them have been involved since 2003.

"The design process of the Pinta range started more than three years ago with about 40 interviews around Europe and Scandinavia, with which we surveyed customer requirements and wishes. The objective was to come up with a well-designed and easily comprehensible desk range that promotes well-being and fulfils the customer's demands in all price categories," say the designers Pekka Toivola and Iiro Viljanen.

Time had placed new demands. The surveyed customers preferred smaller, symmetrical desktops with rounded edges to go with their flat screens, laptops and new working methods. The new desktop collection became the starting point for designing the desk range. Martela also wanted the new range to be easy to combine with the Aura and Opteam collections.

"In two weeks, it will have been two years since I sent the first invitation to a project meeting and, two weeks from now, the product will be unveiled at the fair. So now would be a good time to reminisce about the past. I can't think of anything too colourful, since the project has been quite a steady grind. Matters that seemed minor always proved much larger than we expected, as we were dealing with changes that concerned almost all desk furniture. It is characteristic that implementing a change in a product is often more difficult than creating a completely new product," Timo Nurmi, Project Manager, says.

"Our project team included almost twenty people. Kari Nieminen and Kari Raja-Aho, Model Creators, as well as Juha Tammilehto, Research Assistant, from our Research Centre played extremely crucial, though possibly less visible, roles in the project. Their efforts and willingness to serve were invaluable once again. The flexibility of Juha Vähäkoitti, Markus Sillander and Marco Matinvesi of Office-Maker Support and Anja Sairanen and Pekka Salonen of Avantt System Maintenance was also tested and proven during the journey. Hannu Mähönen, Technical Designer, also had an important role."

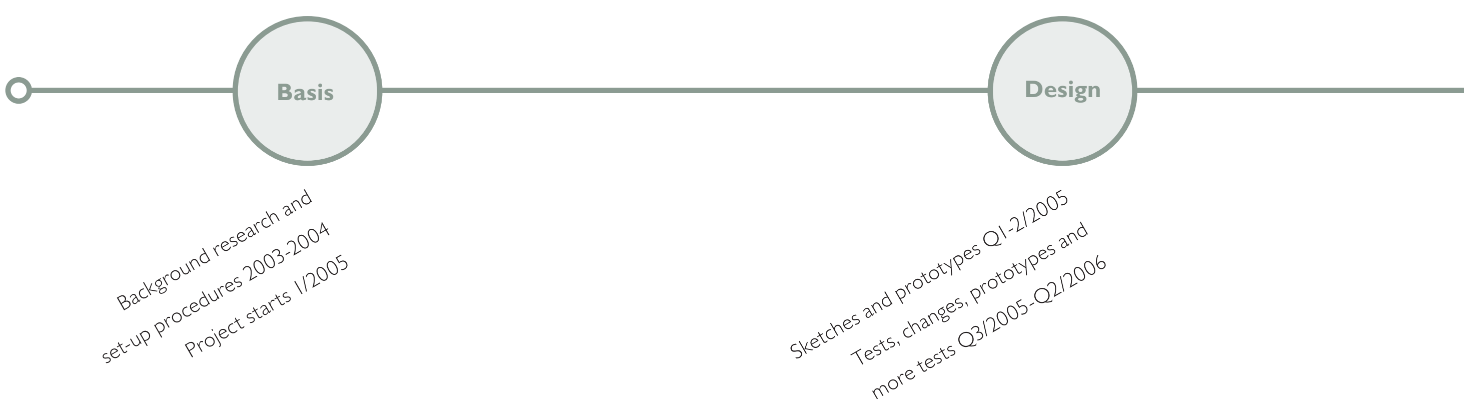
Pinta was developed into a uniform collection that offers 83 alternatives in desktops and over 40 accessories. An optimal alternative can be found for every space and task. Compatible and combinable, the desks create a uniform appearance and are cost-effective and easy to rearrange. Brand new accessories have also been developed for the new range. The manufacturing process guarantees high quality and rapid delivery lead times for Pinta. In addition to the desktop collection, the designers paid special attention to the base structures.

Thanks to four alternative bases, users will have an easy time finding the best solution to suit their needs. The T-legs leave more room for the user's own legs, while the electrical adjustment mechanism makes the desk easy to use and offers the possibility of different working positions. Using several leg alternatives and different frame structures, the designers created wide adjustment ranges and extremely sturdy desks and desk combinations.

"Being a new Product Manager, I became involved at a later stage. Others were already immersed in the project, so catching up with them was a challenge. It took me a while before I was able to see where we were at that point. Gradually I began to feel that the impossible was made possible, and now, afterwards, I feel really good about the whole project. The first customer presentations in December 2006 went well and were received positively," recalls Marita Parikka who was the Product Manager responsible for the desks.

"The name Pinta, which means 'surface' in Finnish, refers to the fact that the most important thing about the desk is its surface. A vessel of the same name was also part of Columbus's fleet, with which he found a new continent rich with opportunities," Toivola and Viljanen reveal.

The history of the creation of the Pinta series with its main stages. Set-up procedures began in 2003 and the finished product was introduced in February 2007. In the timeline, Q refers to "quarter".



The key persons in the Pinta project were (from left) Pekka Toivola, Design Manager, Marita Parikka, Product Manager, Jarno Forsman, Technical Designer, Risto Mallat, Technical Designer, Timo Nurmi, Project Manager, and Iiro Viljanen, Designer.

> ”Matters that seemed minor always proved much larger than we expected.”

Production

Trade

Manufacture of tools Q3/2006
Product launched Q1/2007

Production starts Q4/2006

Business review

Group organisation

Martela's line of business is the provision of furniture for offices and public spaces. The Group has subsidiaries in Finland, Sweden, Norway and Poland.

The Group's operations are based on a matrix organisation. The organisation was revised and streamlined as of 1 April, 2006 to better serve the Group strategy.

The Group has been divided into business areas in accordance with their geographical location and customer service responsibilities. There are four business areas:

- Finland
- Sweden and Norway
- Poland and neighbouring areas
- Other exports

Product assembly, order control and distribution functions have been concentrated in the company's logistics centres in Finland, Sweden and Poland, which are part of the operational organisations of their respective areas.

Uniting the business areas are the horizontal Group functions that serve the entire Group.

Since 1 April, 2006, the Group's product development, collection management and product marketing have been divided into two separate business units, the Office business unit for furniture used in the office, and the Surroundings business unit for furniture used in other contexts. Both business units are responsible for their respective product development, collection management and profitability, and work in close co-operation with the business areas.

The Group's production and logistics functions are responsible for production technology, enterprise resource planning, Group-level procurement, quality and environmental matters and the operations of the production companies Kidex Oy and P.O. Korhonen Oy.

Other functions managed at the Group level are Group marketing, finance and administration, IT management and the HR functions.

Finland

The Group's revenue from the Finnish market was EUR 83.0 million, accounting for 69 per cent of the Group's invoicing. Invoicing in Finland increased by about 17 per cent.

The average number of employees in Finland in 2006 was 501 (489).

Finland business area

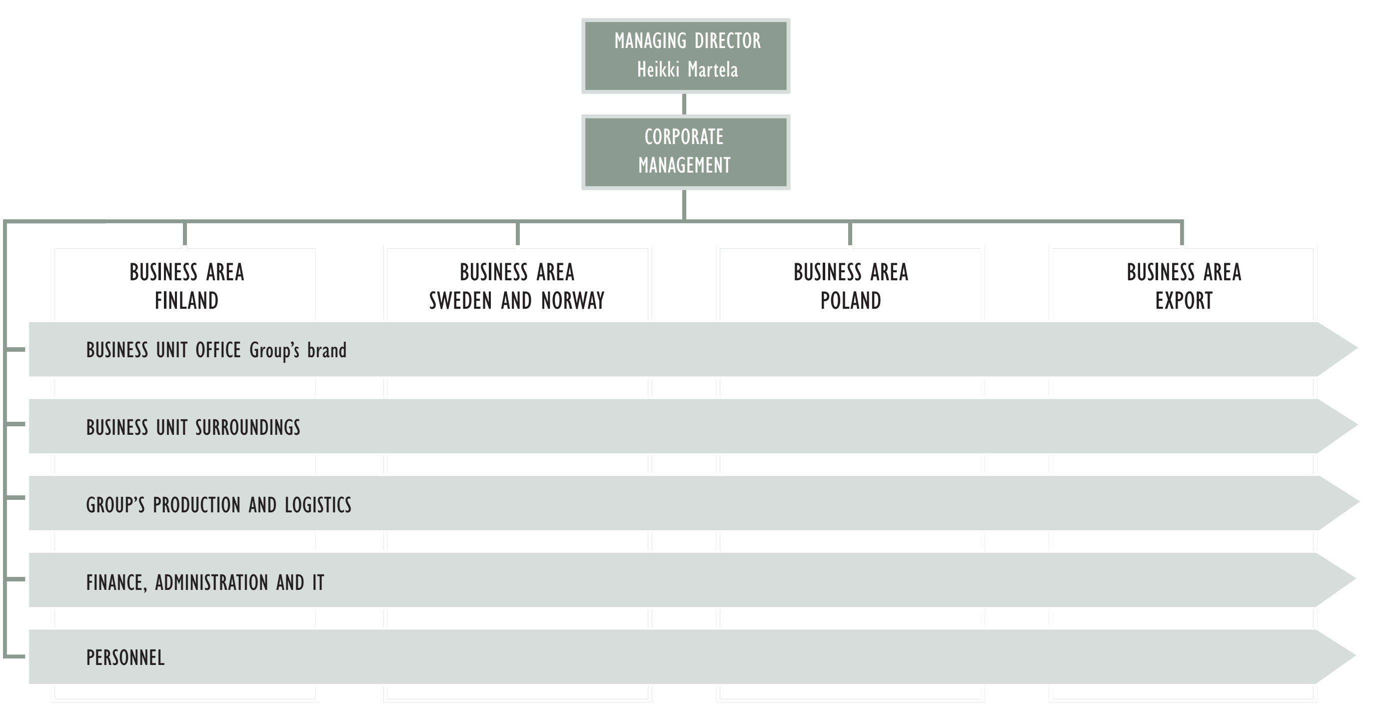
The Finland business area is an operational business unit, responsible for sales in Finland and for the Nummela logistics centre that serves mainly Finnish customers.

Martela is a clear market leader in Finland in the provision of furniture for public spaces, as well as an important producer of related services.

In 2006, operational development was a strong focus area, and business operations developed favourably during the year. Market positions are evaluated in the focus areas of confirmed operations, i.e. the furnishing of offices and office meeting spaces, the provision of furniture solutions for schools and elderly care facilities, and the service business. At the end of the year, the business area had 299 employees.

Martela's position as a market leader is based on the company's ability to produce solutions that give practical support and greater efficiency to customer operations. This capability is based on a highly experienced and extremely competent personnel, a good understanding of customer needs, a comprehensive service

Martela Group's organisation



network, collections that can be modified to customer requirements, the design of customised solutions, and quick and reliable deliveries.

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 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.

In recent years the service concept has been developed to cover larger and larger entities. The services can be customised to 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, which enables flexible furniture changes.

Finnish sales and order handling for the independent Martela Centres are managed through Martela's logistics centre in Nummela, where the assembly of cabinets, tables, desks, screens and chairs and the control of distribution and installation take place.

The process of furniture manufacture is highly automated and is based on the extensive subcontracting of components, their assembly by the Group's own operations, and fast and reliable deliveries. As production is driven by customer orders, the need for storing finished products is minimised.

For many years, the Finland business area has 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. It has been organised as part of the Group's production and logistics function. In 2006, the company's revenue was EUR 10.5 million and the average number of employees was 83.

Kidex Oy's business idea is to be a contract manufacturer of wood-based furniture components. The subsidiary's customers include Martela Group companies and also non-Martela furniture manufacturers, especially kitchen and shop furniture manufacturers.

The Chamber of the Swedish Parliament, *design White arkitekter AB, furnished by P.O.Korhonen Oy*

Geographical segment Finland (EUR million)	2006	2005	Change %
Revenue	82,9	70,7	17,3
Segments assets	49,2	42,9	
Investments	1,6	1,3	
Average personnel (person)	501	489	2,5

The plant manufactures components for cabinets and pedestals and free-form tabletops. The materials used are coated particle-boards and MDF boards.

Most of the subsidiary's deliveries in 2006 were destined for Martela Oyj and its Nummela plants. Deliveries to external customers increased by 40 per cent, and accounted for about 24 per cent (17) of the 2006 invoicing.

The production plant was renewed and expanded at the turn of the millennium. Its key machinery has also been replaced or upgraded during recent years. In 2006, the cabinet production line's feeder and reception equipment were replaced.

Kidex Oy's quality management system has been 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. The company is ready 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, sold by the Group's regional sales units. It is also responsible for undertaking and developing the auditorium business as well as auditorium sales.

The company has been organised as part of the Group's production and logistics function.

Its invoicing in 2006 was EUR 9.5 million, and the average number of employees was 62.

P.O. Korhonen Oy's revenue increased by 30 per cent thanks to a good market situation and successful new product launches. The sales of auditoriums increased strongly, including the significant delivery of furnishing for the Chamber of the Swedish Parliament.

Responsibility for the Group's product development and collection management was restructured, at which time most of P.O. Korhonen's product development personnel were transferred to Martela Oyj's Surroundings business unit, whose operations mainly take place in Raisio.

The company holds an ISO 9001 quality management certificate issued by Det Norske Veritas in 2000 and revised in 2005, and an ISO 14001 environmental management certificate issued in 2001. Additionally, the company was awarded an international Investors in People (IiP) human resources certificate in 2003.

Skandinavia

The revenue from the Scandinavian market was EUR 22.3 million, accounting for 19 per cent of the Group's invoicing. Invoicing in Scandinavia increased by 14 per cent. The average number of employees in Scandinavia in 2006 was 75 (70).

Sweden and Norway business area

The Sweden and Norway business area constitutes Martela's second largest market area, and an area in which the Group has achieved a solid market position.

Sales in Sweden and Norway are organised through country-wide dealer networks. The business area's logistics centre and order handling is situated in Bodafors, Sweden. In addition, the business area has sales and showroom facilities in Stockholm and Oslo.

In 2006, a Group-level IT system was introduced in the order-delivery chain control. In conjunction with the change, the handling and control of customer orders from Sweden and Norway were concentrated at the Bodafors plant.

• Sweden

Martela AB is Martela Oyj's Swedish subsidiary that 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. Sales in Sweden are handled through 38 dealers. The company's revenue for 2006 was EUR 20.2 million and the number of people employed was 71.

• Norway

Martela A/S, a marketing company located in Oslo, operates as a support organisation for the Norwegian sales network. Sales in Sweden are handled through a dealer network. The number of dealers is 30. The company employs 4 persons.

Martela has established itself in the Norwegian market and is among the biggest suppliers of office furniture in the country.

• Denmark

Sales to the Danish market are the responsibility of the export business area based in Helsinki. Sales in Denmark are conducted via local importers and their sales networks.

Geographical segment Scandinavia (EUR million)	2006	2005	Change %
Revenue	22,4	19,5	15,0
Segments assets	10,0	7,2	
Investments	0,1	0,1	
Average personnel (person)	75	70	7,1

Other areas

The revenue from markets outside the Nordic countries in 2006 totalled EUR 14.5 million, accounting for 12 per cent of the Group's invoicing. The Poland business area is responsible for the business in Poland and neighbouring areas in central-eastern Europe.

The export business area is responsible for exports to Russia, the Baltic countries, Western Europe, the United States, Japan and other export markets.

The Poland business area

The revenue from Poland and central-eastern Europe increased by 37 per cent and was EUR 8.5 million, accounting for 7 per cent of the Group's invoicing. The business area has 50 employees, all of whom are based in Poland.

Martela Sp. z o.o. is the Group's Polish subsidiary, responsible for the sales and distribution of Martela products in Poland and central-eastern Europe. The company has operations in Poland and sales centres in the following six locations: Warsaw, Wroclav, Katowice, Gdansk, Poznan and Kraków. The most important export countries are the Ukraine, Hungary, the Czech Republic and Slovakia, in which sales are handled through established dealer partnerships.

Martela Sp. z o.o.'s main operating location is Warsaw, where the business area's new logistics centre is also situated. About 70 per cent of all products sold are the Group's own products, and a majority of these are assembled in the company's logistics centre in Poland. Manufactured at the logistics centre are chairs, tables and storage units. Component deliveries are made from the Nummela logistics centre, the Kitee plant and increasingly from local subcontractors. The local procurement organisation is engaged in matrix-type co-operation with Group acquisitions.

The demand for office furniture in Poland has been at a good level already for a number of years. Martela's growth has been faster than that of the market, and the company has strengthened its market position. The market is highly fragmented, and the number of players on the market is large. In Poland, Martela has grown to be a key player in its field.

Export business area

The export business area is responsible for the Group's direct exports originating from Finland. The number of people employed was 10.

In 2006, the business area continued to focus on improving the efficiency of customer service, as well as on having a more active presence and influence in the main market areas.

The main market areas for direct exports were Denmark, the Netherlands, Germany, and the UK in Western Europe, Russia, Estonia and the other Baltic countries in Eastern Europe, and Japan in the Far East.

Axia 3 and 4

Geographical segment Poland and other areas (EUR million)	2006	2005	Change %
Revenue	14,4	12,1	19,0
Segments assets	4,4	4,3	
Investments	0,1	0,2	
Average personnel (person)	50	51	-2,0

The business model for all export markets is to have authorised distributors through which products and services are sold to end customers. The selection of products 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 business area is also responsible for the Group's international key customer relationships. Additionally, the business area's InterCompany personnel provides support in Sweden, Norway and Poland for the sales of products made in Finland.

The price competition in the markets remained tight, even with the markets growing. Through the price-quality ratio of our collection and our service, we were able to maintain and partly improve our market positions in Western and Eastern Europe. Foreign exchange rates, which were the most unfavourable ever, hampered sales in the Japanese markets. The number of international key customer relationships increased and sales grew substantially during the year.

The organisational division of Martela's operations into two business units was received positively on the markets, providing a solid boost to the separate marketing of workstation and surroundings furniture. The most important customer and architect events took place in St. Petersburg, Moscow, Rotterdam and Tokyo. We were present at the furniture fairs of Stockholm, London, Tokyo and Moscow.

Office and Surroundings business units

The Office and Surroundings business units are responsible for product development, collection management, product profitability and marketing in their respective product areas, in collaboration with the business areas.

The Office business unit is responsible for furniture used in the office, and the Surroundings business unit for furniture used in other contexts.

Office business unit

The Office business unit was formed in conjunction with the organisational revision of 1 April 2006, and it is responsible for the development, product marketing, collection management and product profitability of the Group's office furniture. Office furniture includes desks and task chairs, storage units and screens.

The organisation has 21 employees in product development, product support and marketing tasks. Product development personnel are based, and the research lab is located, in Nummela in connection with the logistics centre, while the rest of the organisation's personnel are based at the company's Helsinki site.

In 2006, a number of new innovations and solutions related to office work environment were presented under a special concept collection. These included Acu, the personal workstation speaker based on the creation of directional sound and film speaker technology. Its purpose is to create a soundscape customised by the user to mask disturbing speech sound from the surroundings. Another example was an air filtering system based on advanced filtering technology, built specifically for each workstation. The system helps to provide the user with breathing air substantially cleaner than the surroundings, significantly reducing the number of small particles that create symptoms. Additionally, design language and ergonomics suitable for the varying work environments of information workers were tested with the Kelja furniture range, inspired by the guest chamber of the Valamo monastery.

The purpose of the concept range is to create a platform for testing new ideas and notions so that the products' appearance or market launch is not fixed finally, but can be altered on the basis of feedback from the markets. The mentioned examples aroused plenty of interest, and they have since been developed into commercial products.

New remarkable task chairs were also launched, such as the Logic 300 and Logic 400 chairs. Their properties proved very popular right after their launch.

The net sales of Martela's service products supporting the furniture business continued to increase substantially, and both the organisation that creates the services and the marketing of the services continued to be in focus.

Likewise, the focus on product development and marketing will continue. The year 2007 will witness new, significant and interesting products and services. New products will increase competitiveness in the basic furniture sales business, and support it with new successes in fitting workstations and marketing service products.

Surroundings business unit

The Surroundings business unit was formed in conjunction with the organisational revision of 1 April 2006. The new organisation's operations were settled during the summer.

The business unit is responsible for the Group's furniture for surroundings, schools, elderly care facilities, and auditoriums. The responsibility covers the entire chain from product development, product marketing, product support, collection management and profitability.

The organisation has 9 employees in marketing, product support, product development and model building tasks. Development of the collection is chiefly based on external designers. The business unit's operations are focused in Raisio.

The Surroundings business unit serves all Group sales companies, and has the target, in accordance with Group strategy, to increase sales notably in all sales areas, with the aim of turning Martela into a significant supplier of furniture for lobbies and other public premises.

During the review year, new products were introduced at the Stockholm Furniture Fair, including the Fly Me chair and an extension of the Clash product family with a conference chair, table and stool. The Grip chairs and tables were well received in the market, particularly in schools.

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 and legal Group organisation. Management is based primarily on an operational matrix organisation. Sales and customer service are organised by market area as follows:

- Finland
- Sweden and Norway
- Poland and neighbouring areas
- Other export markets

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.

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, each of which belongs to the operational organisation of its main market area. The logistics centres are served in their acquisitions by a wide network of subcontractors. Components and products required by the logistics centres are also manufactured by the Group's own plants at Kitee and Raisio.

The market area organisations are co-ordinated by Group-level processes which are:

- Marketing; Group-level marketing matters, corporate brand,
- "Office" business unit; product development and collection management for office furniture
- "Surroundings" business unit; product development and collection management for furniture used in meeting spaces, schools, auditoriums and other public places
- Production and logistics; ERP principles, technology, Group acquisitions, quality and environment, the production plants of P. O. Korhonen Oy and Kidex Oy in Raisio and Kitee, respectively
- Personnel; HR development, personnel satisfaction surveys, recruiting support etc.
- Finance and IT; Group's financial planning and reporting, Group-level IT solutions

Kidex Oy operates as a contract manufacturer of wood-based components, and about one quarter of its deliveries go 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 11 times during the financial year and the average attendance was 99 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 2006, the Board's Compensation Committee comprised Heikki Ala-Ilkka, Jaakko Palsanen and Tapio Hakakari. The Committee met six times in 2006.

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 directors responsible for the main market areas and 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 2006, EUR 96 thousand was paid for the Group's auditing, while EUR 17 thousand 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 for 2006 totalled EUR 24 thousand and EUR 48 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 for 2006 were EUR 185 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.

Bonus and incentive plans based on annual or shorter-term performance are used in the Group to promote the achievement of short-term objectives. The amount of the incentive is generally influenced by performance indicators.

The Managing Director, the Group management and certain key individuals are participating in a long-term share-based incentive plan. The key personnel will be eligible to receive Martela's A shares if the targets set for specified earnings periods are achieved. These periods are the calendar years 2007, 2008 and 2009. Any incentives paid on the basis of the above scheme will be paid in both shares and cash at the end of each earnings period. The maximum incentive for the whole scheme is 153,000 Martela Oyj A shares and the amount of cash needed to cover taxes and similar charges, which amounts to approximately the value of the shares to be paid. The achievement of the targets set for an earnings period determines the percentage of the maximum bonus to be paid to a key person.

No other compensation based on membership of the Board or a subsidiary is paid.

In 2006, profit bonuses totalling EUR 102,9 thousand were paid to the Managing Director of Martela Oyj.

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 members of the Group Management Team and the auditor. 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. Martela's website has a link to the up-to-date information kept by the Finnish Central Securities Depository Ltd concerning persons classified as permanent insiders, related persons, their shareholdings and the changes therein.

Quality and the environment

Martela's operational system aims at sustained development of the Group's quality and environmental management culture. The operational objective is to achieve an excellent level of customer service and to make durable, evergreen products that ensure safe, high-quality working environments and whose production harms the environment as little as possible.

Martela utilises the ISO 9001:2000 standard in its operational system, and the ISO 14001:2004 standard in environmental management. The aim of the company's environmental management programs is to reduce the products' environmental impacts throughout their life cycle, and to increase their reuse and recycling. Martela has paid particular attention to the recycling and potential re-use of discarded furniture by offering its customers recycling services.

Det Norske Veritas oversees the compliance of Martela's quality management and environmental management with the ISO 9001:2000 and ISO 14001:2004 standards by constant auditing. The current certification will remain in effect until the end of 2008, and also includes the operations of Kidex Oy. Martela AB and P.O. Korhonen Oy have their own certified quality systems.

During the year under review, research on product characteristics has been made an integral part of quality and environmental management to emphasise the independence of research from the product development process.

The biggest challenges for Martela Oyj in 2007 will be to carry out extensive development projects to improve overall product and operational quality with respect to the order and delivery process. The challenge for environmental management will be to meet increased customer demands regarding the traceability of product raw materials. The challenge for quality management will be to set up a documented quality system for Martela Sp. z o.o.

The goal for the Martela Group in 2007 is to continue the order and delivery integration process started between Group Companies in 2005, with the aim of significantly improving operations and reducing quality costs.

Personnel

On 1 April 2006, Martela's organisation was renewed to better meet the goals of the Group strategy. As part of the changes, the HR function became a corporate function. The goal of the Group's HR function is to bring greater efficiency and uniformity to operations by standardising personnel practices and rules.

Key events of the year in Fi nland

• Martela Oyj

Martela Oyj's average number of employees was 356 in 2006. Recruiting was more active than in recent years, and during the year salaried employees and summer workers were recruited and hired labour was used to even out workloads.

The salary system and the incentives used to promote sales were developed further in 2006, based on previous experiences. A personnel report on the entire Group was made for the first time.

Managerial skills continued to be developed, with the focus being on change management. All supervisors participated in training on this subject, while recruitment training was also arranged early in the year as well as a training event for supervisors late in the year. Martela's long tradition of offering education leading to a vocational qualification was continued with respect to technical training for production employees. Internal product and service training was widely organised.

Managerial skills are measured by a biennial supervisor survey. The 2006 results show a high level of managerial skills. Based on an internal communications survey conducted in 2005, two development projects were started, of which one concerned the improvement of communications between profit units and departments, while the other concerned the upgrading of Intranet availability. The work will continue in 2007.

The improvement of employee wellbeing at work was continued based on the results of the 2005 personnel survey. Spring 2006 saw the completion of the successful 6-month project 'Productivity through the enjoyment of work' for storage-unit production employees, aimed at improving productivity, developing the work atmosphere and promoting wellbeing.

• P.O. Korhonen Oy

In 2006 P.O.Korhonen employed an average of 62 people. Due to the reorganisation, 6 people were transferred to Martela Oyj. The workload was unevenly distributed through the year, with the factory having to seek temporary solutions for idle capacity from March to May. However, during the summer and latter part of the year, the volume of work was substantially over capacity. Orders were managed by buying outside components and work, and by hiring temporary labour. P.O. Korhonen bases its operations on self-piloting teams and its development on the 'continuous improvement' concept. The company is ISO 9001, ISO 14001 and IIP (Investors in People) certified, and was audited by outside auditors last year. A managerial survey was conducted in the autumn and P.O.Korhonen adopted for its salaried employees a compensation system based on the demands of each job.

• Kidex Oy

In 2006 Kidex Oy employed an average of 83 people. The major development areas for Kidex were measures to increase production efficiency, and efforts to boost sales. Compensatory trade mainly with customers outside the Group was sought to replace the pedestal assembly operations transferred to Nummela at the end of 2005. Production supervision areas were clarified. During the latter half of the year, when invoicing was significantly higher than in the first half, Kidex took on a number of temporary employees. Since the beginning of 2006, the entire production personnel of Kidex have been included in the production bonus plan. A managerial survey was conducted in the autumn. The training of salaried employees concentrated on managerial functions.

Key events of the year in Sweden, Norway and Poland

In 2006 the average number of personnel was 75 in Sweden and Norway, and 50 in Poland. In Sweden and Norway, the focus was on measures to improve profitability. Personnel numbers were further adjusted and the organisation was adapted to better respond to the changed needs. The Stockholm showroom moved to new premised better suited for Martela's needs. Extensive development projects were continued, including the introduction of new production control and sales information systems. Production transferred to the use of self-piloting teams, and this development will continue during 2007.

The new managing director of the Polish subsidiary began early in the year when his predecessor retired. During 2006 a new sales bonus plan was adopted, managerial skills were improved by the Situational Leadership II training and the structure of purchases and logistics was modified. At the end of 2006, management decided to carry out a managerial survey.

Outlook for the near future

The organisational rearrangements commenced in 2006 will continue in 2007. With respect to the adoption of standardised personnel practices in the Group, special attention will be paid during the year to the development discussion process, internal surveys and incentive policies. The revised organisational targets create challenges also for competence development, which will be focused on during 2007. Projects to develop internal communications, started in 2006, will continue. Attention will also be paid to the 'work time bank' system (i.e. flexible work time arrangements) and maintenance of work ability.

In 2007, a supervisor survey will be carried out in Sweden and Norway, the results of which will be used for the development of managerial work. The salary system will be developed and the activity of self-piloting teams will be developed further. The organisation's procedures and collaboration will be developed through shared office premises.

In 2007 Poland will carry out an intensive sales training program concentrating on a new sales process and customer relationship management. Managerial skills will be developed on the basis of the managerial survey results. A performance-based bonus system will be developed and the target group will be expanded to motivate personnel and to support continuing strong growth.

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 since 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 6,393 Martela A shares.

BOARD MEMBERS
Tapio Hakakari, born in 1953, LL.M.
Member of the Board of Martela Oyj since 2003.
Director, Secretary of the Board of KONE Corporation 1998-2006.
Chief Administration Officer of KCI Konecranes International Oy 1994-1998.
Worked for KONE Corporation 1983-1994.
Other key responsibilities: Member of the Board of Cargotec Oyj, Etteplan Oy, Suomen Autoteollisuus Oy and Esperi Care Oy, Chairman of the Board.
Owns 25,200 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 of the Board 2000-2002.
Managing Director of Martela Oyj since 1 March 2002.
Other key responsibilities: Member of the Board of Marfort Oy.
Other key work experience: Managing Director of Martela AB and Aski Inredningscenter AB 1993-1999, Sales Director of Oy Crawford Door Ab 1987-1993, Sales Director of Oy Lundia Ab 1984-1987. Prior to that in financial planning and sales tasks at Digital Equipment Corporation Oy.
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.
Member of the Board of Coloured Wood Products Oy
Key work experience: Vice President, Business Development at UPM-Kymmene Corporation 1996-2004, Vice President, Kymmene Oy 1992-1995, Managing Director, 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 83,868 Martela A shares.

Torsten Hästö, Jaakko Palsanen, Pekka Martela, Heikki Ala-Ilkka (sitting), Raimo Santala, Matti Lindström, Tapio Hakakari, Heikki Martela and Jori Keckman

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 TO THE BOARD
Torsten Hästö, see Management Team

Martela Group Management Team

Heikki Martela see Board of Directors
Managing Director of Martela Oyj.

Panu Ala-Nikkola, born in 1965, M. Sc. (Econ)
Head of the Finland business area
Areas of responsibility: Sales in Finland and the Nummela logistics centre.
At Martela since 2001.
Owns 3,400 Martela A shares.

Matti Eskola, born in 1949, Engineer
Head of the Surroundings business unit
Areas of responsibility:
Surroundings furniture, P. O. Korhonen Oy, Managing Director
At Martela since 1975.
Owns 200 Martela A shares.

Piotr Fic, born in 1968, M.Sc (Pharm)
Head of the Poland business area
Areas of responsibility: Poland and neighbouring areas and the Warsaw logistics centre, Martela Sp. z o.o, General Manager
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 IT Administration for the Martela Group and Martela Oyj.
At Martela since 1993.
Owns 1,600 Martela A shares.

Ilkka Koskimies, born in 1955, M.Sc. (Econ)
Head of the Office business unit
Areas of responsibility: workstation furniture, Group brand
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, logistics and purchasing activities of the Group Head of the Sweden & Norway business area, acting Managing Director of Martela AB
At Martela since 1985.
Does not own any Martela shares.

Sirpa Ontronen, born in 1961, M.Sc. (Psych)
Personnel Director
Areas of responsibility: Group HR matters
At Martela since 2002.
Owns 200 Martela A shares.

Veli-Matti Savo, born in 1964, Engineer
Head of the Exports business area
Areas of responsibility: sales to the rest of Europe, Russia, Japan and other markets
At Martela since 2002.
Does not own any Martela shares.

Auditors

Reino Tikkanen, Authorised Public Accountant, KPMG Oy Ab,
Deputy Auditor: KPMG Oy Ab

***Clash,** design Samuli Naamanka*

”The undertaking of a large project requires co-operation between a surprisingly large number of people and years of hard work from the key people of the project – as well as a lot of patience. What is also certain is that surprises cannot be avoided and creative solutions to problems have to be used throughout the project.”
– Pinta desk range project

FINANCIAL STATEMENTS **2006**

Contents of the financial statements

Information for shareholders

Annual General Meeting

The Annual General Meeting of Martela Oyj will be held on Tuesday, 20 March, 2007, 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, 9 March, 2007, and be made known to the Company's head office, Katri Nenonen, 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, 19 March, 2007.

Payment of dividends

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.25 per share be distributed for the year ended 31 December, 2006. Only shareholders registered in the shareholder register maintained at the Finnish Central Securities Depository Ltd on the record date for dividend distribution, Friday, 23 March, 2007, will be entitled to the dividend declared by the Company. Dividend payments will be made on Friday, 30 March, 2007.

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 2007:

First quarter	24 April, 2007
Second quarter	7 August, 2007
Third quarter	23 October, 2007

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.

***Kilta chair**, design Olli Mannermaa*
***Solo storage unit**, design Iiro Viljanen*
Spot table

Board of directors' report

The market situation improved and the revenue for 2006 increased by 17.1 per cent to EUR 119.7 million (102.2). The profit before taxes rose, thanks to a strong final quarter, to EUR 3.7 million (1.0). Other operating income of EUR 1.4 million (1.0) also contributed to the improved result. The financial situation remained good and the equity-to-assets ratio rose to 42.4 per cent (40.8). It is estimated that this growth will continue in 2007 and that the result will improve.

Market situation

The demand for office furniture started to increase for the first time for years. The market situation improved in all of the Group's main market areas.

Group structure

No changes took place in the Group structure in 2006. As this was the case also in 2005, the Group structure and financial statements figures are comparable.

Segment reporting

Martela has one primary segment, namely the furnishing of offices and public spaces. The revenue and result are as reported in the consolidated financial statements. The Group's secondary segment consists of customers according to geographic location.

Revenue

Revenue for 2006 rose to EUR 119.7 million (102.2), an increase of 17.1 per cent. Revenue increased in all of the Group's main market areas. The growth is primarily due to the improved market situation, more efficient sales and successful product launches.

Invoicing in the Polish market rose to EUR 7.4 million (5.4), an increase of 35 per cent.

As in the previous years, revenue for the final quarter was the highest. Growth was particularly strong on the Finnish market.

Group result

The profit before taxes of the final quarter rose to EUR 2.7 million (1.2), thanks to a substantial increase in revenue.

The profit before taxes for 2006 was EUR 3.7 million (1.0). The key factors behind the improved result were the growth in revenue, and proceeds from the sale of assets. Proceeds from the sale of real estate and shares totalled EUR 1.0 million (0.3). The comparability of the 2006 and 2005 figures is also affected by the fact that the 2005 result was improved by a reversal, in the final quarter of 2005, of a EUR 0.7 million impairment made in the 2004 opening IFRS balance sheet.

The increase in financial items resulted from a decrease in financial income and foreign exchange gains.

The majority of the year's profit was made in the final quarter.

Improved results were recorded in all of the Group's units.

The taxes in the income statement derive mainly from a decrease in deferred tax assets recognised earlier. They are not cash-based.

Capital expenditure

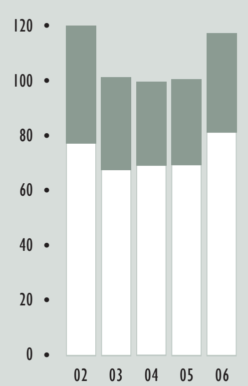
The Group's gross capital expenditure totalled EUR 1.8 million (1.6). Capital expenditure mainly concerned production line automation at the Nummela and Kitee plants, other production equipment replacements and IT expenditure.

A contract was signed in December 2006 on the sale and partial leasing back of the Martela AB's Bodafors plant in Sweden. The property's sales price was EUR 1.7 million and the right of possession was to be transferred at the turn of March/April 2007. Martela AB has leased about 40 per cent of the plant's area for its own use on a 10-year lease. Proceeds of EUR 0.8 million will be realised on the property sale at the turn of March/April 2007.

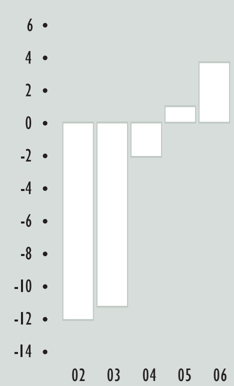
Organisation

The Group's operational organisation was renewed on 1 April, 2006. The main objective was to increase the focus on surroundings furniture collections and collections for other public premises, and on their competitiveness. Martela's target is to become a major international player in this area, as well as in workstation furniture. To reach this target, it was decided to divide the Group's product and product development resources into two business units responsible for the collection and for product development respectively. The "Office" business unit is responsible for workstation furniture, while "Surroundings" is responsible for furniture for lobbies and other public premises.

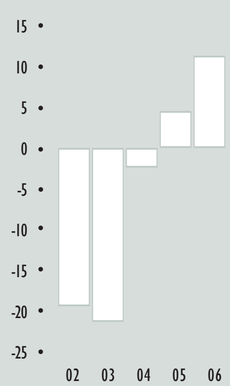
Invoicing (€ million)



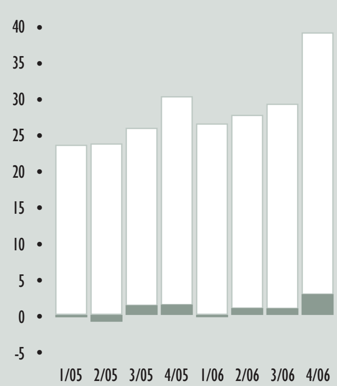
Profit before extraordinary items and taxes (€ million)*



Return on investment (%)



Turnover and Profit, per three months (€ million)



Invoicing Finland

Invoicing of international operations

* Pre-tax profit/loss for years 2004 and 2005

At the same time, the Nummela logistics centre, which mainly serves the Finnish market, was integrated in the operational organisation for Finland. The logistics centres in Bodafors, Sweden and Warsaw, Poland were already part of their respective local organisations.

The logistics centres' operating concept and technology development and Group acquisitions were reorganised into a Group production and logistics process, which is also responsible for the Kidex Oy and P.O.Korhonen Oy production companies.

Staff

The Group employed 626 (610) people on average, up by 2.6 per cent. There were 632 (604) employees at work at the end of 2006.

Product development

Product development and collection management is the responsibility of two Group organisations: the "Office" business unit takes care of workstation furniture, while "Surroundings" takes care of furniture for lobbies and other public premises.

During 2006, product development employed 21 (20) people and product development expenses accounted for 2.1 (2.0) per cent of the revenue.

During the year, the product range was renewed and supplemented with task chairs and other workstation furniture, furniture for schools and other teaching facilities, and auditorium furniture.

At the beginning of the year, loudspeakers and air purifiers that can be integrated in the workstation were launched at the Stockholm Furniture Fair. In response to the positive feedback, they were developed into saleable products and presented in the autumn at numerous work wellbeing events. Lobby furniture by several designers was presented last autumn at the Design Partners Exhibition in Helsinki.

The development of the Pinta desk collection into a saleable product family was a significant achievement. This extensive range of desks enables more individual, efficient and modifiable workstation solutions which can also be adapted to changing needs in the future. The range was launched at the Stockholm Furniture Fair in February 2007.

The Environment

The aim of Martela's environmental management policy is to provide customers with durable, long lasting products that promote safety and high quality in the working environment, and whose production harms the natural environment as little as possible.

Martela Oyj applies the ISO 14001:2004 standard in environmental management. The aim of the environmental management programs is to reduce the environmental load of Martela's products throughout their life cycles, and to increase the reuse and recycling of materials. Martela has paid particular attention to the recycling and potential re-use of discarded furniture by offering recycling services to customers. Martela Oyj's environmental system certification will be valid until the end of 2008 and also includes Kidex Oy's operations. P.O. Korhonen Oy also has its own certified environmental system.

Martela's environmental management is presented elsewhere in this Annual Report.

Finance

The net cash from operating activities of EUR 0.9 million (1.0) was affected by a working capital increase of EUR 7.8 million accumulated from the beginning of the year. The change in working capital was mainly due to an increase in trade receivables as revenue rose sharply at the end of the year. The net cash from investing activities was positive at EUR +1.2 million (-1.1) as a result of the disposal of fixed assets.

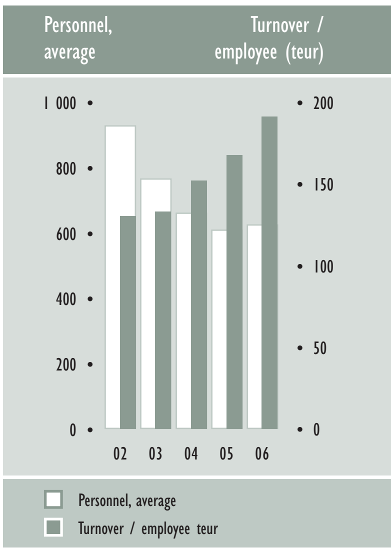
Net interest-bearing debt decreased by EUR 2.2 million to EUR 17.1 million (19.3) at the end of the year. Liquid assets at the end of the year amounted to EUR 3.9 million (5.0). The key figures related to solvency improved. The equity-to-assets ratio was 42.4 (40.8) per cent and gearing was 53.0 (62.8) per cent..

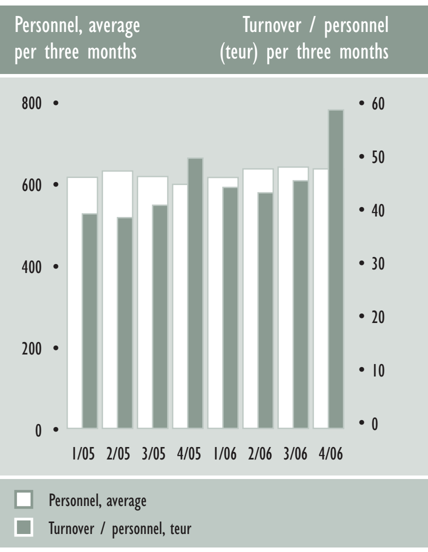
Shares

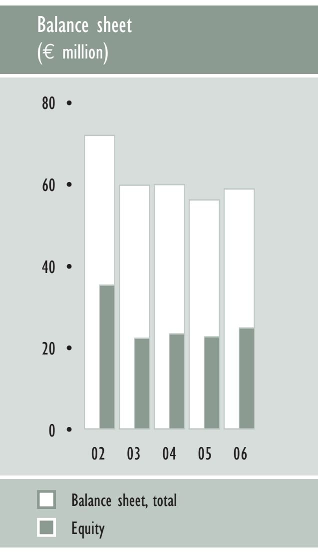
During the financial year, 1,076,693 (966,453) of the company's A shares were traded on the Helsinki Stock Exchange, corresponding to 30.3 (27.2) per cent of the entire stock. The value of trading turnover was EUR 7.3 million (6.8). The value of a share was EUR 7.26 at the beginning of the year and EUR 6.50 at the end of the year. During the financial year the share price was EUR 8.16 at its highest and EUR 5.99 at its lowest. At the end of 2006, equity per share was EUR 6.1.

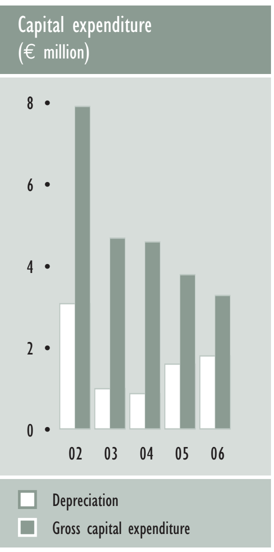
2006 Annual General Meeting

The Annual General Meeting held on 21 March 2006 decided to distribute a dividend of EUR 0.15 per share. The AGM elected









Heikki Ala-Ilkka, Tapio Hakakari, Heikki Martela, Pekka Martela, Jori Keckman and Jaakko Palsanen to the Board of Directors for the next term. Matti Lindström was elected as the staff representative and Raimo Santala as his deputy. The Board chose 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 AGM renewed the authorisation of the Board 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.

Treasury shares

Martela did not purchase any of its own shares for the Treasury in 2006. On 31 December, 2006, 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 Treasury shares amounts to 1.6 per cent of all shares and 0.4 per cent of all votes.

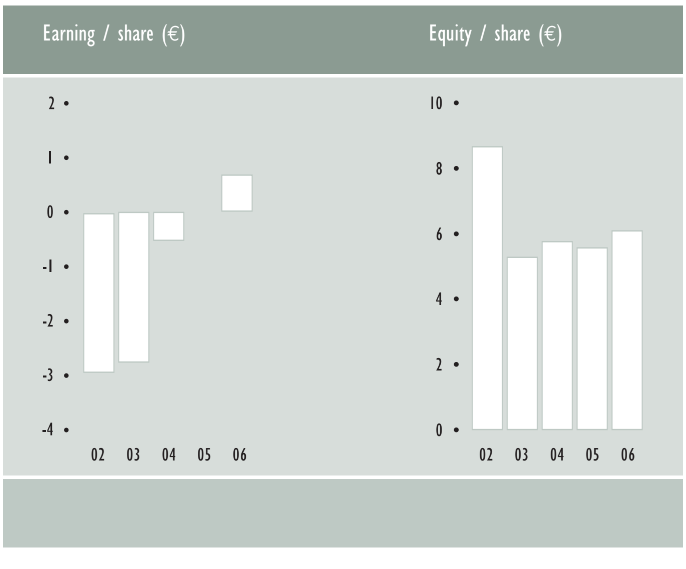
Outlook for the future

Demand for office furniture increased in 2006. The consolidated revenue increased, by Martela's estimate, at a faster rate than the market, and the profit was much improved. Demand will probably continue to rise in 2007, but not as sharply as in 2006. As a result of the revenue increase and cost structure efficiency measures, the Group's result is expected to be a further improvement on that of 2006.

In 2006, the consolidated revenue increased towards the end of the year, as is usual. This is expected to happen also in 2007, and the result of the first quarter of 2007 is expected to fall clearly below that of the final quarter of 2006.

The areas of focus for operational development will be:

- further sales development and introduction of new operating concepts
- expansion and strengthening of sales channels
- increasing the efficiency of the order-delivery chain by utilising more comprehensive Group IT solutions
- The "Office" business unit will present new key products and services, which are expected to increase competitiveness in the basic business of workstation furniture and in the equipping of workstations
- In accordance with its strategy, the "Surroundings" business unit will increase sales in all its sectors, with the aim of turning Martela into a significant supplier of furniture for lobbies and other public premises
- Kidex Oy, which is a component contract manufacturer, will strive to become profitable by further increasing volumes to customers outside the Group. Their proportion has been increasing.



Risks

It is estimated that the greatest risks to the improvement of profit performance relate to the continuation of general economic growth and the consequent overall demand for office furniture.

Another risk is posed by the above-mentioned challenging development projects and the timetables and implementation of objectives. Any delays would affect growth, competitiveness and development of the cost structure.

The risks of damage are covered by the appropriate insurance. Comprehensive coverage is provided for property, business interruption loss, supplier interruption loss and loss liability risks.

The services of an external insurance broker are used in the management of insurance matters.

Financial risks are presented in the Notes to the Financial Statements.

The principles of risk management are presented in the Corporate Governance section of the Annual Report.

Events after the end of the financial year

Non-business-related assets were sold in early 2007, and this will improve the result of the first quarter by EUR 0.5 million. Moreover, proceeds of EUR 0.8 million from the sale of the Bodafors plant in Sweden will be realised at the turn of March/April.

Martela's Board of Directors decided on 14 February, 2007 on a share-based incentive scheme for key personnel for 2007-2009. The key personnel will be eligible to receive Martela's A shares if the targets set for specified earnings periods are achieved. These periods are the calendar years 2007, 2008 and 2009. Any incentives paid on the basis of the above scheme will be paid in both shares and cash at the end of each earnings period. The maximum incentive for the whole scheme is 153,000 Martela Oyj A shares and the amount of cash needed to cover taxes and similar charges, which amounts to approximately the value of the shares to be paid. The achievement of the targets set for an earnings period determines the percentage of the maximum bonus to be paid to a key person.

It has been decided that the administration of the incentive scheme will be outsourced to Alexander Management Oy, which will purchase Martela's A shares in the Helsinki Stock Exchange in order to protect and implement the incentive scheme.

Helsinki, 14 February, 2007
Martela Oyj
Board of Directors

Invoicing by main market areas

	2006	%	2005	%	Change, %
Finland	83,0	69,3 %	71,0	69,2 %	+16,9 %
Scandinavia	22,3	18,6 %	19,5	19,0 %	+14,3 %
Other regions	14,5	12,1 %	12,1	11,8 %	+19,1 %
Total	119,8	100,0 %	102,7	100,0 %	+16,7 %

Quarterly invoicing by main market areas

	1/2005	2/2005	3/2005	4/2005	1/2006	2/2006	3/2006	4/2006
Finland	16,3	17,0	17,0	20,6	19,0	18,4	19,5	26,1
Scandinavia	4,5	4,3	5,5	5,3	5,1	4,6	6,2	6,4
Other areas	3,2	2,9	2,5	3,5	2,8	4,3	3,0	4,3
Total	24,0	24,2	25,0	29,5	26,9	27,3	28,8	36,8

Result by quarter-year

	1/2005	2/2005	3/2005	4/2005	1/2006	2/2006	3/2006	4/2006
Profit before taxes	-0,4	-0,9	+1,1	+1,2	-0,3	+0,6	+0,7	+2,7

Key figures

	2006	2005	2004
Revenue	119,7	102,2	100,7
Change in revenue, %	17,1	1,5	-1,4
Operating profit	4,5	1,5	-1,6
Operating profit, %	3,8	1,5	-1,5
Return on investment, %	11,0	4,3	-2,2
Return on equity, %	11,4	-0,5	-8,1
Equity to assets ratio, %	42,4	40,8	39,3
Gearing, %	53,0	62,8	56,4
Average staff	626	610	662
Revenue/employee	191,3	167,6	152,2

Staff

	2006	2005	Change, %
Average staff	626	610	+2,6
Staff at end of review period	632	604	+4,6
Revenue/employee (EUR 1,000)	191,3	167,6	+14,1

Staff by quarter-year

	1/2005	2/2005	3/2005	4/2005	1/2006	2/2006	3/2006	4/2006
Average staff	611	627	613	593	611	632	636	632
Staff at end of review period	610	641	600	604	600	660	629	632
Revenue/employee (EUR 1,000)	39,1	38,4	40,8	49,5	44,0	43,0	45,3	58,3

Average staff by region

	2006	2005	Change, %
Finland	501	489	+2,5
Scandinavia	75	70	+7,1
Poland	50	51	-2,0
Group total	626	610	2,6

Consolidated financial statements, IFRS

Consolidated income statement (EUR 1,000)

(EUR 1,000)	Note	1.1.–31.12.2006	1.1.–31.12.2005
REVENUE	1	119 727	102 246
Other operating income	2	1 429	987
Changes in inventories of finished goods and work in progress		124	-436
Raw material and consumables used		-59 347	-49 258
Production for own use		47	29
Employee benefits expenses	4	-27 562	-24 617
Depreciation and impairment	5	-3 332	-2 756
Other operating expenses	3	-26 587	-24 680
OPERATING PROFIT(-LOSS)		4 499	1 516
Financial income	7	125	360
Financial expenses	7	-923	-904
PROFIT (-LOSS) BEFORE TAXES		3 701	972
Income taxes	8	-977	-1 085
PROFIT (-LOSS) FOR THE FINANCIAL YEAR		2 723	-112
Attributable to:			
Equity holders of the parent		2 723	-112
Minority interest		0	0
Earnings per share for the profit attributable to the equity holders of the parent:			
Basic earnings/share, EUR	9	0,7	0,0
Diluted earnings/share, EUR	9	0,7	0,0

Consolidated Cash Flow Statement (EUR 1,000)

(EUR 1,000)	1.1.–31.12.2006	1.1.–31.12.2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flow from sales	114 537	100 325
Cash flow from other operating income	364	635
Payments on operating costs	-113 292	-99 364
Net cash from operating activities before financial items and taxes	1 609	1 596
Interest paid	-691	-734
Interest received	48	43
Other financial items	-84	123
Dividends received	3	2
Taxes paid	-18	-76
Net cash from operating activities (A)	867	954
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure on tangible and intangible assets	-1 840	-1 664
Proceeds from sale of tangible and intangible assets	2 992	580
Loans granted	0	0
Repayments on loan receivables	6	0
Net cash used in investing activities (B)	1 158	-1 084
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans	1 783	0
Repayments of short-term loans	-1 546	-1 443
Proceeds from long-term loans	0	170
Repayments of long-term loans	-2 689	-818
Dividends paid and other profit distribution	-613	-613
Net cash used in financing activities (C)	-3 065	-2 704
CHANGE IN CASH AND CASH EQUIVALENTS	-1 041	-2 834
Cash and cash equivalents at beginning of year 1)	4 963	7 812
Translation differences	-10	-15
Cash and cash equivalents at end of year 1)	3 911	4 963

1. Liquid funds include cash in hand and at bank, and financial assets at fair value through profit and loss (see notes 18,19)

Description of essential adjustments in the Consolidated 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	31.12.2006	31.12.2005
ASSETS			
Non-current assets			
Intangible assets	10	662	517
Tangible assets	11	15 784	18 991
Investments in associates	12	22	22
Available-for-sale financial assets	13	40	55
Investment properties	14	1 166	1 161
Pension obligations		18	0
Deferred tax assets	15	776	1 819
Non-current assets, total		18 468	22 566
Current assets			
Inventories	16	11 938	10 057
Trade receivables	17	23 903	17 319
Loan receivables	17	38	371
Accrued income and prepaid expenses	17	732	746
Current tax receivable		119	77
Financial assets at fair value through profit and loss	18	1 943	2 875
Cash and cash equivalents	19	1 968	2 088
Current assets, total		40 641	33 532
ASSETS, TOTAL		59 109	56 098

Consolidated balance sheet

(EUR 1,000)	Note	31.12.2006	31.12.2005
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		121	117
Treasury shares		-721	-721
Translation differences		-133	-108
Retained earnings		17 542	15 432
Equity, total		24 925	22 836
Non-current liabilities			
Deferred tax liabilities	15	175	297
Pension obligations	22	0	1
Interest-bearing liabilities	21	12 844	15 605
Non-current liabilities, total		13 019	15 902
Current liabilities			
Interest-bearing			
Current portion of interest-bearing borrowings	21	3 062	3 010
Bank overdrafts	21	1 209	698
Interest-bearing current liabilities, total		4 271	3 707
Advances received		270	126
Trade payables		6 602	5 965
Accrued liabilities and prepaid income	23	5 148	4 370
Current tax payable		37	0
Other current liabilities		4 837	3 192
Non-interest-bearing current liabilities, total		16 894	13 653
LIABILITIES, TOTAL		34 184	33 262
EQUITY AND LIABILITIES, TOTAL		59 109	56 098

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 1.1.2005	7 000	1 116	122	-721	-165	16 157	23 509
Translation differences			-5		57		52
Taxes on items recognised in equity or transferred from equity							0
Net income recognised directly in equity			-5		57		52
Profit for the financial year						-112	-112
Total recognized income and expense for the financial year			-5		57	-112	-60
Dividends						-613	-613
Share issue							0
			-5		57	-725	-673
Equity 31.12.2005	7 000	1 116	117	-721	-108	15 432	22 836
Cash flow hedges							0
Translation differences			4		-25		-21
Taxes on items recognised in equity or transferred from equity							0
Net income recognised directly in equity			4		-25		-21
Profit for the financial year						2 723	2 723
Total recognized income and expense for the financial year			4		-25	2 723	2 702
Dividends						-613	-613
Share issue							0
			4		-25	2 110	2 089
Equity 31.12.2006	7 000	1 116	121	-721	-133	17 542	24 925

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

Martela's consolidated financial statements are 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.

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 intra-group 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.

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-areas that are held for currently undetermined future use are classified as investment properties. They are 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.

The accumulated actuarial gains and losses of defined benefit plans 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. The Group has no such provisions.

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 and derivatives

The Group has applied the IAS 39 Financial Instruments: Recognition and Measurement standard. 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. The estimates are mainly based on the utilisation of deferred tax assets against future taxable income, and on the measurement of asset items.

New standards

In 2006, IFRIC 4 was adopted: 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 financial assets at fair value through profit and loss. 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.

2006 (EUR 1,000)

Geographical segments	Finland	Scandinavia	Other areas	Elim.	Unallocated	Total
Revenue	82 920	22 364	14 414	29	0	119 727
Segment assets	49 215	10 003	4 377	-8 684	4 198	59 109
Capital expenditure	1 598	78	148	0	0	1 824

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

2. Other operating income

	1.1.–31.12.2006	1.1.–31.12.2005
Gains on sale of fixed assets	1 066	350
Rental income	207	370
Public subsidies	126	98
Other income from operations	30	168
Total	1 429	987

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 95 thousand (EUR 106 thousand in 2005) and for other services, EUR 17 thousand (EUR 20 thousand in 2005).

Notes to the consolidated financial statements

(EUR 1,000)

4. Employee benefits expenses

	1.1.–31.12.2006	1.1.–31.12.2005
Salaries, CEO	276	171
Salaries, group managing directors	394	389
Salaries, boards of directors	72	69
Salaries of boards and managing directors, total	742	629
Other salaries and wages	21 130	18 751
Pension expenses, defined contribution plans	3 600	3 180
Pension expenses, defined benefit plans	130	69
Other salary-related expenses	1 960	1 988
Personnel expenses in the income statement	27 562	24 617
Other fringe benefits	465	477
Total	28 027	25 094
Personnel		
Average personnel, workers	329	324
Average personnel, officials	297	286
Personnel at year end	626	604
Average personnel in Finland	501	489
Average personnel in Sweden	71	66
Average personnel in Norway	4	4
Average personnel in Poland	50	51
Total	626	610

5. Depreciation and impairment

Depreciation		
Intangible assets	202	167
Tangible assets		
Buildings and structures	908	1 109
Machinery and equipment	2 222	2 479
Depreciation, total	3 332	3 755
Impairment/cancellation of impairment by type of asset		
Land areas	0	-250
Machinery and equipment	0	-400
Buildings and structures	0	-350
Total	0	-1 000

6. Research and development expenses

The income statement recognised research and development expenses of EUR 2,283,000 in 2006 (EUR 1,900,000 in 2005).

Notes to the consolidated financial statements

(EUR 1,000)

7. Financial income and expenses

	1.1.–31.12.2006	1.1.–31.12.2005
Financial income		
Dividend income	3	2
Interest income on short-term investments	48	43
Foreign exchange gains	5	194
Other financial income	4	0
Gains on sale of assets at fair value through profit or loss	0	111
Change in value of assets at fair value through profit or loss	65	10
	125	360
Financial expenses		
Interest expenses	-723	-744
Foreign exchange losses	-32	-56
Other financial expenses	-168	-104
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	0
Total	-923	-904
Financial income and expenses, total	-798	-544
Total exchange rate differences affecting profit or loss are as follows:		
Exchange rate differences, sales	58	-52
Exchange rate differences, purchases	244	176
Exchange rate difference, financial items	-27	138
Exchange rate differences, total	275	262

(EUR 1,000)

8. Income taxes

	1.1.–31.12.2006	1.1.–31.12.2005
Current taxes	-55	-6
Taxes for previous years	0	0
Change in deferred tax liabilities and assets	-922	-1 079
Total	-977	-1 085

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 2006, 26% for 2005).

Profit before taxes	3 701	973
Taxes calculated using the domestic corporation tax rate	-962	-253
Taxes for previous years	0	0
Effect of tax rates in foreign jurisdictions	0	0
Tax-exempt income	209	29
Non-deductible expenses	-247	-288
Unbooked deferred tax assets on losses in taxation	23	-573
Income taxes for the year in the income statement	-977	-1 085

A change in deferred taxes amounting to EUR 922,000 was recognised for the financial year. 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.

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	2 723	-112
Weighted average number of shares (1,000)	4 088	4 088
Basic earnings per share (EUR/share)	0,7	0

The company has no diluting instruments.

Notes to the consolidated financial statements

(EUR 1,000)

10. Intangible assets

	Intangible assets	Work in progress	1.1.2006 – 31.12.2006 Total	Intangible assets	Work in progress	1.1.2005 – 31.12.2005 Total
Acquisition cost 1.1.	2 358	152	2 510	2 210	73	2 283
Increases	317	276	593	184	141	325
Decreases	-785	-246	-1 031	-1	-62	-63
Regroupings	0	0	0	-61	0	-61
Exchange rate differences	37	0	37	26	0	26
Acquisition cost 31.12.	1 927	182	2 109	2 358	152	2 510
Accumulated depreciation 1.1.	-1 993	0	-1 993	-1 803	0	-1 803
Accumulated depreciation, decreases	784	0	784	0	0	0
Depreciation for the year 1.1.-31.12.	-202	0	-202	-167	0	-167
Exchange rate differences	-36	0	-36	-23	0	-23
Accumulated depreciation 31.12.	-1 447	0	-1 447	-1 993	0	-1 993
Carrying amount 1.1.	365	152	517	407	73	480
Carrying amount 31.12.	480	182	662	365	152	517

11. Tangible assets

1.1.2006 – 31.12.2006	Land areas	Buildings	Machinery and equipment	Other tangible assets	Work in progress	Total
Acquisition cost 1.1.	797	33 434	41 075	209	569	76 084
Increases	0	175	1 333	21	681	2 210
Decreases	-124	-1 483	-513	-15	-840	-2 975
Regroupings	0	0	0	0	0	0
Exchange rate differences	19	113	192	0	0	324
Cancellation of impairment	0	0	0	0	0	0
Acquisition cost 31.12.	692	32 239	42 087	215	410	75 643
Accumulated depreciation 1.1.	0	-21 471	-35 554	-66	0	-57 091
Accumulated depreciation, decreases	0	115	474	12	0	601
Depreciation for the year 1.1.-31.12.	0	-908	-2 198	-24	0	-3 130
Exchange rate differences	0	-61	-178	0	0	-239
Accumulated depreciation 31.12.	0	-22 325	-37 456	-78	0	-59 859
Carrying amount 1.1.	797	11 963	5 521	143	569	18 991
Carrying amount 31.12.	692	9 914	4 631	137	410	15 784

(EUR 1,000)

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 impairments	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

	31.12.2006	31.12.2005
Carrying amount of production machinery and equipment	3 692	4 227

Tangible assets, finance leases

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

	1.1.2006 – 31.12.2006	1.1.2005 – 31.12.2005
Acquisition cost 1.1.	619	306
Increases	175	313
Decreases	-4	0
Acquisition cost 31.12.	790	619
Accumulated depreciation 1.1.	-298	-126
Accumulated depreciation, decreases	0	0
Depreciation for the year 1.1.-31.12.	-224	-172
Accumulated depreciation 31.12.	-522	-298
Carrying amount 1.1.	322	181
Carrying amount 31.12.	268	322

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, Switzerland	30	34	34	22

13. Available-for-sale financial assets

	1.1.2006 – 31.12.2006	1.1.2005 – 31.12.2005
Balance sheet value at beginning of year	55	91
Increases	0	0
Decreases	-15	-36
Balance sheet value at end of year	40	55

Notes to the consolidated financial statements

(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 beginning of the financial year was EUR 561,000 and EUR 566,000 at the end of financial year. The fair values have been appraised by a third-party valuer.

15. Deferred tax assets and liabilities

Changes in deferred taxes during 2006	1.1.2006	Recognised in income statement	Recognised in equity	Exchange rate differences	31.12.2006
Deferred tax assets					
Tax losses carried forward	3 362	-1 123	0	0	2 239
Other temporary differences	0	0	0	0	0
Total	3 362	-1 123	0	0	2 239
Deferred tax liabilities					
On buildings measured at fair value on the transition date	1 633	-93	0	0	1 540
Cumulative depreciation difference	207	-115	0	0	92
Pension obligations	0	5	0	0	5
Other temporary differences	0	0	0	0	0
Total	1 840	-203	0	0	1 637
Deferred tax assets and liabilities, total	1 522	-920	0	0	602
Due to set-off, divided in the balance sheet as follows:					
Deferred tax assets	1 819				776
Deferred tax liabilities	297				174
Deferred tax assets and liabilities, total	1 522				602

Changes in deferred taxes during 2005	1.1.2005	Recognised in 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

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 2006 results and decreased by undervaluations total about MEUR 17.

Notes to the consolidated financial statements

(EUR 1,000)

16. Inventories

	31.12.2006	31.12.2005
Raw materials and consumables	7 675	5 941
Work in progress	1 484	1 625
Finished goods	2 769	2 484
Advances	10	7
	11 938	10 057

The value of inventories has been written down by EUR 901 thousand (EUR 997 thousand in 2005).

17. Receivables

	31.12.2006	31.12.2005
Trade receivables		
Trade receivables maturing within 12 months	23 903	17 319
Trade receivables maturing after 12 months	0	0
Loan receivables		
Loan receivables maturing within 12 months	38	44
Loan receivables maturing after 12 months	0	327
Accrued income and prepaid expenses		
Personnel expenses	82	81
Royalties	53	34
Interest income	0	0
Other financial assets	76	0
Advances	359	418
Other	162	213
Accrued income and prepaid expenses, total	732	746

18. Financial assets at fair value through profit or loss

Fund units	1 943	2 875

19. Cash and cash equivalents

	31.12.2006	31.12.2005
Cash in hand and at bank	1 968	2 088
Certificates of deposit	0	0
	1 968	2 088

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
01.01.2005	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
Share issue	0	0	0	0	0
31.12.2006	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.

Translation differences in equity comprises translation differences of financial statements of foreign subsidiaries when translated into euros.

Other reserves consist of reserve funds.

21. Interest-bearing liabilities

	2006 Balance sheet value	2005 Balance sheet value
Non-current		
Bank loans	12 749	13 010
Pension loans	0	2 422
Finance leases	95	173
Total	12 844	15 605
Current portion of interest-bearing borrowings		
Bank loans	2 747	2 299
Pension loans	136	533
Finance leases	180	178
Total	3 063	3 010
Current		
Bank loans	0	0
Bank overdrafts used	1 209	698
Total	1 209	698

Non-current interest-bearing liabilities in
foreign currency as follow (EUR thousand): : 11,989 EUR 855 SEK

The balance sheet value at 31 December 2006 does not differ significantly from the fair values.

Non-current liabilities mature as follows:	2007	2008	2009	2010	2011	Later	Total
Bank loans	2 747	2 556	2 446	4 680	1 542	1 524	15 495
Pension loans	136	0	0	0	0	0	136
Finance leases	180	95	0	0	0	0	275
	3 063	2 651	2 446	4 680	1 542	1 524	15 906

Notes to the consolidated financial statements

(EUR 1,000)

Finance lease liabilities are payable as follows:

	31.12.2006	31.12.2005
Finance leases - total amount of minimum lease payments		
Not later than one year	185	187
Later than one year and not later than five years	96	177
Later than five years	0	0
	281	364
Finance leases - present value of minimum lease payments		
Not later than one year	180	178
Later than one year and not later than five years	95	173
Later than five years	0	0
	275	351

22. Pension obligations

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:	1.1.2006 – 31.12.2006	1.1.2005 – 31.12.2005
Present value of unfunded obligations	0	0
Present value of funded obligations	954	705
Fair value of plan assets	-759	-622
Deficit / Excess	0	0
Unrecognised actuarial gains (+) and losses (-)	-213	-82
Unrecognised past service cost	0	0
Pension liability in balance sheet	-18	1

Notes to the consolidated financial statements

(EUR 1,000)

The amounts recognized in the income statement were determined as follows:

	1.1.2006 – 31.12.2006	1.1.2005 – 31.12.2005
Current service cost	123	117
Interest cost	37	37
Expected return on plan assets recognized during the year	-31	-30
Actuarial gains (-) and losses (+)	1	2
Past service cost	0	0
Losses/profits on curtailment	0	-57
Total	130	69
The actual return on plan assets (EUR 1,000)	31	30

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

Pension liability at beginning of year	1	66
Contributions paid	-149	-134
Expenses recognised in income statement	130	69
Pension liability at end of year	-18	1

Actuarial assumptions used were as follows:

Discount rate (%)	4,75	4,50
Expected return on plan assets (%)	4,75	4,50
Future salary increases (%)	3,30	3,30

23. Accrued liabilities and prepaid income

Personnel expenses	3 704	3 117
Interests	166	134
Other financial expenses	0	0
Royalties	163	128
Residual expenses	898	991
Other	217	0
Total	5 148	4 370

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, NOK and PLN. The SEK, NOK 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 3,911 thousand, and unused bank overdrafts totalled EUR 1,702 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 6 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.

On the balance sheet date the Group had open euro-denominated interest rate swap agreements totalling EUR 4,493 thousand, on the basis of which the Group receives an average of 3.68% in fixed interest and pays the 6-month euribor interest on average.

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 not 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 4,646 thousand at cost, and EUR 4,757 thousand measured at fair value.

Notes to the consolidated financial statements

(EUR 1,000)

26. Operating leases

	31.12.2006	31.12.2005
Minimum lease payments under non-cancellable operating leases are as follows:		
Not later than one year	2 304	2 423
Later than one year and not later than five years	6 831	7 064
Later than five years	618	2 133
	9 753	11 620

The group has leased many of the premises it uses. The lengths of operating leases are from 1 to 10 years, and normally they include the option to extend the lease after the initial expiry date.

The income statement for 2006 includes rents paid on the basis of operating leases totalling EUR 2,320 thousand (EUR 2,565 thousand in 2005).

27. Pledges granted and contingent liabilities

	31.12.2006	31.12.2005
Debts secured by mortgages		
Pension loans	0	2 954
Property mortgages	0	2 478
Corporate mortgages	0	0
Bank loans	16 946	15 309
Property mortgages	13 548	11 006
Corporate mortgages	7 187	7 063
Shares pledged	4	13
Total mortgages	20 739	20 560
Other pledges		
Shares pledged as security for rents	0	0
Guarantees as security for rents	163	123
Collateral granted on behalf of others		
Guarantees	115	113
Repurchase sureties	161	192

Notes to the consolidated financial statements

(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 8.5 % of the share capital and 17.2 % of the votes.

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

	2006	2005
Salaries and other short-term employee benefits		
Board members	72	69
CEO	288	181
Management team members	1 018	695
	1 378	945

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. The CEO and the group's management and some key-persons are included in a long-term incentive scheme, extending from 2007 to the end of 2009. This incentive scheme is based on the group's combined profit performance for the period 2007-2009.

Martela Group 2002–2006

29. Five-year comparisons

Key financial indicators for the group

		IFRS 2006	IFRS 2005	IFRS 2004	FAS 2004	FAS 2003	FAS 2002
Revenue	EUR million	119,7	102,2	100,7	100,7	102,1	121,2
Change in revenue	%	17,1	1,5	-1,4	-1,4	-15,7	-19,7
Export and operations outside Finland	EUR million	36,7	31,6	31,0	31,0	34,2	43,4
In relation to revenue	%	30,7	30,9	30,8	30,8	33,5	35,8
Exports from Finland	EUR million	16,2	13,8	13,2	13,2	10,8	13,7
Gross capital expenditure	EUR million	1,8	1,6	0,9	0,9	1,0	3,1
In relation to revenue	%	1,5	1,6	0,9	0,9	1,0	2,6
Depreciation	EUR million	3,3	3,8	4,6	4,9	4,7	7,9
Research and development expenses	EUR million	2,5	2,0	2,7	2,7	2,6	3,1
In relation to revenue	%	2,1	2,0	2,7	2,7	2,5	2,6
Average personnel		626	610	662	662	767	930
Change in personnel	%	2,6	-7,9	-13,7	-13,7	-17,5	-10,6
Personnel at end of year		632	604	613	613	715	856
Of which in Finland		508	478	488	488	531	621
PROFITABILITY							
Operating profit	EUR million	4,5	1,5	-1,6	-2,2	-10,7	-11,7
In relation to revenue	%	3,8	1,5	-1,5	-2,2	-10,5	-9,7
Profit before appropriations and taxes	EUR million	3,7	1,0	-2,1	-3,0	-12,6	-12,0
In relation to revenue	%	3,1	1,0	-2,0	-3,0	-12,4	-9,9
Profit for the year *)	EUR million	2,7	-0,1	-2,0	-2,7	-12,3	-12,2
In relation to revenue	%	2,3	-0,1	-2,0	-2,7	-12,0	-10,0
Revenue/employee	EUR thousand	191,3	167,6	152,2	152,2	133,2	130,3
Return on equity (ROE)	%	11,4	-0,5	-8,1	-13,3	-38,6	-27,9
Return on investment (ROI)	%	11,0	4,3	-2,2	-4,7	-20,9	-19,0
FINANCE AND FINANCIAL POSITION							
Balance sheet total	EUR million	59,1	56,1	59,9	55,2	59,7	72,0
Equity	EUR million	24,9	22,8	23,5	19,1	22,5	35,4
Interest-bearing net liabilities	EUR million	13,2	14,3	13,3	13,1	15,1	10,1
In relation to revenue	%	11,0	14,0	13,2	13,0	14,8	8,3
Equity ratio	%	42,4	40,8	39,3	33,8	36,8	49,3
Gearing	%	53,0	62,8	56,4	71,1	69,4	28,3
Net cash flow from operations	EUR million	0,9	1,0	2,5	2,5	-5,6	2,2
Dividends paid	EUR million	0,6	0,6	0,5	0,5	0,5	2,5

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

Statistics on Martela Oyj shares

30. Key share-related figures

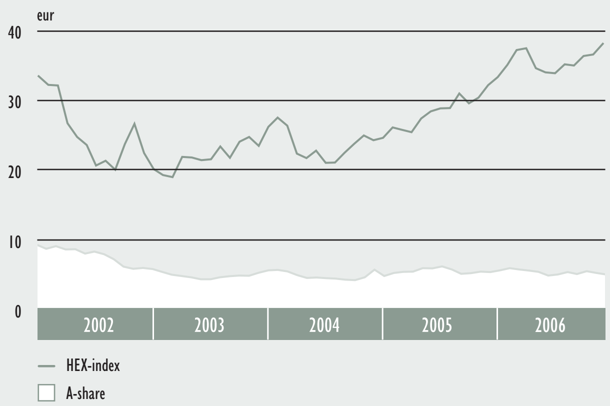
The comparison figures for 2002 - 2003 have been adjusted for the number of shares in the bonus issue of 2004

		IFRS 2006	IFRS 2005	IFRS 2004	FAS 2004	FAS 2003	FAS 2002
Earnings per share	EUR	0,7	0,0	-0,5	-0,7	-2,7	-2,9
Earnings per share (diluted)	EUR	0,7	0,0	-0,5	-0,7	-2,7	-2,9
Share par value	EUR	1,7	1,7	1,7	1,7	1,7	1,7
Dividend	EUR	0,25*	0,15	0,15	0,15	0,13	0,13
Dividend/earnings per share	%	37,5	-547,9	-30,4	-23,1	-4,7	-4,3
Effective dividend yield	%	3,8	2,1	2,4	2,4	1,7	1,8
Equity per share	EUR	6,1	5,6	5,8	4,5	5,3	8,7
Price of A share 31.12.	EUR	6,50	7,26	6,35	6,35	7,15	7,01
Share issue-adjusted number of shares	thousands	4 155,6	4 155,6	4155,6	4 155,6	4 155,6	4 155,6
Average share issue-adjusted number of shares	thousands	4 155,6	4 155,6	4155,6	4 155,6	4 155,6	4 155,6
Price/earnings ratio (P/E)		9,8	-265,2	-12,8	-9,8	-2,7	-2,4
Market value of shares **)	MEUR	26,6	29,7	26,0	26,0	29,2	28,7

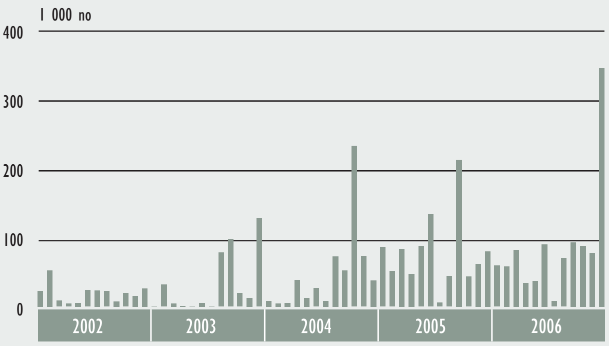
*) Board proposal

**) 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



31. Shares and shareholders

Share capital

The number of registered Martela Oyj shares on 31.12.2006 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 Small Cap's 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 31.12.2006

	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, 31.12.2006

	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 Forvaltnings AS	0	228 400	228 400	5,5	228 400	1,5
Mutual Fund Nordea Nordic Small Cap	0	200 247	200 247	4,8	200 247	1,3
Palsanen Leena	68 486	131 148	199 634	4,8	1 500 868	9,6
FIM Fenno Mutual Fund	0	193 900	193 900	4,7	193 900	1,2
OP-Suomi arvo - Mutual Fund	0	178 700	178 700	4,3	178 700	1,1
Pohjola P&C Insurance Company	0	170 000	170 000	4,1	170 000	1,1
Martela Heikki	52 122	106 234	158 356	3,8	1 148 674	7,3
Suomen Argentor Oy	0	154 600	154 600	3,7	154 600	1,0
Martela Matti	58 256	56 982	115 238	2,8	1 222 102	7,8
Lindholm Tuija	43 122	69 424	112 546	2,7	931 864	6,0
Mutual Fund Aktia Capital	0	106 500	106 500	2,6	106 500	0,7
Palsanen Jaakko	2 000	83 868	85 868	2,1	123 868	0,8
Ålandsbanken Nordic Value	0	77 500	77 500	1,9	77 500	0,5
Martela Pekka	69 274	6 393	75 667	1,8	1 391 873	8,9
Other shareholders	19 540	1 218 930	1 238 470	29,8	1 609 730	10,3
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 8.5% 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 resulted from a 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 2006 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, 31.12.2006

Number of shares	Number of shareholders	% of total shareholders	Number of shares	%	Number of votes	% of total votes
1-500	453	62,3	80 026	1,9	98 266	0,6
501-1000	105	14,4	84 177	2,0	125 597	0,8
1001-5000	100	13,8	238 635	5,7	371 635	2,4
Over 5000	69	9,5	3 751 524	90,3	15 050 064	96,2
Total	727	100,0	4 154 362	100,0	15 645 562	100,0
of which nominee-registered	2		69 122			
In the waiting list and collective account			1 238	0,0	1 238	0,0
Total			4 155 600	100,0	15 646 800	100,0

Breakdown of shareholding by sector, 31.12.2006

	Number of shareholders	%	Number of shares	%	Number of votes	%
Private companies	44	6,1	935 450	22,5	6 483 450	41,4
Financial and insurance institutions	12	1,7	881 676	21,2	950 798	6,1
Public corporations	6	0,8	363 150	8,7	363 150	2,3
Non-profit entities	13	1,8	256 449	6,2	256 449	1,6
Households	648	89,1	1 367 515	32,9	7 310 715	46,7
Foreign investors	4	0,6	281 000	6,8	281 000	1,8
Total	727	100,0	4 085 240	98,3	15 645 562	100,0
of which nominee-registered	2		69 122	1,7		
In the waiting list and collective account			1 238	0,0	1 238	0,0
Total			4 155 600	100,0	15 646 800	100,0

Formulae for Calculation of Financial Indicators

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

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

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

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

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

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

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

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

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

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

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

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 Statements, FAS

Parent Company Income Statement

(EUR 1,000)	Note	1.1.–31.12.2006	1.1.–31.12.2005
REVENUE	1	92 436	80 394
Changes in inventories of finished goods and work in progress		-11	431
Production for own use		46	23
Other operating income	2	1 077	617
Materials and services	3	-55 603	-48 001
Personnel expenses	4	-17 054	-14 991
Depreciation and impairment	5	-1 292	-1 454
Other operating expenses		-13 994	-13 400
OPERATING PROFIT (-LOSS)		5 605	3 619
Financial income and expenses	6	-465	-131
PROFIT (-LOSS) BEFORE EXTRAORDINARY ITEMS		5 140	3 488
Extraordinary expenses		-1 000	-1 600
Extraordinary income	7	0	0
PROFIT (-LOSS) BEFORE APPROPRIATIONS AND TAXES		4 140	1 888
Appropriations		0	0
Income taxes	8	0	0
PROFIT (-LOSS) FOR THE FINANCIAL YEAR		4 140	1 888

Parent Company's Cash Flow Statement

(EUR 1,000)	1.1.–31.12.2006	1.1.–31.12.2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flow from sales	85 210	76 013
Cash flow from other operating income	237	339
Payments on operating costs	-85 164	-76 112
Net cash from operating activities before financial items and taxes	283	240
Interests paid and other financial payments	-474	-222
Taxes paid	0	0
Net cash from operating activities before extraordinary items	-191	18
Cash flow from extraordinary items (net)	0	-1 600
Net cash from operating activities (A)	-191	-1 582
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure on tangible and intangible assets	-1 065	-822
Proceeds from sale of tangible and intangible assets	2 204	334
Loans granted	-801	-465
Investments in other securities	0	-1 268
Repayments of loan receivables	362	1 600
Net cash used in investing activities (B)	700	-621
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans	1 000	0
Proceeds from long-term loans	0	170
Repayments of long-term loans	-2 104	-170
Dividends and other profit distribution	-613	-613
Net cash used in financing activities (C)	-1 717	-613
CHANGE IN LIQUID FUNDS (A+B+C) (+ increase, - decrease)	-1 208	-2 816
Liquid funds at beginning of financial year 1)	4 054	6 860
Changes in fair value, investments	65	10
Liquid funds at end of financial year 1)	2 911	4 054

1. Liquid funds include cash in hand and at bank and financial assets at fair value through profit and loss.

Parent Company Balance Sheet

(EUR 1,000)	Note	31.12.2006	31.12.2005
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	9		
Intangible rights		149	158
Other long-term expenditure		492	405
Advance payments		182	152
		823	716
Tangible assets	10		
Land and water areas		163	211
Buildings and structures		2 973	3 088
Machinery and equipment		2 066	2 214
Other tangible assets		20	20
Advance payments and purchases in progress		383	406
		5 605	5 939
Investments	11		
Shares in subsidiaries		6 483	6 483
Shares in associates		22	22
Other shares and participations		111	1 831
Loan receivables		12 889	10 730
		19 505	19 067
CURRENT ASSETS			
Inventories			
Materials and supplies		4 150	3 015
Work in progress		674	713
Finished goods		1 850	1 836
		6 674	5 565
Receivables	12		
Trade receivables		22 085	14 949
Loan receivables		3 480	5 670
Accrued income and prepaid expenses		258	621
		25 823	21 241
Financial assets at fair value through profit or loss	13	1 943	2 875
		1 943	2 875
Cash and cash equivalents		968	1 179
		61 341	56 581

Parent Company Balance Sheet

(EUR 1,000)	Note	31.12.2006	31.12.2005
LIABILITIES			
SHAREHOLDERS' EQUITY			
Shareholders' equity	14		
Share capital		7 000	7 000
Share premium account		1 116	1 116
Reserve fund		11	11
Retained earnings		21 192	19 917
Profit for the year		4 140	1 888
Total		33 459	29 932
LIABILITIES	15		
Non-current			
Loans from financial institutions		11 894	11 723
Pension loans		0	2 422
Other long-term liabilities		0	0
		11 894	14 145
Current			
Interest-bearing			
Loans from financial institutions		3 273	1 723
Pension loans		0	404
Bank overdrafts		0	0
Other current liabilities		757	720
		4 030	2 846
Non-interest-bearing			
Advances received		30	0
Trade payables		5 206	5 017
Accrued liabilities and prepaid income		3 407	2 870
Other current liabilities		3 315	1 772
		11 958	9 659
Liabilities, total		27 882	26 650
		61 341	56 581

Accounting Policies for Parent Company Financial Statements 31.12.2006

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.

Financial assets at fair value through profit or loss

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, public subsidies 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)	2006	2005
1. Breakdown of revenue by market area, % of revenue		
Finland	86,5	85,0
Scandinavia	5,7	6,7
Other	7,8	8,3
Total	100,0	100,0
2. Other operating income		
Gains on sale of fixed assets	840	296
Rental income	145	223
Other operating income	92	98
Total	1 077	617
3. Materials and services		
Materials and supplies		
Purchases during the financial year	53 721	45 371
Change in inventories of materials and supplies	-1 120	54
External services	3 002	2 577
Materials and supplies, total	55 603	48 001
Auditor's fees		
Auditing	53	60
Other services	12	13
Auditor's fees, total	65	73
4. Personnel expenses and number of personnel		
Salaries, CEO	276	171
Salaries of boards of directors	72	69
Salaries of boards of directors and managing directors, total	348	240
Other salaries	13 239	11 581
Pension expenses	2 592	2 167
Other salary-related expenses	875	1002
Personnel expenses in the income statement	17 054	14 991
Fringe benefits	377	377
Total	17 431	15 368
Personnel		
Average personnel, workers	167	160
Average personnel, officials	189	179
Personnel at year end	356	338

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

	2006	2005
5. Depreciation and write-down		
Depreciation according to plan		
Intangible assets	322	325
Tangible assets		
Buildings and structures	130	234
Machinery and equipment	839	895
Depreciation according to plan, total	1 291	1 454

Notes to Parent Company Financial Statements:

(EUR 1,000)	2006	2005
6. Financial income and expenses		
Financial income and expenses		
Dividend income	1	1
Interest income on short-term investments	39	30
Interest income on short-term investments from Group companies	214	266
Foreign exchange gains	3	93
Other financial income	4	0
Interest expenses	-631	-581
Losses on foreign exchange	-32	-4
Other financial expenses	-127	-57
Gains and losses on sale of assets recognised at fair value through profit or loss	0	111
Change in value of assets recognised at fair value through profit or loss	65	10
Impairment of investments	0	0
Total	-464	-131
7. Extraordinary items		
Extraordinary income/expenses comprise group contribution.	-1 000	-1 600
8. Income taxes		
Income taxes from operations	0	0
Taxes from previous years	0	0
Total	0	0

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 2.2 million (EUR 3,2 million 2005).

9. Intangible assets

1.1.2006 – 31.12.2006	Intangible rights	Other long-term expenses	Work in progress	Intangible assets, total
Acquisition cost 1.1.	421	4 116	152	4 689
Increases	15	422	276	713
Decreases	-1	-81	-246	-328
Acquisition cost 31.12.	435	4 457	182	5 074
Accumulated depreciation 1.1.	-264	-3 711	0	-3 975
Accumulated depreciation, decreases	0	45	0	45
Depreciation for the year 1.1.-31.12.	-23	-299	0	-322
Accumulated depreciation 31.12.	-287	-3 965	0	-4 252
Carrying amount 1.1.	158	405	152	715
Carrying amount 31.12.	149	492	182	823

Notes to Parent Company Financial Statements:

(EUR 1,000)

1.1.2006 – 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

10. Tangible assets

1.1.2006 – 31.12.2006	Land areas	Buildings	Machinery and equipment	Other tangible assets	Work in progress	Total
Acquisition cost 1.1.	211	11 767	23 236	20	406	35 640
Increases	0	16	692	0	388	1 096
Decreases	-48	-96	-100	0	-411	-655
Acquisition cost 31.12.	163	11 687	23 828	20	383	36 081
Accumulated depreciation 1.1.	0	-8 680	-21 021	0	0	-29 701
Accumulated depreciation, decreases	0	96	98	0	0	194
Depreciation for the year 1.1.-31.12.	0	-130	-839	0	0	-969
Accumulated depreciation 31.12.	0	-8 714	-21 762	0	0	-30 476
Carrying amount 1.1.	211	3 088	2 214	20	406	5 939
Carrying amount 31.12.	163	2 973	2 067	20	383	5 606

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

Revaluations included in buildings total EUR 1,850 thousand in 2006 (EUR 1,850 thousand in 2005)

Carrying amount of production machinery and equipment in 2006 total EUR 1,660 thousand (EUR 1,820 thousand in 2005)

Notes to Parent Company Financial Statements:

(EUR 1,000)

11. Investments

1.1.2006 – 31.12.2006	Subsidiary shares	Associate shares	Treasury shares	Other shares and participations	Loan receivables	Total
Balance sheet value at beginning of year	6 484	22	0	1 831	10 730	19 067
Increases	0	0	0	0	2 159	2 159
Decreases	0	0	0	-1 720	0	-1 720
Balance sheet value at end of year	6 484	22	0	111	12 889	19 505

1.1.2005 – 31.12.2005	Subsidiary shares	Associate shares	Treasury shares	Other shares and participations	Loan receivables	Total
Balance sheet value at beginning of year	6 484	22	721	1 855	9 694	18 776
Increases	0	0	0	0	1 036	1 036
Decreases	0	0	-721	-23	0	-744
Balance sheet value at end of year	6 484	22	0	1 831	10 730	19 067

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
Other shares and participations						60
Total						111

12. Receivables

	2006	2005
Receivables from companies in same group		
Trade receivables	5 111	2 806
Loan receivables	3 446	3 659
Accrued income and prepaid expenses	4	6
Trade receivables		
Trade receivables maturing within 12 months	22 085	14 949
Trade receivables maturing after 12 months	0	0
Loan receivables		
Loan receivables maturing within 12 months	3 480	3 698
Loan receivables maturing after 12 months	0	1 972
Accrued income and prepaid expenses	258	621
Receivables, total	25 823	21 240

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	1 943	2 875

14. Changes in shareholders' equity

Distribution of shares 31.12.2006	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	7 000
Share capital increase	0	0
Share capital 31.12.	7 000	7 000
Share premium account 1.1.	1 116	1 116
Change in share premium account	0	0
Share premium account 31.12.	1 116	1 116
Treasury shares fund 1.1	0	721
Cancellation of treasury shares fund	0	-721
Treasury shares fund 31.12	0	0
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.	21 805	20 531
Dividends	-613	-613
Cancellation of treasury shares fund	0	721
Treasury shares from investments	0	-721
Profit for the year	4 140	1 888
Retained earnings 31.12.	25 332	21 805
Shareholders' equity, total	33 459	29 932

The distributable equity of the parent company is EUR 25,332 thousand in 2006 (EUR 21,805 thousand 2005)

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 6,5 /share; EUR 440 thousand.

Notes to Parent Company Financial Statements:

(EUR 1,000)	2006	2005
15. Liabilities		
Non-current liabilities		
Bank loans	11 894	11 723
Pension loans	0	2 422
Non-current liabilities, total	11 894	14 145
Current liabilities		
Next year's repayments		
Bank loans	3 273	1 723
Pension loans	0	404
Total	3 273	2 126
Other current liabilities		
Advances received	30	0
Trade payables	3 748	3 397
Trade payables to group companies	1 458	1 620
Trade payables, total	5 236	5 017
Other current liabilities	3 315	1 772
Other current liabilities to group companies	757	720
Other current liabilities, total	4 072	2 492
Accrued liabilities on personnel expenses	2 735	2332
Interest and financing accruals	143	130
Royalties	80	68
Residual expenses	439	194
Other accrued liabilities	10	115
Accrued liabilities to group companies	0	31
Accrued liabilities, total	3 407	2870
Liabilities, total	27 882	26 649

Changes and repayments on long-term loans	2006		2005	
	Bank loans	Pension loans	Bank loans	Pension loans
Loans 1.1.	11 723	2 422	13 446	2 825
Increases	2 422	0	0	0
Repayments	-2 251	-2 422	-1 723	-403
Loans 31.12.	11 894	0	11 723	2 422

Repayments	2007	2008	2009	2010	2011	2012-
Finance loans	2 273	2 273	2 273	4 507	1 316	1 524

Notes to Parent Company Financial Statements:

(EUR 1,000)	2006	2005
16. Pledges granted and contingent liabilities		
Debts secured by mortgages		
Pension loans	0	2 826
Property mortgages	0	2 478
Corporate mortgages	0	0
Bank loans	15 167	13 446
Property mortgages	11 548	9 071
Corporate mortgages	3 869	3 868
Shares pledged	4	13
Total mortgages	15 421	15 429
Other pledges		
Guarantees as security for rents	97	58
Guarantees given on behalf of companies in the same group.	2 057	2 635
Collateral granted on behalf of others		
Guarantees	104	102
Leasing commitments		
falling due within 12 months	742	702
falling due after 12 months	640	609
Total	1 382	1 311
Repurchase sureties	161	192
Other commitments		
Rent commitments	7 712	8 953

Board of Directors' proposal for the distribution of profit

The parent company's distributable funds are EUR 25,331,943.53, of which the profit for the financial year is EUR 4,140,208.12.

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

- distribution of a dividend of EUR 0.25 per share, totalling	EUR 1,021,975,00
- to be left in shareholders' equity	EUR 24,309,968,53

Helsinki, 14 February 2007

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, 15 February 2007
Reino Tikkanen
Authorised Public Accountant

Auditor's report

To the shareholders of Martela Oyj

I have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Martela Oyj for the period January 1 – December 31 2006. The Board of Directors and the Managing Director have prepared 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, as well as the report of the Board of Directors and the parent company´s financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company´s balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, I express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

I conducted my audit in accordance with Finnish Standards on Auditing. Those standards require that I perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of my audit of the administration is to examine whether 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 defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

In my opinion the parent company´s financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company´s financial statements give a true and fair view of the parent company´s result of operations and of the financial position.

In my opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company´s financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company´s 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 disposal of distributable funds is in compliance with the Companies Act.

Helsinki, 15th February 2007
Reino Tikkanen
Authorised Public Accountant

Acu personal audio system, *design Pekka Toivola*

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