2007
ANNUAL REPORT

Martela

Contents

Martela in brief

Martela designs and supplies interior solutions for working environments and public spaces. Martela's objective is to offer its customers and partners the best service in the business and high-quality, ergonomic and innovative products. Fast deliveries and an efficient delivery network help Martela to attain its objective.

Martela is the largest company in its sector in Finland and one of the three largest in the Nordic countries. Martela also offers a wider range of services that support the maintenance and modification of interior solutions than anyone else. In Finland, Martela offers a comprehensive service that can cover the entire process of change from initial inventory and design to removal and maintenance.

Martela is a family company founded more than 60 years ago and its shares are quoted on the OMX Nordic Exchange Helsinki. The company has production facilities in Finland, Sweden and Poland. Our main markets include the regions around the Baltic Sea and Norway, the Netherlands, Ukraine, Hungary and Japan.

In 2007, Martela Group's turnover was EUR 128.4 million and it employed an average of 663 employees.

The year in Brief

		2007	2006
Revenue	€ million	**128.4**	119.7
Growth in revenue	%	**7.3**	17.1
Operating profit	€ million	**8.3**	4.5
– as a percentage of revenue	%	**6.4**	3.8
Pre-tax profit	€ million	**7.6**	3.7
– as a percentage of revenue	%	**5.9**	3.1
Return on investment		**19.6**	11.0
Balance sheet, total	€ million	**63.8**	59.1
Equity ratio	%	**46.7**	42.4
Earning/share	€	**1.3**	0.7
Equity/share	€	**7.2**	6.1
Dividend/share	€	**0.50***	0.25
Capital expenditure	€ million	**3.2**	1.8
Average personnel		**663**	626
– change %		**5.9**	2.6

* Proposal of the Board of Directors

Combo, *design Iiro Viljanen*

Managing Director's Review

A year of profitable growth

Martela's year 2007 went largely according to plan. Our revenue increased by 7.3 per cent and profitability improved markedly. This progress was largely the result of our efforts to develop the various parts of the company. Our collection, operations and information systems, for example, are now mostly harmonised across the units in respective countries. This work has taken years and has provided us with a very solid basis for improving profitability and future development. We are in a very good position regarding the future.

A favourable situation continued in our main markets. Growth continued to be especially strong in Poland, Sweden and Norway. This suits Martela's plans well because nearly two-thirds of our business takes place in Finland and it is our goal to reduce the company's dependence on the Finnish market.

We already enjoy a very high market share as an office furniture supplier in Finland, and in fact seek growth from a wider range of services and school, elderly care, restaurant, hotel and auditorium furniture. In Scandinavia, our sector is somewhat narrower than in Finland and our goal is to expand as a furnisher of workstations and especially surroundings.

We also have a very strong position on the rapidly growing Polish market. We have seven sales offices and a local logistics and procurement centre, which provide us with a good opportunity to become the leading office furniture manufacturer in Poland. What is more, the Polish company provides us with access to Hungary and Ukraine, where we operate via our importers.

Other important export countries include Russia, Estonia, Japan and certain countries in western Europe. We are seeking export growth especially from surroundings furniture. At the international Milan Furniture Fair in April we will again introduce new space furniture products from established designers.

A comfortable working environment is a productive one

Companies are increasingly aware of the benefits to be obtained from changing your working position. We further expanded our ergonomic collection in early 2008, and the challenge we now face lies in convincing our customers that it is worthwhile to invest in a comfortable working environment. Research shows that such investment pays off in improved performance and lower sickness costs.

Continued improvements in quality have benefited our customers and increased our productivity. Producing good quality requires continued investment and effort and hence it is a part of everyone's job at Martela. Our goal is to be a top b-to-b seller. We made significant progress towards this goal in 2007 and received very positive feedback from our customers. We have also made internal progress: the results from our personnel satisfaction survey were the best ever.

In recent years environmental matters have received much attention in the media, and for good reason, too. At Martela, we have paid continued and long-term attention and responsibility. Furniture recycling – where we are the leader – is an example.

The outlook for Martela continues to be favourable: the pace of office building is brisk and demand is expected to be stable. We are dependent on our operating environment and the unstable world economy, and changes in trends may also affect demand in our sector. For 2008, our goal is to continue to improve profitability.

I wish to express my warmest thanks to our customers, personnel, partners and shareholders for their fine cooperation during the year.

Martela Head Office, February 2008

Heikki Martela
Managing Director

Our challenge is to convince our customers that it's worthwhile to invest in a comfortable working environment. Research shows that investment in the working environment pays off in better performance and lower sickness costs.

***Skybar,** design Geir Sætveit*

people behind

Arco, *design Mikko Halonen*

quality

At Martela, quality means that every day we do our job better than the day before and we get it right the first time. Our most important indicator of quality is that we at least meet and preferably surpass customers' expectations.

Business review

Finland

Market leader seeks growth from comprehensive services

The Group's revenue in the Finnish market was EUR 85.5 million (82.9), 67 per cent of consolidated revenue. Invoicing in Finland increased by about 3 per cent. In 2007, Martela employed an average of 518 people (501) in Finland. Martela is the clear market leader in its sector in Finland.

Business Area Finland is responsible for sales and marketing, service production and manufacturing, and development and support. During the year profitability was successfully improved. The market position is estimated to have remained unchanged in the focus areas of operations, which are solutions combining services and furniture for offices and their surroundings, schools and elderly care facilities. The Business Area employed 299 people.

Martela's market leadership is based on its ability to offer solutions that provide tangible support to and enhance the efficiency of customers' operations. The cornerstones of this competitive edge are extremely experienced and competent staff, a profound understanding of customers' needs, a comprehensive service network, a widely modifiable collection, tailored customer solutions, and fast and reliable delivery.

The company has an extensive sales and service network that covers the whole of Finland. There are a total of 23 service locations, nine of which are Martela's while the other 14 are entrepreneur-driven Martela centres.

Services to support change

The service concept has been developed to cover increasingly larger entities. The aim is to offer solutions with which customers can easily and effectively manage change. The services can include office design, a survey and inventory of the existing office, collection and recycling of old furniture, removal services in connection with furniture projects, furniture maintenance services and the Martela rental service. Long-term Martela rentals include flexible replacement of furniture when needs change.

Customer solutions have been integrated between sales and customer service and the Nummela logistics centre. Needs are determined with the customer and defined and communicated to the logistics centre, which manages service production and assembly, and the logistics of ready products that supplement the overall solution.

Products are available in various versions. The assembly of products is highly automated and based on an extensively subcontracted supply of components and fast and reliable deliveries. As production is driven by customer orders, finished products rarely need storing. Correspondingly, service production is based on our own core competence, which is supplemented by an extensive network of trained partners.

Business Area Finland has applied the ISO 9001 standard in quality management since 1997 and the ISO 14001 standard in environmental management since 1999.

Kidex supplies furniture components

Kidex Oy's business idea is to be a contract manufacturer of board-based furniture components such as cabinet and pedestal components and tabletops. The subsidiary's customers include Martela Group companies and also non-Martela furniture manufacturers, especially kitchen and shop furniture manufacturers. The proportion of customers outside the Group was 24 per cent.

The company has been organised as part of the Group's production and logistics function. Its revenue in 2007 was EUR 10.5 million, and the average number of employees was 84.

The company's aim is to strongly increase revenue by being an active contract manufacturer in the Nordic countries. Kidex offers flexible, cost-effective and high-quality services to its customers.

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

P.O. Korhonen, contract manufacturer of chairs

The company is Martela's contract manufacturer for specific chairs, a flexible manufacturer of chair applications and form-pressed wooden chairs in the initial stages of their lifecycle. It is also responsible for the auditorium business and its development as well as auditorium sales in Finland.

The company has been organised as part of the Group's production and logistics function. Its revenue in 2007 was EUR 7.7 million, and the average number of employees was 57.

P.O. Korhonen has held an ISO 9001 quality management certificate issued by DNW since 2000 and an ISO 14001 environmental management certificate since 2001, both of which meet the latest requirements.

Geographical segment Finland (EUR million)	2007	2006	Change %
Revenue	85.5	82.9	3.1
Segments assets	52.3	49.2	
Investments	2.1	1.6	
Average personnel (person)	518	501	3.4

product
design
award

SoftX, *design Julia Läufer and Marcus Keichel*

Scandinavia

Stronger position in Sweden and Norway

The Group's revenue in the Scandinavian market was EUR 26.6 million (22.4), corresponding to 21 per cent of consolidated revenue. Revenue in Scandinavia increased by 18.7 per cent. In 2007, Martela employed an average of 71 people (75) in Sweden and Norway.

The Business Area Sweden and Norway constitutes Martela's second largest market area, in which the Group has achieved a solid market position. The unit's performance improved and growth was good.

The Business Area manufactures and markets furniture for offices and public spaces. Sales in Sweden are handled through 34 dealers. In addition, the company has sales and showroom facilities in Stockholm and Bodafors. Sales was strengthened particularly in the Stockholm region. The company's logistics centre and order handling is situated in Bodafors, Sweden.

The marketing company located in Oslo operates as a support organisation for the Norwegian sales network. Sales in Norway are handled through 30 dealers. In addition, the company has sales and showroom facilities in Oslo, which employ 4 people. Martela has established itself in the Norwegian market and is among the biggest suppliers of office furniture in the country.

Sales to the Danish market are the responsibility of Business Area Export based in Helsinki. Sales in Denmark are conducted via a local importer.

Other areas

Brisk demand in Poland

The revenue from Poland and Eastern Central Europe increased by 32 per cent and was EUR 11.1 million, accounting for 9 per cent of consolidated revenue. The Business Area has 74 employees, all of which are based in Poland.

Business Area Poland is responsible for the sales and distribution of Martela products in Poland and Eastern Central Europe. Its sales centres are in Warsaw, Wroclaw, Katowice, Gdansk, Poznan, Kraków and Łódž. The principal export countries are Ukraine, Hungary, the Czech Republic and Slovakia, in which sales are handled by established dealers.

The demand for office furniture in Poland has been at a good level for a number of years. The market is highly fragmented and there are numerous competing companies. Martela's growth has outpaced the market and the company has strengthened its market position, becoming one of the main office furniture manufacturers in the country.

The Business Area's headquarters are in Warsaw, as is the logistics centre. About 70 per cent of all products sold are the Group's own, and the majority of these are assembled in the company's logistics centre in Poland. The logistics centre manufactures chairs, tables and storage units. The number of products assembled in Warsaw increases every year, as does the proportion of locally procured components.

In 2007 Martela entered the new market segment of auditorium furniture. First year ended with very positive result promising good perspectives for the future.

More international key customers

The main market areas for Business Area Export 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. The Business Area employs 12 people.

The business model in all export markets is founded on authorised distributors, through which products and services are sold to end customers. The selection of export products is broad and covers furniture for offices, surroundings, schools and auditoriums. Some markets have separate distribution channels for specific product ranges.

In 2007 the Business Area continued to focus on overall improvement of customer service, as well as on a more active presence and influence in the main market areas. In Japan, the model based on six authorised importers was replaced by a single importer in October. Both parties to the sole rights sales agreement – Actus Corporation and Martela – are committed to promoting the Martela brand and sales of Martela products in Japan.

Business Area Export is also responsible for the Group's international key customer relationships. The number of international key customers increased and sales continued their strong growth during the year.

In addition, the Business Area's staff provide support in Sweden, Norway and Poland for the sale of products made in Finland.

Demand in the export market remained at a good level but price competition continued to be tight. Thanks to our new products and good service, we were able to maintain and partly improve our market positions in Western and Eastern Europe. In the Japanese market sales were hit by the continuing deterioration of exchange rates and very tight competition.

Geographical segment Scandinavia (EUR million)	2007	2006	Change %
Revenue	26.6	22.4	18.7
Segments assets	8.2	10.0	
Investments	0.8	0.1	
Average personnel (person)	71	75	-5.3

Pinta, *design Pekka Toivola and Iiro Viljanen*

Geographical segment Poland and other areas (EUR million)	2007	2006	Change %
Revenue	16.4	14.4	13.7
Segments assets	6.8	4.4	
Investments	0.3	0.1	
Average personnel (person)	74	50	48.0

Business units

Workstation products

The business unit Office is responsible for the development, product marketing, collection management and product profitability of the Group's workstation furniture. Workstation furniture includes desks and task chairs, storage units and screens.

The organisation has 22 employees in product development, product support and marketing. Product development personnel and the research lab are located in Nummela in connection with the logistics centre, and the rest of the organisation's personnel are based at the company's Helsinki site.

In 2007 Martela introduced the Pinta workstation collection, which is based on a single, uniform range of tabletops with base options to suit specific customer needs. Transition to the Pinta collection was successful in all markets and it was the single most significant product introduction of the year.

Acoustics solutions were presented at the Stockholm Furniture Fair and at numerous events in Finland and other countries. Acoustics variables were illustrated in a special acoustics tunnel that provided audible evidence of the differences between effective and poor noise dampening. The sound-absorbing Stacks screens and Combo cabinets were also a commercial success. Customer trials, development and testing were continued on the Acu workstation loudspeakers, which mask unwished noise by directed sound.

The task chair collection was also updated: Martela introduced the Axia Profit chair, which has an automated back support system to make daily adjustments easier.

The revenue from the service products Martela offers to support the furniture business continued to increase rapidly, and investment was continued in the organisation that provides the services and their marketing. The year 2008 will witness new, significant and interesting products, services and interior concepts.

Surroundings furnishes public spaces

The Surroundings business unit is responsible for furniture for surroundings. These include lobbies, conference rooms and brainstorming rooms, schools, hotels, restaurants, elderly care facilities and auditoriums. The unit's responsibilities cover the entire chain from product development, product marketing, product support and collection management to profitability.

The organisation has 10 employees in product development, product support and marketing. Numerous designers from Finland and abroad are engaged in developing the collection.

The Surroundings business unit serves all Group sales companies. In accordance with Group strategy, its objective is to substantially increase sales in all sales areas to make Martela a leading supplier of furniture for public spaces, especially surroundings.

Several new products were introduced during the year under review, such as the SoftX chair from the Berlin-based designers Julia Läufer and Marcus Keichel, which won the international iF design award in 2008. Other new chairs included Samuli Naamanka's Sides, Timo Saarnio's Strip and Stefan Lindfors' Menu, which was launched in Milan in April.

Martela's strategic goal is to expand its business to become a leading hotel and restaurant furnisher. In June, the Parliament of the self-governed region of Aland in western Finland selected the Menu chair for its restaurant, and in September Martela took part in the Design Partners event in Helsinki, where it furnished the restaurant.

Work on developing the collection will continue in 2008. The goal is to conform Martela's product range to the segments defined in its strategy and ensure they are considered attractive by the desired target groups.

The Group's product development, collection management and product marketing is divided into two business units: Office workstation furniture and Surroundings furniture for surroundings and other public spaces.

Quality is polished details

For architect **Malgorzata Grzyb,** work is a passion and every project is important, no matter whether it is big or small. Her job as head of design is to help customers with the design of offices and surroundings at the Warsaw sales centre.

"Our work is like putting a puzzle together – we must focus on the smallest of details to build the perfect solution to the customer's specifications. Every employee plays a role in this."

Movie, *design Rane Vaskivuori/ Valvomo*

Marketing highlights in 2007

Stockholm Furniture Fair

Martela's theme was acoustics at the Stockholm Furniture Fair in February. Our stand included a tunnel with acoustic screens to illustrate the importance of good acoustics. In addition to acoustic screen and cabinet solutions, we introduced the Pinta workstation series by Pekka Toivola and Iiro Viljanen. New space furniture products included Julia Läufer and Marcus Keichel's SoftX chairs and Samuli Naamanka's Sides chair.

Salone Internationale del Mobile

In April, Martela took part in Milan's Salone Internationale del Mobile (Milan Furniture Fair), one of the most important fairs in the business. The main attractions were Stefan Lindfors's Menu chairs, designed especially for restaurants, and Samuli Naamanka's Sides chairs, which are made with recycled aluminium. The designer was inspired to use recycled aluminium by a news article on aluminium from Soviet fighters, which is being imported to Finland for processing. In fact, the Martela gallery was presented under the theme 'Soviet Fighters'.

New website and campaigns activated customers

Martela refurbished its website in 2007. The goal was to improve customer service with more useful product information and also to improve the overall usability of the website.

Our marketing campaigns dealt with topical issues. The goal of the Finnish campaign was to tell customers of the benefits of Martela's service entity. In Poland, we focused on the 'Healthy Office' theme and emphasised the importance of ergonomics at the workplace. Martela put on a wide and varied range of exhibition premiers, design events and seminars in its main markets.

Quality and the environment

Durable and environmentally friendly quality

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

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

Det Norske Veritas conducts regular audits to oversee Martela Oyj's compliance with the standards ISO 9001:2000 and ISO 14001:2004 in quality and environmental management. Martela Oyj's environmental system certification, which also covers Kidex Oy's operations, will be valid until the end of 2008. Martela AB and P.O. Korhonen Oy have their own quality systems which are certified separately.

The objective of quality management in 2008 is to improve the efficiency of processing customer feedback and that of internal audit, and to build a quality system for Martela's Polish subsidiary. The environmental management objective is to harmonise the environmental indicators and monitoring procedures used in the various units.

Martela has paid particular attention to the recycling and potential re-use of discarded furniture by offering recycling services to customers.

Customer needs drive product development

Product development is about designing, testing, measuring and conforming to standards. On average, every product is the result of two years of hard development work.

"The goal of product development is to develop products that meet customers' needs and expectations. Customers expect style, quality and durability from Martela. This is why we invest in design and choose only dependable component suppliers and partners. We take no chances with quality," says **Mika Hillberg,** project manager at the Nummela product development unit.

James, *design Iiro Viljanen*

Personnel

Objective: skilled and motivated employees

Martela's success depends on skilled, motivated and committed personnel. For this reason, personnel matters play a critical role in the Group. Various training programmes were organised in 2007 to promote competence and new skilled employees were also hired. Several development projects were initiated during the year, the purpose of which was to boost productivity and efficiency and the meaningfulness of work.

Employee training at Martela

In 2007, Martela Oyj employed an average of 377 people. Recruitment of both permanent and temporary staff was brisker than in previous years. Hired labour was also used to deal with seasonal variation.

The chosen development focus for 2007 was employee skills, because good performance requires not only good managerial skills but also competent employees. All salaried employees, including supervisors, took part in the training, entitled 'Skilled employee: how to manage your boss and succeed as an employee'.

The planning of a special vocational management programme (JET) and a vocational programme for communications and logistics was started in the spring. Both programmes were launched in late 2007. Internal product and service training was organised extensively. Development of management skills was also continued.

A personnel survey was conducted in the autumn and the results were the best ever, with improved marks throughout. The survey covered the entire Group.

P.O. Korhonen to become a specialised plant

In 2007, P.O. Korhonen employed an average of 57 people. P.O. Korhonen's transition into a special product plant was supported with a development project funded by Tykes, the Finnish Workplace Development Programme. All staff took part to the project. Re-auditing of the international Investors in People (IiP) human resources certificate awarded to the company in 2003 was also carried out in September.

Kidex improved efficiency and flexibility

In 2007, Kidex Oy employed an average of 84 people. During 2007, Kidex's key development targets were improving production efficiency, enhancing the flexibility of the production capacity and strengthening sales. At the end of the year Kidex made a local agreement on implementing a flexible working hour system from the beginning of 2008. The training of salaried employees focused on their employee and supervisor skills.

Development projects in Sweden, Norway and Poland

The average staff in Sweden and Norway was 71 and in Poland 74 in 2007. Favourable development and strong growth continued in Sweden and Norway. The new Managing Director started work in August. The production improvement project progressed in steps and work was continued with self-guiding teams.

In Poland the focus was on improving the sales organisation and processes, and training. A new sales office was opened in Łódž.

Outlook for the near future

Developing the performance review process and incentive principles are the Group's personnel focuses in 2008. Attention will also be paid to the availability of labour and Martela's image as an employer. The next internal, Group-wide survey will concern supervisors. In Finland, the focus is also on improving skills and the efficiency of the recruitment process and developing a working hour bank.

A new business plan and objective programme will be initiated in Sweden and Norway in 2008. Work will also continue to improve production efficiency with self-guiding teams and an associated salary system. Marketing and sales will be reinforced and their goal-orientation improved.

An intensive customer management training programme will be implemented in Poland. This will concentrate on the new sales process and customer management. Supervisors' leadership skills will also be improved. Staff will be motivated to support the strong growth of the company by expanding the target group of the performance-based bonus system. Training and motivation systems will gradually be extended to cover the partners in countries that come under Business Area Poland.

Developing the performance review process and incentive principles are the focus in 2008.

We all make a difference

Every production employee contributes to quality assurance. "At Martela we understand that production is as efficient as its weakest link. Every job affects the following one and every stage must be completed so that no patching-up is needed afterwards. Quality leaves no room for flexibility," says **Piia Pääkkönen,** pedestal assembler at the Nummela plant.

***Cupio,** design Iiro Viljanen*

Corporate governance

Martela Oyj is a Finnish limited liability company that is governed in its decision-making and management by Finnish legislation, especially the Finnish Limited Liability Companies Act, other regulations concerning public listed companies, and its own articles of association. The company complies with the OMX Nordic Exchange Helsinki's Guidelines for Insiders and the Corporate Governance Recommendation for Listed Companies issued by OMX Nordic Exchange Helsinki, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers, which came into force on 1 July 2004, excluding the exceptions indicated in the text.

Organisation

Martela Group's business idea is the furnishing of offices and public premises, and the provision of related services. The Group is managed according to both its operational organisation and legal Group organisation. The Group's management is based primarily on an operational matrix organisation. Its sales operations and customer service are organised by market area as follows:

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

In Finland and Poland, sales are carried out primarily through regional direct sales organisations. In Finland, direct sales are supported by entrepreneur-driven Martela Centres which promote Martela products and services exclusively. These centres are closely integrated with Martela's operations.

In Sweden and Norway, sales are organised through a dealer network. Local importers are primarily used in the other export markets.

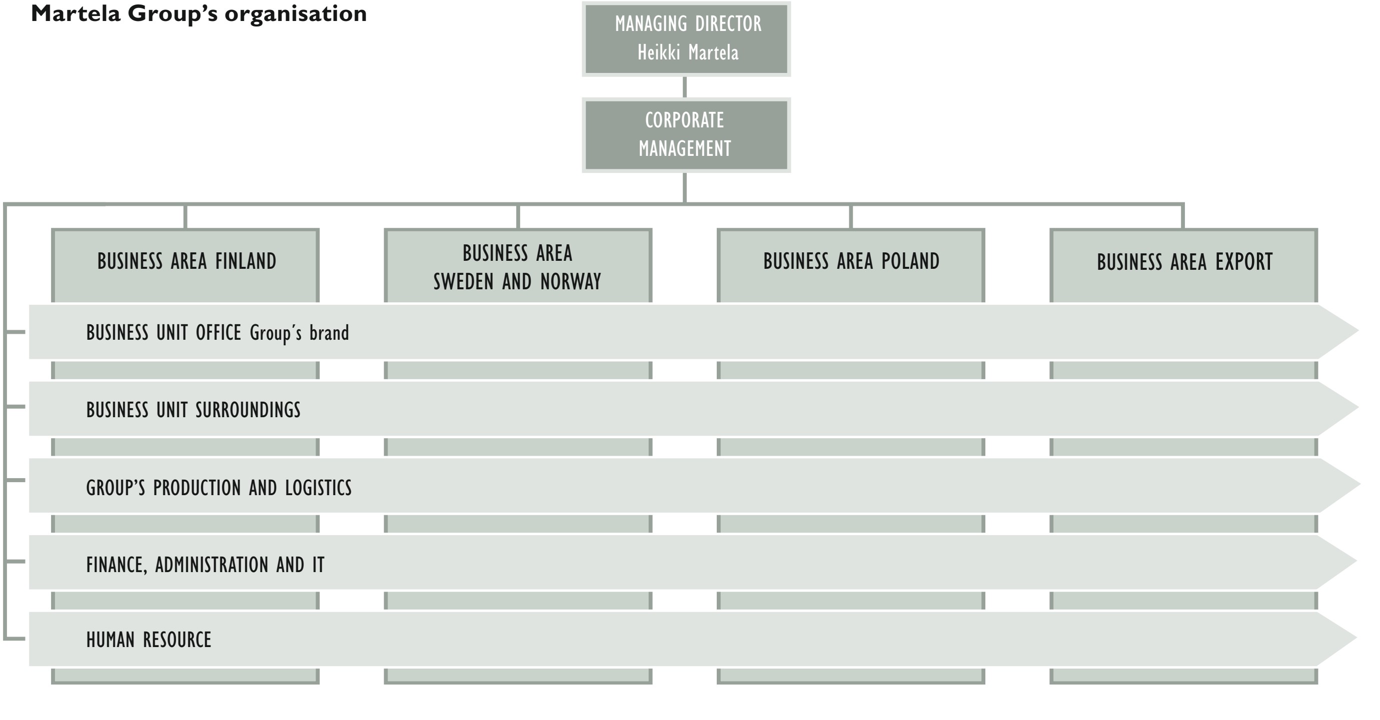
The market-area-specific organisations are co-ordinated by Group-level processes. They are:

- Marketing; Group level marketing, brand
- Business Unit Office; product development and collection management for workstations
- Business Unit Surroundings; product development and collection management for surroundings, schools, auditoriums and other public premises
- Production and logistics; production management principles, technology, Group procurement, quality and environment, P.O. Korhonen Oy and Kidex Oy manufacturing plants in Raisio and Kitee
- Human resource: HR practisies of the Group, competence development
- Financial administration and IT; Group financial planning and reporting, Group IT solutions

Manufacturing takes place on an order-driven basis. Management of the supply chain and product assembly 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. The logistics centres are supported by an extensive network of subcontractors. The components and products needed by the centres are produced also at Group plants in Kitee and Raisio.

Kidex Oy is a contract manufacturer of wood-based components and roughly a quarter of its production goes to customers outside the Group. P.O. Korhonen manufactures form-pressed wooden furniture for public spaces and auditorium furniture.

Martela Group's organisation



It's your attitude that counts

"Our goal is a satisfied customer. We must do our job so well that the customer wants to come back for more Martela products and services," says **Vesa Granlund,** service manager with 21 years of experience. It is Vesa's job to make sure there are no hiccups with comprehensive services in Oulu. Orders vary from coordinating office design to organising removals and installing new furniture.

"It's your attitude that counts. The Martela way is to work fast and provide friendly services, even in difficult cases. We never leave things unfinished, and if a customer complains, we try to settle the matter immediately."

Pinta, *design Pekka Toivola and Iiro Viljanen*

Annual General Meeting

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

Board of Directors

The Board of Directors, elected by the Annual General Meeting, is responsible for the management and proper arrangement of the operations of the company in compliance with the Limited Liability 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 may be 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. The Martela Oyj staff are represented on the Board by one representative and one deputy. Both staff representatives attend the Board's meetings. The staff elects 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 a Charter, which defines the duties of the Board, its meeting practice, the matters to be dealt with at meetings, the Board's targets for its activities, a self-evaluation of these activities, and the Board's committees.

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

- Strategies of the Group, its business units and processes
- Consolidated financial statements and interim reports
- Group operating plans, budgets and investments
- Business expansion and reduction, acquisitions and divestments
- Risk management policy and principles of internal control
- Appointment and discharge of the managing director
- Composition of the Group management team
- Management's bonus and incentive plans
- Approval and regular review of the principles and systems of corporate governance
- Appointment of committees and their reporting

The Board convened nine times in the financial year. The average attendance of Board members was 96 per cent.

The Board has evaluated the independence of the directors and determined that Heikki Ala-Ilkka, Tapio Hakakari and Jori Keckman are independent of the company . In this respect the Board diverges from section 17 of the Corporate Governance Recommendation, under which the majority of Board members should be independent of the company. Heikki Ala-Ilkka, Tapio Hakakari, Jori Keckman and the staff representatives Matti Lindström and Raimo Santala are independent of the largest shareholders.

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

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

In 2007, the Board's Compensation Committee comprised Heikki Ala-Ilkka, Jaakko Palsanen and Tapio Hakakari. The Committee met six times in 2007.

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 service contract. The Managing Director is responsible for the operational management and supervision of the parent company and the Group according to the guidelines set by the Board.

Group Management Team

The Board of Directors and the Managing Director appoint the members of the Group Management Team. The Managing Director of Martela Oyj acts as the Chairman of the Group Management Team. The directors responsible for the main market areas and the Group's processes are also represented in the Group Management Team. The Group Management Team prepares and reviews strategies, budgets and investment proposals, monitors the financial situation of the Group, its business units and processes, and the attainment of operational 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 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 a month to evaluate the financial performance, outlook and risks of the Group and its business units.

Martela's hallmark

The delivery chain must run smoothly to ensure that goods make it to the customer intact and on time. Furniture technician **Vesa Huttunen** is Martela's hallmark. He is responsible for the quality customers see every day. He visits 5 to 15 customers daily.

"Faultless and intact deliveries are a joy to install. Usually, customers are delighted with our speed and that we tidy up before we leave. Of course, it's impossible to avoid accidents. When they happen, you have to do your best to fix it as soon as possible. I think providing good service when there is a problem is the best indicator of quality."

***U-turn,** design Geir Sætveit*

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 Finance Director. The auditors of Martela Oyj and the Group are the authorised public accountants KPMG, with Mr Reino Tikkanen, Authorised Public Accountant, as the principally responsible auditor. All the auditors of the Group's companies are in the KPMG chain. In 2007, a total of EUR 103 thousand was paid for the Group's auditing, while EUR 41 thousand was paid for other services.

Internal control and risk management

Internal control is the responsibility of the Board of Directors and the executive management. The objective of internal control is to ensure the efficiency and profitability of operations, the reliability of information, compliance with 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 function has not been deemed appropriate. The audit plans of the company's auditors take into account the fact that the company has no internal audit, and extend audit to include the functioning of the internal control system.

Martela's Board of Directors has confirmed the 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 and management.

In the Group, risks are analysed and decisions are made to manage these risks as a part of the regular monitoring carried out by the Board and the management teams as described above. Risks are also evaluated when planning and making decisions on significant projects and investments. Risk management is integrated in the strategy process as a separate stage of analysis. There is no separate risk management organisation, but the associated responsibilities are assigned 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 2007 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 in 2007 were EUR 290 thousand. In addition, the Managing Director was paid a total of EUR 57 thousand in profit and share bonuses. The Managing Director may retire on a full pension at the age of 60 years. The period of notice of termination of contract is six months for both the Managing Director and the company, and if the company gives notice of termination of contract, the Managing Director is entitled to one-off compensation equivalent to 18 months' salary.

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

The Managing Director, Group management and certain key persons participate in a long-term share-based incentive plan. The plan offers Martela's A shares when the targets set for the specified earnings period are achieved. The earnings periods are the calendar years 2007, 2008 and 2009. Any reward paid on the basis of the share reward system will be paid after the end of a period as a combination of shares and cash. The maximum bonus for the whole system is 153,000 Martela Oyj A shares and cash to the amount needed to cover taxes and similar charges, estimated to approximate 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. See the notes to the financial statements for information on the share-based incentive plan's effect on the result for the year.

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

Insider administration

Martela complies with the Guideline for Insiders published by OMX Nordic Exchange Helsinki. The following are considered as insiders subject to disclosure requirements: the members of the Board of Directors, the Managing Director, the auditor, and the members of the Group's management team. Company-specific permanent insiders are people working in supervisory or expert duties in the Group, the execution of which requires regular access to information regarding the financial situation and outlook of the Group and its business units. If needed, project-specific insider registers can be drawn up. Martela's Board of Directors has decided that the above-mentioned permanent 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 Oyj has joined the SIRE system maintained by the Finnish Central Securities Depository Ltd and up-to-date information on the holdings of the insiders subject to the disclosure requirement is available on the Martela website.

Largo, *design Iiro Viljanen*


Heikki Ala-Ilkka


Pekka Martela


Tapio Hakakari


Jori Keckman


Matti Lindström


Heikki Martela


Jaakko Palsanen


Raimo Santala


Mats Danielsson

Martela Group's Board of Directors

CHAIRMAN OF THE BOARD
Heikki Ala-Ilkka, born 1952, M.Sc. (Econ)
Chairman of the Board of Martela Oyj since 2003,
Member of the Board since 2002.
Chief Financial Officer of Onninen Oy since 1996.
Other key duties: Board member of Design Combus Oy.
Owns 7 500 Martela Oyj A shares.

VICE CHAIRMAN
Pekka Martela, born 1950, M.Sc. (Econ)
Vice Chairman of the Board of Martela Oyj since 2003,
Member of the Board since 1981,
Chairman of the Board 2002–2003, Vice Chairman of the Board 1994–2001.
Managing Director of Marfort Oy since 2002.
Other key duties: Board member of Marfort Oy.
Owns 69 274 Martela Oyj K shares and 8 Martela Oyj A shares.

BOARD MEMBERS
Tapio Hakakari, born 1953, LL.M.
Member of the Board of Martela Oyj since 2003.
Other key duties: Member of the Boards of Cargotec Corporation, Etteplan Oy, Havator Oy and Suomen Autoteollisuus Oy, and Chairman of the Boards of Esperi Care Oy and Enfo Oyj.
Owns 25 200 Martela Oyj A shares.

Jori Keckman, born 1961, M.Sc. (Econ)
Member of the Board of Martela Oyj since 2000.
Managing Director of Lundia Oy since 2003.
Other key duties: Board member of Oy Unicafe Ab.
Owns 1 000 Martela Oyj A shares.

Matti Lindström, born 1948, Packer, Chief Shop Steward
Member of the Board of Martela Oyj and Personnel Representative since 2005 and 1993–1996, Deputy Personnel Representative 2002–2004.
At Martela since 1966.
Does not own any Martela Oyj shares.

Heikki Martela, born 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 duties: Member of the Board of Marfort Oy.
Owns 52 122 Martela Oyj K shares and 106,234 Martela Oyj A shares.

Jaakko Palsanen, born 1944, M.Sc. (Eng.)
Member of the Board of Martela Oyj since 1993.
Other key duties: Member of the Board of Coloured Wood Products Oy
Owns 2 000 Martela Oyj K shares and 83,868 Martela Oyj A shares.

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

SECRETARY TO THE BOARD
Mats Danielsson, see Management Team

Management Team of Martela Group

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

Panu Ala-Nikkola, born 1965, M.Sc. (Econ)
Director, Business Area Finland
Responsibilities: Sales, production and logistics in Finland.
At Martela since 2001.
Owns 3 400 Martela Oyj A shares.

Mats Danielsson, born 1969, M.Sc. (Econ)
Finance Director
Responsibilities: Group financial administration and IT.
At Martela since 2007.
Owns 2 000 Martela Oyj A shares.

Piotr Fic, born 1968, M.Sc. (Pharm)
Director, Business Area Poland
Responsibilities: Sales, production and logistics in Poland and its neighbouring areas.
At Martela since 2005.
Does not own any Martela Oyj shares.

Petteri Kolinen, born 1963, MA
Director, Business Unit Surroundings
Responsibilities: Surroundings furniture
At Martela since 2007.
Does not own any Martela Oyj shares.

Ilkka Koskimies, born 1955, M.Sc. (Econ)
Director, Business Unit Office
Responsibilities: Workstation furniture and Group brand
At Martela since 1990 (excluding 1999).
Does not own any Martela Oyj shares.

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

Anders Olsson, born 1965, Engineer
Director, Business Area Sweden and Norway
Responsibilities: Sales, production and logistics in Sweden and Norway.
At Martela since 2007.
Does not own any Martela Oyj shares.

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

Veli-Matti Savo, born 1964, Engineer
Director, Business Area Export
Responsibilities: sales to other European countries, Russia, Japan and other markets
At Martela since 2002.
Does not own any Martela Oyj shares.

Auditors

Reino Tikkanen, Authorized Public Accountant, KPMG Oy Ab
Deputy: KPMG Oy Ab

"Our work is like putting a puzzle together – we must focus on the smallest of details to build the perfect solution to the customer's specifications. Every employee plays a role in this."

Architect Malgorzata Grzyb, sales centre, Warsaw

"The goal of product development is to develop products that meet customers' needs and expectations. Customers expect style, quality and durability from Martela. This is why we invest in design and choose only dependable component suppliers and partners. We take no chances with quality."

Project manager Mika Hillberg, Nummela product development unit.

"At Martela we understand that production is as efficient as its weakest link. Every job affects the following one and every stage must be completed so that no patching-up is needed afterwards. Quality leaves no room for flexibility."

Pedestal assembler Piia Pääkkönen, Nummela plant

"It's your attitude that counts. The Martela way is to work fast and provide friendly services, even in difficult cases. We never leave things unfinished, and when a customer complains, we try to settle the matter immediately."

Service manager Vesa Granlund, sales unit, Oulu

"Faultless and intact deliveries are a joy to install. Usually, customers are delighted with our speed and that we tidy up before we leave. Of course, it's impossible to avoid accidents. When they happen, you have to do your best to fix it as soon as possible. I think providing good service when there is a problem is the best indicator of quality."

Furniture technician Vesa Huttunen,
Service production Helsinki

FINANCIAL STATEMENTS **2007**

Contents of the financial statements

Information for shareholders

Annual General Meeting

The Annual General Meeting of Martela Oyj will be held on Tuesday, 1 April 2008, starting at 3 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 20 March 2008, and the shareholders should register with Johanna Suhonen at the Company's head office, tel. +358 (0)10 345 5301, fax +358 (0)10 345 5345, or by post to Martela Oyj, PL 44, FI-00371 Helsinki, no later than 4.30 p.m. on 27 March 2008.

Payment of dividends

The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.50 per share is to be distributed for the year ended 31 December 2007. Only shareholders registered in the shareholder register maintained at the Finnish Central Securities Depository Ltd on the record date for dividend payment, 4 April 2008, will be entitled to the dividend proposed by the Board. Dividend payments will be made on 11 April 2008.

Publication of financial information

Martela will publish three interim reports in 2008:

January–March (Q1) on 23 April 2008
January-June (Q2) on 6 August 2008
January-September (Q3) on 22 October 2008

Martela's Annual and Interim Reports are available in Finnish and English on the Group's websites www.martela.fi and www.martela.com. Annual reports are mailed to all shareholders.

Annual reports may also be ordered from:
Martela Oyj, Takkatie 1, P.O. Box 44, FI-00371 Helsinki.
Telephone +358 (0)10 345 5301, fax +358 (0)10 345 5345,
or email info@martela.fi

Stock exchange releases will be published on the Martela Group's website immediately following publication. All stock exchange releases published during a financial year are available on the website in chronological order.

***Menu,** design Stefan Lindfors*

Board of Directors' Report

The market situation has continued to be favourable and both revenue and profit have improved according to plan. Revenue was EUR 128.4 million (119.7) in 2007, showing an increase of 7.3 per cent on the previous year. Profit grew to EUR 8.3 million (4.5) and was 6.4 per cent of revenue (3.8). The improvement was partly due to capital gains from the sale of assets totalling EUR 2.5 million (1.1). The financing position remained solid and the equity-to-assets ratio increased to 46.7 per cent (42.4).

Market situation

The market situation improved in all of the Group's main market areas, with especially strong increase in invoicing in Sweden, Norway and Poland.

Group structure

No changes took place in the Group structure in 2007. As this was the case also in 2006, the Group structure and financial statements figures are comparable.

Segment reporting

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

Revenue

Revenue for 2007 rose to EUR 128.4 million (119.7), an increase of 7.3 per cent. All of the Group's main market areas contributed to the increase.

Revenue rose to EUR 85.5 million in Finland, an increase of 3.1 per cent. In Scandinavia, revenue rose to EUR 26.6 million, an increase of 18.7 per cent.

Revenue in the Polish market rose to EUR 9.8 million (7.4), showing an increase of 33.8 per cent. In Poland, the company has an assembly plant and also sales centres in seven locations. A new centre was opened in Łódž in 2007.

Group result

Profit before taxes was EUR 7.6 million (3.7) in 2007. Capital gains from the sale of assets totalling EUR 2.5 million (1.1) contributed to the improvement. Profit improved in all Group units.

Of the capital gains, EUR 1.0 million was recognised in the first quarter and most of it was from the sale of the Bodafors plant. Ownership of the plant property was outsourced and some 50 per cent of the plant's surface area was leased back on a long-term lease. The property at Oulu facility was also divested in the second quarter, bringing EUR 0.9 million in capital gains. Operations in Oulu will continue under a long-term lease.

Operating profit for January-December, excluding non-recurring items, was EUR 5.8 million (3.4), which corresponds to 4.5 per cent (2.8) of revenue.

The taxes recognised in the income statement derive from a decrease in deferred tax assets recognised earlier, paid income taxes and tax refunds from previous years.

Capital expenditure

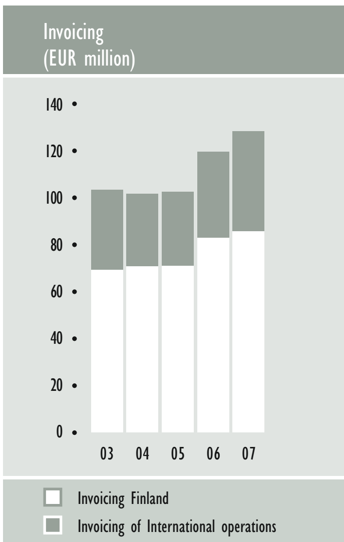
The Group's gross capital expenditure for January-December was EUR 3.2 million (1.8). EUR 0.7 million of this was attributable to the ownership rearrangements at the Bodafors plant, as a result of which the long-term lease liability for the part leased back was recognised in the consolidated balance sheet in accordance with the IFRS. The remaining capital expenditure concerns production replacements and IT investments.

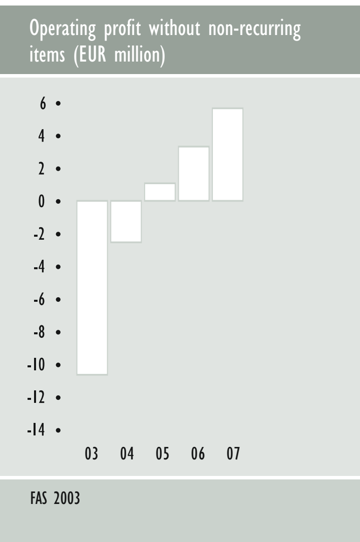
Staff

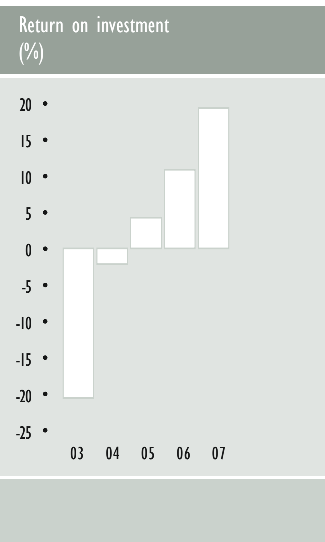
The Group employed 663 (626) people on average, up by 5.9 per cent. In the end of 2007, the Group employed 655 people (632).

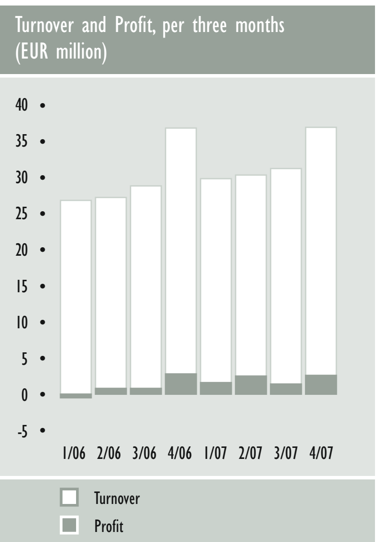
Product development

Product development and collection management are the responsibility of two Group-level organisations: Business Unit Office, which is responsible for workstation furniture, and Business Unit Surroundings, which is responsible for furniture for surroundings and other public spaces.









During 2007, product development employed 22 (21) people and product development expenses accounted for 2.4 (2.1) per cent of revenue.

The Pinta workstation collection was launched at the Stockholm Furniture Fair in the first quarter of 2007. Pinta is based on a single, uniform range of tabletops, with base options to suit specific customer needs. At the Stockholm fair, we also introduced screen and storage solutions that improve acoustics and the SoftX chair designed by Julia Läufer and Marcus Keichel.

In April, the Surroundings business unit introduced new furniture for surroundings at the Milan Furniture Fair in Italy. They included Stefan Lindfors' Menu chair and Samuli Naamanka's Sides chair.

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 purpose of environmental management systems is to reduce the environmental load of products throughout their life cycles, and to increase the re-use and recycling of materials. Martela pays particular attention to the recycling and potential re-use of discarded furniture by offering recycling services to its customers. Martela Oyj's environmental system certification will be valid until the end of 2008 and also covers Kidex Oy's operations. P.O. Korhonen Oy also has its own certified environmental system. Environmental management is discussed in the annual report.

Finance

Cash flow from business operations for January-December was EUR 9.9 million (0.9). Cash flow from investing activities was EUR 0.7 million positive as a result of the sale of property. EUR 1.2 million in loans were granted to Alexander Management Oy to finance the acquisition of shares for a three-year share-based incentive system. Interest-bearing liabilities decreased by EUR 2.7 million from the beginning of the year, and totalled EUR 14.4 million (17.1) at year-end. Liquid assets amounted to EUR 9.7 million (3.9) at the end of the period. The equity-to-assets ratio rose to 46.7 per cent (42.4) and gearing improved correspondingly to 16.0 per cent (53.0).

Shares

During January-December, 1 159 509 (1 076 693) of the company's A shares were traded on the OMX Nordic Exchange in Helsinki, corresponding to 32.7 per cent (30.3) of all A shares. The value of trading was EUR 10.0 million (7.3). The increase was partly caused by the acquisition of shares in the first quarter by Alexander Management Oy for the three-year share-based incentive system. A total of 143 166 shares were acquired for EUR 1.2 million in cash. The value of a share was EUR 6.50 at the beginning of the year and EUR 8.35 at the end of the year. During the review period the share price was EUR 10.35 at its highest and EUR 6.39 at its lowest. At the end of 2007, equity per share was EUR 7.2 (6.1).

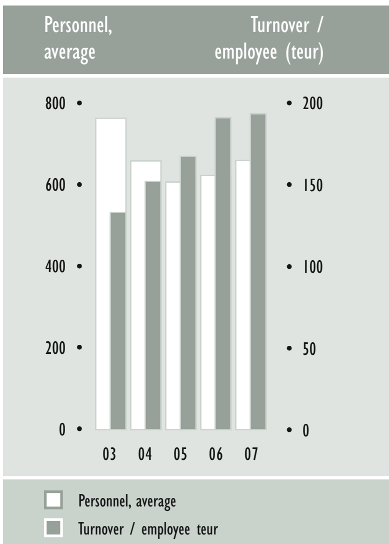
Treasury shares

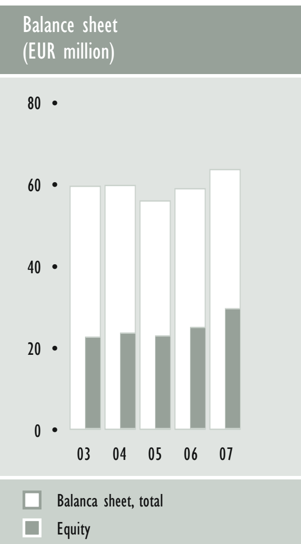
Martela did not purchase any of its own shares for the Treasury in 2007. On 31 December 2007, Martela owned 67 700 of its own A shares, which had been purchased at an average price of EUR 10.65. Martela's holding of treasury shares amounts to 1.6 per cent of all shares and 0.4 per cent of all votes.

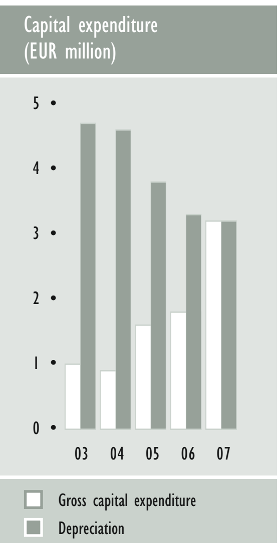
2007 Annual General Meeting

The Annual General Meeting of Martela Oyj was held on Tuesday, 20 March 2007. The AGM adopted the financial statements and discharged those responsible for the accounts from further liability. The AGM decided, in accordance with the Board of Directors' proposal, to distribute a dividend of EUR 0.25 per share. The meeting elected Heikki Ala-Ilkka, Tapio Hakakari, Heikki Martela, Pekka Martela, Jori Keckman and Jaakko Palsanen as members of the Board of Directors for the next term. Matti Lindström was elected as the staff representative and Raimo Santala as his deputy.

Reino Tikkanen, Authorised Public Accountant, was elected as the auditor of the company, with KPMG Oy Ab as the deputy auditor.







The AGM also approved the Board of Directors' proposals detailed in the notice of meeting to authorise the Board to acquire and/or dispose of the company's own shares.

The authorisation applies to the company's A series shares and to a maximum of 5 per cent of the company's share capital or 207 780 A series shares. The shares may be assigned as part of the salary and incentive system, as consideration when the company acquires property associated with its business operations and as consideration in any merger or acquisition, in a way and to the extent decided by the Board of Directors. Assignment of shares can also be carried out in public trading on the OMX Nordic Exchange Helsinki. The authorization is valid for 12 months as of the decision of the Annual General Meeting.

The new Board of Directors convened after the Annual General Meeting and elected Heikki Ala-Ilkka as Chairman and Pekka Martela as Vice Chairman.

Share-based incentive system

On 14 February 2007, Martela's Board of Directors decided on a share-based incentive system for key personnel for 2007–2009. The number of A shares that can be earned through the system depends on the attainment of targets. The maximum bonus for the whole system is 153 000 Martela Oyj A shares and cash to the amount needed to cover taxes and similar charges, estimated to approximate the value of the shares to be paid. The company has outsourced management of the incentive system to Alexander Management Oy, which acquired all the necessary shares from OMX Nordic Exchange Helsinki during the first quarter with a EUR 1.2 million loan granted by Martela.

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.

Risks of damage are covered with appropriate insurance and they provide comprehensive coverage for property, business interruption, supplier interruption loss and loss liability risks. Martela uses the services of an external insurance broker to manage insurance matters.

Finance risks are discussed in the notes to the financial statements.

The principles of risk management are discussed under corporate governance in the annual report.

Events after the end of the financial year

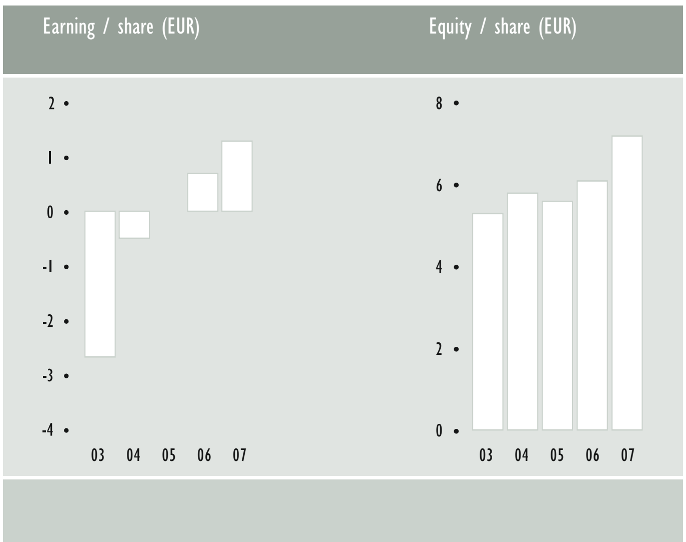
Non-business-related assets were sold in early 2008, which will improve the result of the first quarter by some EUR 0.6 million.

In the beginning of 2008, Martela made a decision to establish a company in Russia. According to its plan, the company will import and market Martela products and promote the Martela brand in Russia. Sales to key customers will take place through the new company directly, and to other customers through the Martela dealer network. Until now, Martela's sales in Russia have taken place from Finland through local dealers.

Outlook for the future

The Group's result for 2008 is expected to improve further on 2007. The outlook is supported by the solid order books of early 2008 and the continuing growth of office building.

Helsinki, 19 February 2008
Martela Oyj
Board of Directors



Invoicing by main market areas (EUR million)

	1-12 2007	%	1-12 2006	%	Change, %
Finland	85.8	66.7%	83.0	69.3%	3.4%
Scandinavia	26.4	20.5%	22.3	18.6%	18.3%
Other regions *	16.5	12.8%	14.5	12.1%	13.7%
Total	128.7	100.0%	119.8	100.0%	7.4%

* Invoicing on the Polish market was EUR 9.8 million (7.4), growth 34%

Quarterly invoicing by main market areas (EUR million)

	1/2006	2/2006	3/2006	4/2006	1/2007	2/2007	3/2007	4/2007
Finland	19.0	18.4	19.5	26.1	19.6	20.7	20.7	24.8
Scandinavia	5.1	4.6	6.2	6.4	6.5	5.9	6.8	7.2
Other regions	2.8	4.3	3.0	4.3	3.9	3.7	3.8	5.1
Total	26.9	27.3	28.8	36.8	30.0	30.3	31.3	37.1

Result by quarter-year (EUR million)

	1/2006	2/2006	3/2006	4/2006	1/2007	2/2007	3/2007	4/2007
Profit before taxes	-0.3	0.6	0.7	2.7	1.5	2.4	1.2	2.4

Key figures (EUR million)

	2007	2006	2005	2004
Revenue	128.4	119.7	102.2	100.7
Change in revenue, %	7.3	17.1	1.5	-1.4
Operating profit without non-recurring items	5.8	3.4	1.1	-2.6
Operating profit without non-recurring items %	4.5	2.8	1.1	-2.6
Return on investment %	19.6	11.0	4.3	-2.2
Return on equity %	19.8	11.4	-0.5	-8.1
Equity ratio %	46.7	42.4	40.8	39.3
Gearing %	16.0	53.0	62.8	56.4
Average staff	663	626	610	662
Revenue/employee, teur	193.7	191.3	167.6	152.2

Average staff by region

	1-12/2007	1-12/2006	Change, %
Finland	518	501	3.4%
Scandinavia	71	75	-5.3%
Poland	74	50	48.0%
Group total	663	626	5.9%

Consolidated income statement

(EUR 1,000)	Note	1.1.–31.12.2007	1.1.–31.12.2006
REVENUE	1	128 445	119 727
Other operating income	2	3 023	1 429
Changes in inventories of finished goods and work in progress		466	124
Raw material and consumables used		-63 136	-59 347
Production for own use		42	47
Employee benefits expenses	3	-28 723	-27 562
Depreciation and impairment	4	-3 231	-3 332
Other operating expenses	5	-28 608	-26 587
OPERATING PROFIT(-LOSS)		8 278	4 499
Financial income	7	165	125
Financial expenses	7	-891	-923
PROFIT (-LOSS) BEFORE TAXES		7 552	3 701
Income taxes	8	-2 165	-977
PROFIT (-LOSS) FOR THE FINANCIAL YEAR		5 387	2 723
Attributable to:			
Equity holders of the parent		5 387	2 723
Minority interest		0	0
Earnings per share for the profit attributable to the equity holders of the parent:			
Basic earnings/share, EUR	9	1,3	0,7
Diluted earnings/share, EUR	9	1,3	0,7

Consolidated Cash Flow Statement

(EUR 1,000)	1.1.–31.12.2007	1.1.–31.12.2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flow from sales	130 833	114 537
Cash flow from other operating income	550	364
Payments on operating costs	-121 090	-113 292
Net cash from operating activities before financial items and taxes	10 294	1 609
Interest paid	-842	-691
Interest received	82	48
Other financial items	-21	-84
Dividends received	1	3
Taxes paid	382	-18
Net cash from operating activities (A)	9 895	867
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure on tangible and intangible assets	-2 256	-1 840
Proceeds from sale of shares in subsidiaries	2 150	0
Proceeds from sale of tangible and intangible assets	2 028	2 992
Loans granted	-1 193	0
Repayments on loan receivables	11	6
Net cash used in investing activities (B)	740	1 158
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans	976	1 783
Repayments of short-term loans	-1 704	-1 546
Repayments of long-term loans	-3 108	-2 689
Dividends paid and other profit distribution	-1 022	-613
Net cash used in financing activities (C)	-4 858	-3 065
CHANGE IN CASH AND CASH EQUIVALENTS	5 778	-1 041
Cash and cash equivalents at beginning of year 1)	3 911	4 963
Translation differences	2	-10
Cash and cash equivalents at end of year 1)	9 691	3 911

1. Liquid funds include cash in hand and at bank, and financial assets at fair value through profit and loss (see notes 20, 21)

Consolidated balance sheet

(EUR 1,000)	Note	31.12.2007	31.12.2006
ASSETS			
Non-current assets			
Intangible assets	10	633	662
Tangible assets	11	14 151	15 784
Investments in associates	12	22	22
Available-for-sale financial assets	14, 15	31	40
Investment properties	13	1 203	1 166
Receivables	14, 16	623	
Pension receivables	26	35	18
Deferred tax assets	17	240	776
Non-current assets, total		16 938	18 468
Current assets			
Inventories	18	13 635	11 938
Trade receivables	14, 19	21 443	23 903
Loan receivables	14, 19	25	38
Accrued income and prepaid expenses	14, 19	2 064	732
Current tax receivable		4	119
Financial assets at fair value through profit and loss	14, 20	2 004	1 943
Cash and cash equivalents	21	7 686	1 968
Current assets, total		46 861	40 641
ASSETS, TOTAL		63 800	59 109

Consolidated balance sheet

(EUR 1,000)	Note	31.12.2007	31.12.2006
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent	23		
Share capital		7 000	7 000
Share premium account		1 116	1 116
Other reserves		117	117
Treasury shares		-721	-721
Translation differences		-129	-129
Retained earnings		22 127	17 542
Equity, total		29 510	24 925
Non-current liabilities			
Deferred tax liabilities	17	1 553	175
Interest-bearing liabilities	14, 25	10 453	12 844
Non-current liabilities, total		12 006	13 019
Current liabilities			
Interest-bearing			
Current portion of interest-bearing borrowings	14, 25	3 831	4 062
Bank overdrafts	14, 25	137	209
Interest-bearing current liabilities, total		3 969	4 271
Non-interest-bearing			
Advances received	14, 27	545	270
Trade payables	14, 27	7 718	6 602
Accrued liabilities and prepaid income	14, 27	5 516	5 148
Current tax payables		556	37
Other current liabilities	14, 27	3 980	4 837
Non-interest-bearing current liabilities, total		18 315	16 894
LIABILITIES, TOTAL		34 290	34 184
EQUITY AND LIABILITIES, TOTAL		63 800	59 109

Statement of changes in equity

(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 1.1.2006	7 000	1 116	117	-721	-108	15 432	22 836
Translation differences					-21		-21
Taxes on items recognised in equity or transferred from equity							0
Net income recognised directly in equity					-21		-21
Profit for the financial year						2 723	2 723
Total recognized income and expense for the financial year					-21	2 723	2 702
Dividends						-613	-613
Share issue						0	0
					-21	2 110	2 089
Equity 31.12.2006	7 000	1 116	117	-721	-129	17 542	24 925
Cash flow hedges							0
Translation differences							0
Other change						153	153
Taxes on items recognised in equity or transferred from equity							0
Net income recognised directly in equity						153	153
Profit for the financial year						5 387	5 387
Total recognized income and expense for the financial year						5 540	5 540
Dividends						-1 022	-1 022
Share-based incentives						67	67
						4 585	4 585
Equity 31.12.2007	7 000	1 116	117	-721	-129	22 127	29 510

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, FI-00370 Helsinki.

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 per cent of a company's voting power or when a group otherwise has significant influence but no control.

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

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

Items denominated in foreign currency

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

The income statements of foreign subsidiaries are translated into euros at the weighted average rates for the financial year, and the balance sheets at the average rates of the European Central Bank on the balance sheet date. The translation of the profit/loss for the year at different exchange rates in the income statement and balance sheet cause a translation difference which is recognised in shareholders' equity. The exchange rate differences arising from elimination of the acquisition cost of foreign subsidiaries and the exchange rate differences arising from the post-acquisition equity are recognised in shareholders' equity. Similar treatment has been applied to intragroup long-term loans which in substance are equity and form a part of net investment. When a subsidiary is disposed of, the accumulated translation differences are recognised in the income statement as part of the sales gains or losses.

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 IFRS 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

Pension liabilities
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 per cent of the present value of the defined benefit obligation or 10 per cent of the fair value of the plan assets.

Share-based payments

The group has a single share-based incentive system in which payments are made in a combination of shares and cash. Share rewards are measured at fair value at the time of their issuance and recognised as expenses for the period when they arose. The terms concerning the arising of rights to share rewards are taken into account in the number of shares to which a right is deemed to arise at the end of the validity period. Measurements are adjusted at each date of reporting. The determination of the fair value of the reward takes place in two parts under the IFRS 2 standard: a part settled as shares and a part settled as cash. The part settled as shares is recognised under shareholder's equity and the cash share under liabilities. The expense determined at the time of granting the share-based incentives is based on the Group's estimate of the number of shares to which a right is expected to arise at the end of the day when the rights arise. The assumed right takes account of the maximum incentive, the assumed achievement of non-market based earnings targets and the reduction of persons. The Group updates the estimate of the final number of shares at each balance sheet date. Their impact on financial results is presented in the income statement under employment benefits expenses.

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

Financial assets

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. Derivatives that do not meet the terms of IAS 39 hedge accounting have been classified as being held for trading purposes. The fair values of derivatives based on share market prices on the balance sheet date and changes in the fair values are recognized in the income statement for the period in which they arise.

Loans and receivables include non-derivative financial assets with fixed or determinable payments; these assets 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). In addition to loan receivables, the group includes trade and other receivables. Trade receivables are originally recognised at fair value and then at amortised cost, less any impairment.

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

Financial liabilities
Financial liabilities are initially recognised at fair value on the basis of the consideration received and will be measured later at amortised cost. 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. In addition to loan receivables, the group includes trade and other receivables. The basis for their measurement is the amortised cost.

Impairment of financial assets
On the balance sheet date, the Group will assess whether objective evidence exists of the impairment of individual financial asset items or a group of financial assets. Impairment will be recognised through profit or loss.

The Group will recognise an impairment loss on trade receivables when evidence exists that the receivables cannot be collected in full. A debtor's substantial financial difficulties, the likelihood of insolvency and neglect of payments, for example, are indications of impairment. The impairment of a receivable is recognised in the income statement under other operating expenses. If the impairment loss amount decreases in another later period, the recognised loss will be cancelled through profit or loss.

Share capital

Outstanding preference shares are shown as share capital. The share capital consists of K and A series shares. The shares of both series have identical dividend rights but K series shares confer 20 votes and A series shares 1 vote at general meetings of shareholders.
Expenses related to the issuance and acquisition of equity instruments are reported as deductions from equity. If Martela Oyj buys back its own equity instrument, their acquisition cost will be deducted from share capital.

Dividend distribution

Dividend distribution proposed by the Board of Directors to the Annual General Meeting is not entered in the books but will be booked when the decision is made by the Annual General Meeting.

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

The IASB has announced the following new and amended standards and interpretations which have not yet come into force and which the Martela Group has not yet adopted. The Group will adopt them as of the date when each standard and interpretation comes into force or, if the date is not the first date of a financial year, of the beginning of the subsequent financial year.

IFRIC 11/IFRS 2 – Group and Treasury Share Transactions (in force in financial years beginning on 1 March 2007 or later). The new interpretation does not affect the coming consolidated financial statements.

IFRIC 12 Service Concession Arrangements. The Group has no agreements with the public sector as referred to in the interpretation and hence the interpretation has no affect on the coming consolidated financial statements.

IFRIC 13 Customer Loyalty Programmes (in force in financial years beginning after 1 July 2008). The Group has no customer loyalty agreements as referred to in the interpretation and hence the interpretation has no affect on the coming consolidated financial statements.

IFRIC 14/IAS 19 The Limit on a Defined Benefit Asset, Minimum Requirements and their Interaction (in force in financial years beginning on 1 January 2008). The new interpretation has no material bearing on the coming consolidated financial statements.

IFRS 8 Operating Segments (in force in financial years beginning after 1 January 2009). IFRS 8 will replace the IAS 14 Segment Reporting standard. According to preliminary estimate, the implementation of IFRS 8 will mainly influence the way segment information is presented in the notes to the coming financial statements.

Amendment of the IAS 23 Borrowing Costs standard (in force in financial years beginning on 1 January 2009). The Group has recognised debt liabilities as expenses as was earlier allowed for the financial year in which they arose. However, the implementation of the revised standard will not have material bearing on the coming financial statements.

Amendment of the IAS 1 Presentation of Financial Statements standard (in force in financial years beginning on 1 January 2009). The revised standard changes the presentation of the 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.

2007 (EUR 1,000)

Geographical segments	Finland	Scandinavia	Other areas	Elim.	Unallocated	Total
Revenue	85 503	26 551	16 391	0	0	128 445
Segment assets	52 337	8 197	6 791	-8 197	4 672	63 800
Capital expenditure	2 088	843	317	0	0	3 248

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

2. Other operating income

	1.1.–31.12.2007	1.1.–31.12.2006
Gains on sale of tangible assets	2 473	1 066
Rental income	190	207
Public subsidies	139	126
Other income from operations	221	30
Total	3 023	1 429

In June 2007, the parent company Martela Oyj sold the entire stock of its subsidiary Kiinteistöyhtiö Oy Oulu Kaarnatie 14, a property company that is not part of its core business. The sale price was EUR 2 150 thousand and the Group recorded total gains of EUR 879 thousand from the sale. Martela has leased the property for its own use on a long-term lease, which has been classified as an operative lease.

In 2007, the subsidiary Martela Ab sold the plant facilities in Bodafors and leased a part of them back on a long-term basis. This lease is classified as a finance lease agreement. These sales generated gains of EUR 980 thousand, which were entered as consolidated capital gains.

(EUR 1,000)

3. Employee benefits expenses

	1.1.–31.12.2007	1.1.–31.12.2006
Salaries and wages	22 617	21 872
Pension expenses, defined contribution plans	3 642	3 600
Pension expenses, defined benefit plans	147	130
Part paid as shares	67	0
Part paid as cash	89	0
Other salary-related expenses	2 160	1 960
Personnel expenses in the income statement	28 723	27 562
Other fringe benefits	481	465
Total	29 203	28 027

A total of EUR 419 thousand for 2007 and EUR 659 thousand for 2006 were recognised in the result from incentives and salary-related expenses associated with the incentive scheme. Salaries and fees and share-based payments made to management are presented in more detail under note 31 Related-party transactions.

Personnel		
Average personnel, workers	341	329
Average personnel, officials	322	297
Personnel at year end	655	626
Average personnel in Finland	518	501
Average personnel in Sweden	67	71
Average personnel in Norway	4	4
Average personnel in Poland	74	50
Total	663	626

4. Depreciation and impairment

Depreciation		
Intangible assets	295	202
Tangible assets		
Buildings and structures	791	908
Machinery and equipment	2 146	2 222
Depreciation, total	3 231	3 332

5. 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 103 thousand (EUR 95 thousand in 2006) and for other services, EUR 41 thousand (EUR 17 thousand in 2006).

6. Research and development expenses

The income statement recognised research and development expenses of EUR 3 098 thousand in 2007 (EUR 2 283 thousand in 2006).

(EUR 1,000)

7. Financial income and expenses

	1.1.–31.12.2007	1.1.–31.12.2006
Financial income		
Dividend income on other financial assets	1	3
Interest income on loans and othe receivables	82	48
Foreign exchange gain on loans and other receivables	21	5
Other financial income	0	4
Change in value of assets at fair value through profit or loss	61	65
	165	125
Financial expenses		
Interest expenses on interest-bearing loans	-813	-754
Foreign exchange losses on loans and other receivables	-5	-32
Changes in the value of interest rate derivatives - no hedge accounting	15	31
Other financial expenses	-87	-168
Total	-891	-923
Financial income and expenses, total	-726	-798
Total exchange rate differences affecting profit or loss are as follows:		
Exchange rate differences, sales	-98	58
Exchange rate differences, purchases	-21	244
Exchange rate difference, financial items	16	-27
Exchange rate differences, total	-103	275

8. Income taxes

Current taxes	650	55
Taxes for previous years	-399	0
Change in deferred tax liabilities and assets	1 914	922
Total	2 165	977

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 2007, 26% for 2006).

Profit before taxes	7 552	3 701
Taxes calculated using the domestic corporation tax rate	1 964	962
Taxes for previous years	-305	0
Effect of tax rates in foreign jurisdictions	0	0
Tax-exempt income	-8	-209
Non-deductible expenses	535	247
Unbooked deferred tax assets on losses in taxation	-21	-23
Income taxes for the year in the income statement	2 165	977

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	5 387	2 723
Weighted average number of shares (1,000)	4 088	4 088
Basic earnings per share (EUR/share)	1.3	0.7

The company has no diluting instruments.

(EUR 1,000)

10. Intangible assets

	Intangible assets	Work in progress	1.1.2007 – 31.12.2007 Total	Intangible assets	Work in progress	1.1.2006 – 31.12.2006 Total
Acquisition cost 1.1.	1 927	182	2 109	2 358	152	2 510
Increases	400	99	499	317	276	593
Decreases	-12	-221	-233	-785	-246	-1 031
Regroupings	0	0	0	0	0	0
Exchange rate differences	-32	0	-32	37	0	37
Acquisition cost 31.12.	2 283	60	2 343	1 927	182	2 109
Accumulated depreciation 1.1.	-1 447	0	-1 447	-1 993	0	-1 993
Accumulated depreciation, decreases	0	0	0	784	0	784
Depreciation for the year 1.1.-31.12.	-295	0	-295	-202	0	-202
Exchange rate differences	31	0	31	-36	0	-36
Accumulated depreciation 31.12.	-1 710	0	-1 710	-1 447	0	-1 447
Carrying amount 1.1.	480	182	662	365	152	517
Carrying amount 31.12.	573	60	633	480	182	662

11. Tangible assets

1.1.2007 – 31.12.2007	Land areas	Buildings	Machinery and equipment	Other tangible assets	Work in progress	Total
Acquisition cost 1.1.	692	32 239	42 087	215	410	75 643
Increases	0	1 057	1 559	157	962	3 735
Decreases	-604	-4 817	-230	-16	-765	-6 431
Regroupings	26	0	0	0	0	26
Exchange rate differences	-22	-130	-183	14	1	-319
Acquisition cost 31.12.	93	28 350	43 233	370	609	72 655
Accumulated depreciation 1.1.	0	-22 325	-37 456	-78	0	-59 859
Accumulated depreciation, decreases	0	3 840	185	16	0	4 041
Depreciation for the year 1.1.-31.12.	0	-844	-2 066	-30	0	-2 940
Exchange rate differences	0	75	186	-8	0	253
Accumulated depreciation 31.12.	0	-19 254	-39 152	-100	0	-58 505
Carrying amount 1.1.	692	9 914	4 631	137	410	15 784
Carrying amount 31.12.	93	9 096	4 082	270	609	14 150

Notes to the consolidated financial statements

(EUR 1,000)

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
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

	31.12.2007	31.12.2006
Carrying amount of production machinery and equipment	2 833	3 692

Tangible assets, finance leases

Tangible assets include assets acquired through finance leases as follows:

	1.1.2007–31.12.2007			1.1.2006–31.12.2006		
	Machinery and equipment	Buildings	Total	Machinery and equipment	Buildings	Total
Acquisition cost 1.1.	790	0	790	619	0	619
Increases	512	662	1 174	175	0	175
Decreases	-2	0	-2	-4	0	-4
Acquisition cost 31.12.	1 300	662	1 962	790	0	790
Accumulated depreciation 1.1.	-522	0	-522	-298	0	-298
Accumulated depreciation, decreases	0	0	0	0	0	0
Depreciation for the year 1.1.-31.12.	-269	-51	-320	-224	0	-224
Accumulated depreciation 31.12.	-791	-51	-842	-522	0	-522
Carrying amount 1.1.	268	0	268	322	0	322
Carrying amount 31.12.	509	612	1 121	268	0	268

The plant at Bodafors, Sweden, was sold in 2007. Part of it was leased back on a long-term lease that is classified as a finance lease.

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

(EUR 1,000)

13. Investment properties

The land belonging to Kiinteistö Oy Ylähanka and the land in Poland have been classified as investment properties. The fair value of the land belonging to Kiinteistö Oy Ylähanka was EUR 600 000 at the end of financial year 2007 (EUR 600 000 in 2006). The fair value of the land in Poland was EUR 603 000 at the end of financial year 2007 (EUR 566 000 in 2006). The fair values have been appraised by a third-party valuer.

14. Book values of financial assets and liabilities by group

	Financial assets recognised at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities recognised at amortised acquisition cost	Book values of balance sheet items	Fair value	Note
2007 balance sheet items							
Non-current financial assets							
Non-current non-interest bearing receivables		623			623	623	16
Other financial assets			31		31	31	15
Current financial assets							
Trade and other receivables		23 488			23 488	23 488	19
Interest rate swaps	48				48	48	22
Fund units	2 004				2 004	2 004	20
Book value by group	2 052	24 111	31	0	26 194	26 194	
Non-current financial liabilities							
Interest-bearing liabilities				10 453	10 453	10 453	25
Current financial liabilities							
Interest-bearing liabilities				3 969	3 969	3 969	25
Currency forward contracts	96				96	96	22
Trade payables and other liabilities				18 219	18 219	18 219	27
Book value by group	96	0	0	32 641	32 737	32 737	

(EUR 1,000)

	Financial assets recognised at fair value through profit or loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities recognised at amortised acquisition cost	Book values of balance sheet items	Fair value	Note
2006 balance sheet items							
Non-current financial assets							
Non-current non-interest bearing receivables							16
Other financial assets			40		40	40	15
Current financial assets							
Trade and other receivables		24 646			24 646	24 646	19
Interest rate swaps	31				31	31	22
Currency forward contracts	115				115	115	22
Fund units	1 943				1 943	1 943	20
Book value by group	2 089	24 646	40	0	26 775	26 775	
Non-current financial liabilities							
Interest-bearing liabilities				12 844	12 844	12 844	25
Current financial liabilities							
Interest-bearing liabilities				4 272	4 272	4 272	25
Trade payables and other liabilities				16 894	16 894	16 894	27
Book value by group	0	0	0	34 010	34 010	34 010	

Fair values of each financial asset and liability group are presented in more detail under the note indicated in the table.

Derivatives (interest rate swaps and currency forward contracts) have been measured at fair value based on balance sheet day market rates. They are not subject to hedge accounting and changes in fair values have been recognised in the income statement.

15. Other financial assets

Available-for-sale financial assets	31.12.2007	31.12.2006
Balance sheet value at beginning of year	40	55
Increases	0	0
Decreases	-9	-15
Balance sheet value at end of year	31	40

Available-for-sale financial assets include investments in unlisted equities. They have been measured at acquisition cost because fair value cannot be assessed reliably.

16. Non-current non-interest bearing liabilities

Loan receivables	623	0

The loan receivable concerns the existing management of the incentive scheme which has been outsourced to Alexander Management Oy. A EUR 1 200 thousand loan has been granted to Alexander Management Oy, which it used to acquire Martela Oyj shares to protect and implement the incentive scheme. (See notes 24).

(EUR 1,000)

17. Deferred tax assets and liabilities

Changes in deferred taxes during 2007	1.1.2007	Recognised in income statement	Recognised in equity	Exchange rate differences	31.12.2007
Deferred tax assets					
Tax losses carried forward	2 239	-1 920	0	0	319
Other temporary differences	0	-5	0	0	-5
Total	2 239	-1 925	0	0	314
Deferred tax liabilities					
On buildings measured at fair value on the transition date	1 540	-92	0	0	1 448
Cumulative depreciation difference	92	-50	0	0	42
Pension obligations	5	4	0	0	9
Other temporary differences	0	128	0	0	128
Total	1 637	-10	0	0	1 627
Deferred tax assets and liabilities, total	602	-1 915	0	0	-1 313
Due to set-off, divided in the balance sheet as follows:					
Deferred tax assets	776				240
Deferred tax liabilities	174				1 553
Deferred tax assets and liabilities, total	602				-1 313

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
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
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

Deferred tax assets have not been recognised on unused tax losses that probably cannot be utilised in the future against taxable income. These losses including 2007 results total about MEUR 8. These losses have no expiry date according to knowledge that is available today.

Notes to the consolidated financial statements

(EUR 1,000)

18. Inventories

	31.12.2007	31.12.2006
Raw materials and consumables	8 703	7 675
Work in progress	1 708	1 484
Finished goods	3 189	2 769
Advances	35	10
	13 635	11 938

The value of inventories has been written down by EUR 1 104 thousand (EUR 901 thousand in 2006).

19. Current trade receivables and other receivables

	31.12.2007	31.12.2006
Trade receivables	21 443	23 903
Loan receivables	25	38
Accrued income and prepaid expenses		
Personnel expenses	822	82
Royalties	0	53
Derivatives	48	146
Other financial assets	484	45
Advances	361	359
Other	350	47
Accrued income and prepaid expenses, total	2 064	732
Current tax receivable	4	119
Total	23 536	24 792

The book values of trade receivables and receivables based on other than derivatives are estimated to correspond to their fair values.

20. Financial assets at fair value through profit or loss

	31.12.2007	31.12.2006
Fund units	2 004	1 943

21. Cash and cash equivalents

	31.12.2007	31.12.2006
Cash in hand and at bank	4 686	1 968
Certificates of deposit	3 000	0
	7 686	1 968

Notes to the consolidated financial statements

(EUR 1,000)

22. Derivative contracts

Martela uses derivatives for hedging purposes but does not apply hedge accounting as in IAS 39.

The Group has partly hedged the currency net position remaining after the reconciliation of forecast revenues and expenses by using currency forward contracts maturing within 3-12 months.

Nominal values of derivative contracts	2007			2006		
	Validity			Validity		
	< 1 year	1 – 6 years	Total	< 1 year	1 – 6 years	Total
Interest rate swap agreements, EUR 1,000	0	3 375	3 375	0	4 492	4 492
Currency forward contracts, EUR 1,000	4 268	0	4 268	4 646	0	4 646

Fair values	2007			2006		
	Validity			Validity		
	< 1 year	1 – 6 years	Total	< 1 year	1 – 6 years	Total
Interest rate swap agreements, EUR 1,000	0	48	48	0	31	31
Currency forward contracts, EUR 1,000	-96	0	-96	115	0	115
	-96	48	-48	115	31	146

The fair values of derivatives are included in current accrued income and prepaid expenses. (See notes 19).

23. 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
01.01.2006	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
Share issue	0	0	0	0	0
31.12.2007	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 and of investmets in foreign units.
Other reserves consist of reserve funds.

The parent company's distributable equity was EUR 31 665 067.06 on 31.12.2007.

(EUR 1,000)

24. Share-based payments

On 14 February 2007, the Martela Board of Directors decided to implement a share-based incentive scheme as a part of the company's incentive and commitment programme for key personnel.

The system offers key personnel an opportunity to receive Martela shares for three separate earnings period if they achieve the targets set for them for a specified period.

The Board decides on the criteria and associated targets and the maximum reward for each person annually for each earnings period.

The attainment of targets for a specific period determines what percentage of the maximum incentive is paid to key personnel.

The earnings periods are the calendar years 2007, 2008 and 2009. Any incentive paid on the basis of the share incentive scheme will be paid after the end of a period as a combination of shares and cash. The maximum total incentive for the whole system is 153 000 in shares and cash to the amount needed to cover taxes and similar charges when the shares are granted, but not more than the value of the shares to be paid at the time of payment.

For the 2007 period, a combination equivalent to a maximum of 91 600 shares in shares and cash was granted as follows: 45 800 shares and cash equivalent to the value of 45 800 shares.

The amount of the incentive paid for the 2007 period is tied to the consolidated operating profit (EUR; weight 70%) and the consolidated turnover (weight 30%).

No reward is paid to a person whose employment relationship ends before the payment of the incentive. In addition, the person must own the earned shares for at least two years after the end of the earnings period (vesting period).

Basic information on the 2007 share incentive

Date of granting	14.2.2007
Type of incentive	Share incentive
Maximum number of shares	45 800
Cash amount corresponding to the maximum number of shares *	45 800
Earnings period begins, date	1.1.2007
Earnings period ends, date	31.12.2007
Terms of right to incentive	Achievement of non-market based earnings terms (operating profit 70% and turnover 30%) during a one-year earnings followed by a two-year employment requirement.
Release of shares, date	1.1.2009
Remaining vesting period, years	2
Persons, 31.12.2007	22

*In addition to shares, the company is obligated to pay taxes on share incentives.

Events of the 2007 financial year

Gross amounts **	Shares 1.1.2007	Changes during the financial year	Shares 31.12.2007
Share incentives given (share+cash) in number of shares	0	91 600	91 600
Share incentives returned due to end of employment	0	0	0
Shares paid	0	0	0
Shares expired	0	0	0

**The amounts include part in cash granted by share- based incentive scheme (in shares).

Determining fair value

Share incentives are measured at fair value when they are granted and recognised as expenses in the income statement for the period when they arise. The terms of the right are taken into account in the number of share to which a right is expected to arise at the end of the vesting period. The estimate is adjusted on each reporting date if needed.

Since the share reward is paid as a combination of shares and cash, the determining of the fair value of the reward is divided to two parts in accordance with the IFRS 2 standard:

a part settled as shares and a part settled as cash. The part settled as shares is recorded under shareholders' equity and the part settled as cash under debt.

The fair value of the share-based payment at the time of granting the reward is the price of Martela's share, less anticipated dividends for the earnings period.

Correspondingly, the fair value of the part settled as cash is reviewed on each reporting date to the end of the earning period and hence the fair value of the debt varies in accordance with the price of Martela's share.

At the end of the financial year, the equity liability arising from the share-based incentive scheme amounted to EUR 67 254, while the cash liability entered under debt was EUR 89 004. The total cost effect of the share-based incentive scheme for the financial year was EUR 156 258.

(EUR 1,000)

Determining fair value of the share reward

Number of shares granted as share incentive	45 800
Number of shares granted as share-based cash payment	45 800
Share price at the time of granting	6.86 EUR
Fair value of share price at the time of granting***	6.61 EUR
Share price on 31.12.2007 (part paid as cash)	8.35 EUR
Estimated rate at which the criteria will be met	84.9 %
Estimated rate of share incentive returning before payment	0.00%
Estimated rate of share incentive returning after payment	4.5 %
Fair value of share incentive at the time of granting, EUR	512 087
Fair value of share incentive on 31.12.2007, EUR	570 025
Impact on the results of the financial year, EUR	156 258

*** Share price at the time of granting, less anticipated dividends for the earnings period: EUR 0.25

There was no share incentive scheme in use in 2006.

25. Interest-bearing liabilities

	31.12.2007	31.12.2006
Non-current		
Bank loans	9 621	12 749
Finance leases	833	95
Total	10 453	12 844
Current		
Bank loans	3 379	3 747
Pension loans	147	136
Bank overdrafts used	137	209
Finance leases	306	180
Total	3 969	4 272

The book values of debts are estimated to correspond to their fair values. Discounting has no material effect.
Mortgages and guarantees given by credit institutions and, to a minor degree, pledged shares in housing corporations owned by the company are used as collateral for bank loans and pension loans.

Finance lease liabilities are payable as follows:

Finance leases - total amount of minimum lease payments		
Not later than one year	419	185
Later than one year and not later than five years	931	96
Later than five years	709	0
	2 059	281
Finance leases - present value of minimum lease payments		
Not later than one year	305	180
Later than one year and not later than five years	508	95
Later than five years	325	0
	1 138	275
Mainly connected with the long-term leasing contract of the real-estate.	921	6

The average interest of finance leases was 5.12% in 2007 and 4.1% in 2006.

Terms of loans from credit institutions.
The Group's bank loans have either variable or fixed interest rates. The Group's average interest rate is 4.67% (4.35% 2006)
The current portions of debt are presented in more detail under Note 28 Management of financial risks.

(EUR 1,000)

26. 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:	1.1.2007–31.12.2007	1.1.2006–31.12.2006
Present value of unfunded obligations	0	0
Present value of funded obligations	1 033	954
Present value of funded obligations	-776	-759
Deficit / Excess	257	195
Unrecognised actuarial gains (+) and losses (-)	-292	-213
Unrecognised past service cost	0	0
Pension liability in balance sheet	-35	-18

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

Current service cost	133	123
Interest cost	52	37
Expected return on plan assets recognized during the year	-40	-31
Actuarial gains (-) and losses (+)	9	1
Past service cost	0	0
Losses/profits on curtailment	0	0
Total	154	130
The actual return on plan assets (EUR 1,000)	-154	-12

Changes to present value of obligations:

Present value of funded obligations 1.1.	954	705
Current service cost	133	123
Interest cost	52	37
Actuarial gains (-) and losses (+)	-106	89
Losses/profits on curtailment	0	0
Paid benefits	0	0
Present value of funded obligations 31.12.	1 033	954

Changes to fair values of the assets in the plan are as follows:

Fair values of plan assets 1.1.	759	621
Expected return on plan assets	40	31
Actuarial gains (-) and losses (+)	-194	-42
Contributions made by the employer to the plan	171	149
Paid benefits	0	0
Fair values of plan assets 31.12.	776	759

(EUR 1,000)

Actuarial assumptions used were as follows:

Discount rate (%)		5.25%	4.75%
Expected return on plan assets (%)		5.25%	4.75%
Future salary increases (%)		3.30%	3.30%
Rate of pension increase (%)		1.75%	1.75%
Rate of inflation increase (%)		2.00%	2.00%

Present and fair values of obligations:	31.12.2007	31.12.2006	31.12.2005
Present value of obligations	1 033	954	705
Fair value of plan assets	-776	-759	-622
Deficit/excess	257	195	83
Experience adjustments to plan assets	-194	-42	-99
Experience adjustments to plan liabilities	106	-138	57

The Group anticipates it will contribute EUR 188 thousand to the plan in 2008.
An itemisation of plan assets is not available.

27. Non-interest-bearing current liabilities

	31.12.2007	31.12.2006
Advances received	545	270
Trade payables	7 718	6 602
Accrued liabilities and prepaid income		
Personnel expenses	3 307	3 704
Derivatives	96	0
Interests	123	166
Other financial expenses	0	0
Royalties	110	163
Residual expenses	1 528	898
Other	352	217
Total	5 516	5 148
Tax payables	556	37
Other current liabilities	3 980	4 837
	18 315	16 894

The book values of trade and other non-interest bearing liabilities are also estimated to correspond to their fair values. Discounting has no material effect.

(EUR 1,000)

28. 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 sufficient financing on a cost-efficient basis and to reduce the adverse 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.

Market risks

Market risks comprise the following three risks: currency risk, fair value interest rate risk and price risk. The associated fluctuations in exchange rates, market interest rates and market prices lead to changes in the value of financial instruments and hence they may impact the result, balance sheet and cash flow of the Group. The Group does not apply hedge accounting as in IAS 39.

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. There were no open hedge positions on the balance sheet date.

The following table presents currency risks per instrument and currency.

Currency risks per instrument and currency 31.12.2007 (EUR thousand)

	EUR	SEK	PLN	NOK
Trade receivables	923	4 324	3 543	1 229
Trade payables	-773	-615	-21	0
Currency forward contracts			1 002	3 267
Total	150	3 709	4 524	4 496

Currency risks per instrument and currency 31.12.2006 (EUR thousand)

	EUR	SEK	PLN	NOK
Trade receivables	631	3 088	2 411	881
Trade payables	-2 911	- 645	-34	-21
Currency forward contracts		-4 646		
Total	-2 280	-2 203	2 377	860

Other currencies have minor impact.

Analysis of sensitivity to currency risk

The following table presents the average impact of a 10 per cent change in exchange rates on 31 December on the company's financial results and capital for 2007 (2006). The estimates are based on the assumption that no other variables change.

Analysis of sensitivity to currency risk (EUR thousand)	Impact on shareholders' equity	Impact on results
31.12.2007		
EURO	0	+/-15
SEK	0	+/-371
PLN	0	+/-452
NOK	0	+/-450

(EUR 1,000)

Analysis of sensitivity to currency risk (EUR thousand)	Impact on shareholders' equity	Impact on results
31.12.2006		
EURO	0	+/-228
SEK	0	+/-220
PLN	0	+/-238
NOK	0	+/-86

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. Approximately half of the loan portfolio is at a fixed interest rate, while the other half is at variable rates. The duration of loans varies from 6 months for half of the loans to 3–6 years for the rest. 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 3 375 thousand at nominal value 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. The interest rate swaps were from variable interest rate loans to fixed rate loans.

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 has invested in fixed income funds, the value of which is determined on the basis of price quotations published in active markets. Changes in fair value are recognised in the income statement in the financial statements.

The following table presents the distribution of the Group's financial instruments into fixed interest rate and variable interest rate on the balance sheet date.

Financial instruments (EUR thousand)	31.12.2007	31.12.2006
Fixed rate		
Financial liabilities, incl. derivatives	6 532	8 222
Variable rate		
Financial liabilities	7 891	8 892
Total	14 423	17 114

Analysis of sensitivity to interest rate risks

Impact of a 1 per cent increase in interest rate on financial results and capital on the balance sheet date 31 December. Decrease in interest rate would have an opposite impact of equal size.

Analysis of sensitivity to interest rate risks (EUR thousand)	Impact on shareholders' equity	Impact on results
31.12.2007		
Financial liabilities		
Variable rate financial instruments	0	-111
Derivatives		
Interest rate swaps	0	+33

Analysis of sensitivity to interest rate risks (EUR thousand)	Impact on shareholders' equity	Impact on results
31.12.2006		
Financial liabilities		
Variable rate financial instruments	0	-135
Derivatives		
Interest rate swaps	0	+47

(EUR 1,000)

Price risk
Financial instruments
Available-for-sale shares included in financial assets are not deemed subject to resale price risk. Their book value is their original acquisition cost and their current sale price is estimated to be higher than their acquisition price. The shares are unlisted and they are not measured at fair value.

Credit risks

Credit risks arise from the possibility that a counterparty will not meet its contractual payment obligation. Hence the seriousness of the risk is determined on the basis of the counterparty's creditworthiness. The objective of credit risk management is to minimise the losses that would arise should the counterparty not meet its obligations.

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.

The principles of credit risk management are confirmed by Martela's Board of Directors. Risk management is based on authorisations given to the organisation.

Credit risks related to the company's trade and other receivables are minimised by using short terms of payment, effective collection measures and accounting for the counterparty's creditworthiness. Supply agreements are used when the customer company is unknown and the available credit information is insufficient. In this context a supply agreement is an agreement which secures any receivables arising from an order by withholding the right of ownership with Martela Oyj until the customer has paid the sale price in full. Supply agreements are only used in sales in Finland. A customer may also be required to make prepayment before sold products are delivered if it is considered necessary in light of the potential credit risk associated with the customer. Counterparties may also be granted to credit limits. The creditworthiness of established customers is monitored regularly on the basis of payment history and credit rating.

Collateral may be required from certain customers based on their creditworthiness and in the case of exports, for example, Martela may use confirmed irrevocable Letters of Credit.

The book value of financial assets corresponds to the maximum amount of the credit risk. The maximum financial asset credit risk amount on the balance sheet date 31 December is presented in the following table:

Maximum financial asset credit risk (EUR thousand)	2007	2006
Available-for-sale financial assets	31	40
Financial assets recognised at fair value through profit or loss	2 052	2 089
Loans and other receivables	24 111	24 646
Cash and cash equivalents	7 686	1 968
Total	33 880	28 743

The age distribution of Group trade receivables on the balance sheet date 31 December is presented in the following table:

Age distribution of trade receivables (EUR thousand)	2007	2006
Unmatured	16 643	18 717
Matured 1–30 days	2 664	2 667
Matured 31–60 days	745	566
Matured over 60 days	1 391	1 953
Total	21 443	23 903

The maximum trade receivable credit risk amount on the balance sheet date 31 December by country or region

Distribution of trade receivables by country or region (EUR thousand)	2007	2006
Finland	13 404	16 438
Scandinavia	3 932	4 540
European countries	4 042	2 910
Other regions	65	15
Total	21 443	23 903

Credit risks from trade receivables are not concentrated.

Notes to the consolidated financial statements

(EUR 1,000)

Liquidity risks

The Group strives to assess and monitor the amount of funding required by business operations so that there are sufficient liquid assets for operating expenses and 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 9 691 thousand, and unused bank overdrafts totalled EUR 1 704 thousand.

Loans and payments mature as follows:

	2008	2009	2010	2011	2012	Later	Total
Bank loans	3 379	2 273	4 507	1 316	1 016	508	12 999
Pension loans	147	0	0	0	0	0	147
Finance leases	306	188	191	62	66	325	1 139
Trade payables	7 718	0	0	0	0	0	7 718
Bank overdrafts	137	0	0	0	0	0	137
Loan interest and guarantee fees	582	479	380	168	110	58	1 777
Total	12 269	2 940	5 078	1 546	1 192	891	23 917

Management of capital structure

It is the Group's objective to ensure an efficient capital structure that will secure its operating capacity in the capital markets in all circumstances irrespective of volatility. The Group's Board of Directors assesses the capital structure on a regular basis. The Group uses the equity ratio to monitor its capital structure. The Group's capital management is not subject to external demands such as covenants, for example. The equity ratio formula is presented in the following table:

Key capital indicator to be monitored in capital management: Equity ratio

Equity ratio	31.12.2007	31.12.2006
Shareholders' equity	29 510	24 925
Balance sheet total – advance payments	63 255	58 839
Equity ratio, %	46.7	42.4

(EUR 1,000)

29. Operating leases

	31.12.2007	31.12.2006
Minimum lease payments under non-cancellable operating leases are as follows:		
Not later than one year	2 545	2 304
Later than one year and not later than five years	6 859	6 831
Later than five years	1 270	618
	10 674	9 753

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 2007 includes rents paid on the basis of operating leases totalling EUR 3 077 thousand (EUR 2 320 thousand in 2006).

30. Pledges granted and contingent liabilities

Debts secured by mortgages		
Pension loans	0	0
Property mortgages	0	0
Corporate mortgages	0	0
Bank loans	12 894	16 496
Property mortgages	11 801	13 548
Corporate mortgages	3 868	7 187
Shares pledged	4	4
Total mortgages	15 673	20 739
Other pledges		
Guarantees as security for rents	167	163
Collateral granted on behalf of others		
Guarantees	0	115
Repurchase sureties	150	161

(EUR 1,000)

31. Related party transactions

Group's parent and subsidiary relationships are as follows:

	Domicile	Holding (%) 31.12.2007	Voting power (%) 31.12.2007
Parent company			
Martela Oyj	Finland		
Subsidiaries			
Kidex Oy	Finland	100	100
P.O. Korhonen Oy	Finland	100	100
Kiinteistö Oy Ylähanka	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 8.4% of the share capital and 17.2% of the votes.

Management employee benefits	2007	2006
Salaries and other short-term employee benefits	1 659	1 501
Benefits following end of employment	55	0
Share-based benefits	85	0
	1 799	1 501

Salaries	2007	2006
Board members	72	72
CEO	347	288
Management team members(excl. salary of CEO)	1 325	1 141

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 3. 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 CEO and the company's management were included in a long-term incentive scheme, extending from 2004 to the end of 2006. This incentive scheme was based on the group's combined profit performance for the period 2004–2006. On the basis of this scheme, a total of EUR 533 thousand in incentives has been recognised for the 2006 financial year.

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. The incentive paid under this scheme will be paid as a combination of shares and cash.

A total of EUR 156 thousand has been recognised for 2007 from incentives and related expenses associated with the scheme.

Martela Group 2003–2007

(EUR 1,000)

32. Five-year comparisons

Key financial indicators for the group

		IFRS 2007	IFRS 2006	IFRS 2005	IFRS 2004	FAS 2004	FAS 2003
Revenue	meur	128.4	119.7	102.2	100.7	100.7	102.1
Change in revenue	%	7.3	17.1	1.5	-1.4	-1.4	-15.7
Export and operations outside Finland	meur	42.8	36.7	31.6	31.0	31.0	34.2
In relation to revenue	%	33.3	30.7	30.9	30.8	30.8	33.5
Exports from Finland	meur	16.2	16.2	13.8	13.2	13.2	10.8
Gross capital expenditure	meur	3.2	1.8	1.6	0.9	0.9	1.0
In relation to revenue	%	2.5	1.5	1.6	0.9	0.9	1.0
Depreciation	meur	3.2	3.3	3.8	4.6	4.9	4.7
Research and development expenses	meur	3.1	2.5	2.0	2.7	2.7	2.6
In relation to revenue	%	2.4	2.1	2.0	2.7	2.7	2.5
Average personnel		663	626	610	662	662	767
Change in personnel	%	5.9	2.6	-7.9	-13.7	-13.7	-17.5
Personnel at end of year		655	632	604	613	613	715
Of which in Finland		515	508	478	488	488	531
PROFITABILITY							
Operating profit	meur	8.3	4.5	1.5	-1.6	-2.2	-10.7
In relation to revenue	%	6.4	3.8	1.5	-1.5	-2.2	-10.5
Profit before appropriations and taxes	meur	7.6	3.7	1.0	-2.1	-3.0	-12.6
In relation to revenue	%	5.9	3.1	1.0	-2.0	-3.0	-12.4
Profit for the year *)	meur	5.4	2.7	-0.1	-2.0	-2.7	-12.3
In relation to revenue	%	4.2	2.3	-0.1	-2.0	-2.7	-12.0
Revenue/employee	teur	193.7	191.3	167.6	152.2	152.2	133.2
Return on equity (ROE)	%	19.8	11.4	-0.5	-8.1	-13.3	-38.6
Return on investment (ROI)	%	19.6	11.0	4.3	-2.2	-4.7	-20.9
FINANCE AND FINANCIAL POSITION							
Balance sheet total	meur	63.8	59.1	56.1	59.9	55.2	59.7
Equity	meur	29.5	24.9	22.8	23.5	19.1	22.5
Interest-bearing net liabilities	meur	4.7	13.2	14.3	13.3	13.1	15.1
In relation to revenue	%	3.7	11.0	14.0	13.2	13.0	14.8
Equity ratio	%	46.7	42.4	40.8	39.3	33.8	36.8
Gearing	%	16.0	53.0	62.8	56.4	71.1	69.4
Net cash flow from operations	meur	9.9	0.9	1.0	2.5	2.5	-5.6
Dividends paid	meur	1.0	0.6	0.6	0.5	0.5	0.5

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

Statistics on Martela Oyj shares

33. Key share-related figures

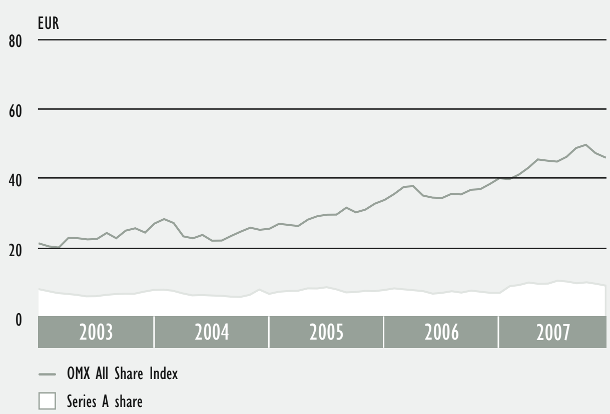
The comparison figures for 2003 have been adjusted for the number of shares in the bonus issue of 2004

		IFRS 2007	IFRS 2006	IFRS 2005	IFRS 2004	FAS 2004	FAS 2003
Earnings per share	EUR	1.3	0.7	0.0	-0.5	-0.7	-2.7
Earnings per share (diluted)	EUR	1.3	0.7	0.0	-0.5	-0.7	-2.7
Share par value	EUR	1.7	1.7	1.7	1.7	1.7	1.7
Dividend	EUR	0.50 *)	0.25	0.15	0.15	0.15	0.13
Dividend/earnings per share	%	37.9	37.5	-547.9	-30.4	-23.1	-4.7
Effective dividend yield	%	6.0	3.8	2.1	2.4	2.4	1.7
Equity per share	EUR	7.2	6.1	5.6	5.8	4.5	5.3
Price of A share 31.12.	EUR	8.35	6.50	7.26	6.35	6.35	7.15
Share issue-adjusted number of shares	thousands	4 155.6	4 155.6	4 155.6	4 155.6	4 155.6	4 155.6
Average share issue-adjusted number of shares	thousands	4 155.6	4 155.6	4 155.6	4 155.6	4 155.6	4 155.6
Price/earnings ratio (P/E)		6.3	9.8	-265.2	-12.8	-9.8	-2.7
Market value of shares **)	MEUR	34.1	26.6	29.7	26.0	26.0	29.2

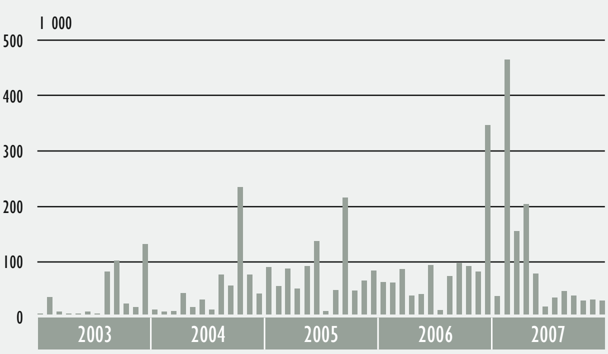
*) Board proposal

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

Martela's series A share compared to the all share index



Monthly trading of Martela's series A shares



34. Shares and shareholders

Share capital

The number of registered Martela Oyj shares on 31.12.2007 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 list of the OMX Nordic Exchange in Helsinki. 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 31.12.2007	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. 31.12.2007

	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
OP-Suomi arvo	0	273 700	273 700	6.6	273 700	1.7
Odin Finland	0	228 400	228 400	5.5	228 400	1.5
Mutual Fund Nordea Nordic Small Cap	0	220 343	220 343	5.3	220 343	1.4
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
Pohjola P&C Insurance Company	0	170 000	170 000	4.1	170 000	1.1
Suomen Argentor Oy	0	162 700	162 700	3.9	162 700	1.0
Martela Heikki	52 122	106 234	158 356	3.8	1 148 674	7.3
Evli Alexander Management Oy	0	143 166	143 166	3.4	143 166	0.9
Martela Matti	58 256	56 982	115 238	2.8	1 222 102	7.8
Lindholm Tuija	43 122	50 424	93 546	2.3	912 864	5.8
Nordea pankki Suomi Oyj	0	89 523	89 523	2.2	89 523	0.6
Palsanen Jaakko	2 000	83 868	85 868	2.1	123 868	0.8
Martela Pekka	69 274	8	69 282	1.7	1 385 488	8.9
Other shareholders	19 540	1 072 430	1 091 970	26.3	1 463 230	9.4
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 8.4% 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 of treasury shares is equivalent to 1.6% of all shares and 0.4% of all votes.

The Annual General Meeting has in 2007 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, 31.12.2007

Number of shares	Number of shareholders	% of total shareholders	Number of shares	%	Number of votes	% of total votes
1-500	475	61.2	83 439	2.0	101 679	0.7
501-1 000	111	14.3	88 504	2.1	129 924	0.8
1 001-5 000	123	15.9	266 390	6.4	406 990	2.6
Over 5 000	67	8.6	3 716 219	89.4	15 007 159	95.9
Total	776	100.0	4 154 552	100.0	15 645 752	100.0
of which nominee-registered	7		124 116			
In the waiting list and collective account			1 048	0.0	1 048	0.0
Total			4 155 600	100.0	15 646 800	100.0

Breakdown of shareholding by sector, 31.12.2007

	Number of shareholders	%	Number of shares	%	Number of votes	%
Private companies	54	7.0	1 093 903	26.3	6 642 803	42.5
Financial and insurance institutions	9	1.2	671 495	16.2	765 629	4.9
Public corporations	1	0.1	335 400	8.1	335 400	2.1
Non-profit entities	11	1.4	217 255	5.2	217 255	1.4
Households	693	89.3	1 423 953	34.3	7 367 153	47.1
Foreign investors	8	1.0	288 430	6.9	317 512	2.0
Total	776	100.0	4 030 436	97.0	15 645 752	100.0
Nominee-registered	7		124 116	3.0		
In the waiting list and collective account			1 048	0.0	1 048	0.0
Total			4 155 600	100.0	15 646 800	100.0

Calculation of Key Figures

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.–31.12.2007	1.1.–31.12.2006
REVENUE	1	96 225	92 436
Changes in inventories of finished goods and work in progress		200	-11
Production for own use		39	46
Other operating income	2	898	1 077
Materials and services	3	-56 596	-55 603
Personnel expenses	4	-17 979	-17 054
Depreciation and impairment	5	-1 410	-1 292
Other operating expenses		-14 196	-13 994
OPERATING PROFIT (-LOSS)		7 182	5 605
Financial income and expenses	6	-458	-465
PROFIT (-LOSS) BEFORE EXTRAORDINARY ITEMS		6 724	5 140
Extraordinary expenses		0	-1 000
Extraordinary income	7	774	0
PROFIT (-LOSS) BEFORE APPROPRIATIONS AND TAXES		7 498	4 140
Income taxes	8	-144	0
PROFIT (-LOSS) FOR THE FINANCIAL YEAR		7 355	4 140

Parent Company Balance Sheet

(EUR 1,000)	Note	31.12.2007	31.12.2006
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	9		
Intangible rights		175	149
Other long-term expenditure		713	492
Advance payments		60	182
		948	823
Tangible assets	10		
Land and water areas		84	163
Buildings and structures		2 815	2 973
Machinery and equipment		1 872	2 066
Other tangible assets		20	20
Advance payments and purchases in progress		272	383
		5 063	5 605
Investments	11		
Shares in subsidiaries		4 833	6 483
Shares in associates		22	22
Other shares and participations		102	111
Loan receivables		12 919	12 889
		17 875	19 505
CURRENT ASSETS			
Inventories			
Materials and supplies		5 243	4 150
Work in progress		860	674
Finished goods		1 712	1 850
		7 815	6 674
Non-current receivables	12		
Loan receivables		623	0
Current receivables	12		
Trade receivables		21 186	22 085
Loan receivables		3 451	3 480
Accrued income and prepaid expenses		1 131	258
		25 768	25 823
Financial assets at fair value through profit or loss	13	2 004	1 943
Cash and cash equivalents		5 118	968
		65 215	61 341

Parent Company Balance Sheet

(EUR 1,000)	Note	31.12.2007	31.12.2006
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		24 310	21 192
Profit for the year		7 355	4 140
Total		39 792	33 459
LIABILITIES			
Non-current	15		
Loans from financial institutions		9 621	11 894
Current	16		
Interest-bearing			
Loans from financial institutions		3 273	3 273
Other current liabilities		0	757
		3 273	4 030
Non-interest-bearing			
Advances received		30	30
Trade payables		5 798	5 206
Accrued liabilities and prepaid income		3 906	3 407
Other current liabilities		2 796	3 315
		12 529	11 958
Liabilities, total		25 423	27 882
		65 215	61 341

Parent Company's Cash Flow Statement

(EUR 1,000)	1.1.–31.12.2007	1.1.–31.12.2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flow from sales	96 928	85 210
Cash flow from other operating income	224	237
Payments on operating costs	-89 990	-85 164
Net cash from operating activities before financial items and taxes	7 162	283
Interests paid and other financial payments	-550	-474
Taxes paid	406	0
Net cash from operating activities before extraordinary items	7 018	-191
Cash flow from extraordinary items (net)	0	0
Net cash from operating activities (A)	7 018	-191
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure on tangible and intangible assets	-1 173	-1 065
Proceeds from sale of shares in subsidiaries	2 150	0
Proceeds from sale of tangible and intangible assets	717	2 204
Loans granted	-1 605	-801
Repayments of loan receivables	339	362
Net cash used in investing activities (B)	427	700
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term loans	0	1 000
Repayments of long-term loans	-2 273	-2 104
Dividends and other profit distribution	-1 022	-613
Net cash used in financing activities (C)	-3 295	-1 717
CHANGE IN LIQUID FUNDS (A+B+C) (+ increase, - decrease)	4 150	-1 208
Liquid funds at beginning of financial year 1)	2 911	4 054
Changes in fair value, investments	62	65
Liquid funds at end of financial year 1)	7 122	2 911

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

Accounting Policies for Parent Company Financial Statements

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 are reported as a deduction from equity.

Notes to Parent Company Financial Statements:

(EUR 1,000)	2007	2006
1. Breakdown of revenue by market area, % of revenue		
Finland	85.7	86.5
Scandinavia	6.9	5.7
Other	7.4	7.8
Total	100.0	100.0
2. Other operating income		
Gains on sale of fixed assets	646	840
Rental income	159	145
Public subsidies	59	92
Other operating income	34	0
Total	898	1 077
3. Materials and services		
Materials and supplies		
Purchases during the financial year	54 114	53 721
Change in inventories of materials and supplies	-941	-1 120
External services	3 423	3 002
Materials and supplies, total	56 596	55 603
Auditor's fees		
Auditing	59	53
Other services	28	12
Auditor's fees, total	87	65
4. Personnel expenses and number of personnel		
Salaries, CEO	335	276
Salaries of board of directors	72	72
Salaries of board of directors and managing director, total	407	348
Other salaries	14 006	13 239
Pension expenses	2 620	2 592
Other salary-related expenses	945	875
Personnel expenses in the income statement	17 979	17 054
Fringe benefits	408	377
Total	18 386	17 431
Personnel		
Average personnel, workers	176	167
Average personnel, officials	201	189
Personnel at year end	399	356
5. Depreciation and write-down		
Depreciation according to plan		
Intangible assets	412	322
Tangible assets		
Buildings and structures	104	130
Machinery and equipment	895	839
Depreciation according to plan, total	1 410	1 291

Notes to Parent Company Financial Statements:

(EUR 1,000)	2007	2006

6. Financial income and expenses

Financial income and expenses		
Dividend income	0	1
Interest income on short-term investments	51	39
Interest income on short-term investments from Group companies	137	214
Foreign exchange gains	21	3
Other financial income	0	4
Interest expenses	-675	-631
Losses on foreign exchange	-2	-32
Other financial expenses	-51	-127
Change in value of assets recognised at fair value through profit or loss	62	65
Total	-458	-464

7. Extraordinary items

Extraordinary expenses		
Group contribution	0	-1 000
Extraordinary income		
Item on mutual receivables and liabilities between Martela Oyj and real-estate company connected with the sale of real-estate company Oulu	774	0

8. Income taxes

Income taxes from operations	549	0
Taxes from previous years	-406	0
Total	143	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 15 thousand (EUR 2,2 million 2006).

9. Intangible assets

1.1.2007 – 31.12.2007	Intangible rights	Other longterm expenses	Work in progress	Intangible assets, total
Acquisition cost 1.1.	436	4 457	182	5 074
Increases	62	631	99	791
Decreases	-12	-71	-221	-304
Acquisition cost 31.12.	485	5 016	60	5 561
Accumulated depreciation 1.1.	-287	-3 965	0	-4 252
Accumulated depreciation, decreases	0	50	0	50
Depreciation for the year 1.1.-31.12.	-24	-388	0	-412
Accumulated depreciation 31.12.	-310	-4 304	0	-4 614
Carrying amount 1.1.	149	492	182	823
Carrying amount 31.12.	175	713	60	948

Notes to Parent Company Financial Statements:

(EUR 1,000)

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.	436	4 457	182	5 075
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

10. Tangible assets

1.1.2007–31.12.2007	Land areas	Buildings	Machinery and equipment	Other tangible assets	Work in progress	Total
Acquisition cost 1.1.	163	11 687	23 828	20	383	36 081
Increases	0	68	725	0	478	1 271
Decreases	-79	-719	-49	0	-589	-1 437
Acquisition cost 31.12.	84	11 035	24 504	20	272	35 915
Accumulated depreciation 1.1.	0	-8 714	-21 762	0	0	-30 476
Accumulated depreciation, decreases	0	597	25	0	0	622
Depreciation for the year 1.1.-31.12.	0	-104	-895	0	0	-999
Accumulated depreciation 31.12.	0	-8 221	-22 632	0	0	-30 853
Carrying amount 1.1.	163	2 973	2 067	20	383	5 606
Carrying amount 31.12.	84	2 815	1 872	20	272	5 063

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

Revaluations included in buildings total EUR 1 850 thousand in 2007 (EUR 1 850 thousand in 2006).
Carrying amount of production machinery and equipment in 2007 total EUR 1 547 thousand (EUR 1 660 thousand in 2006).

Notes to Parent Company Financial Statements:

(EUR 1,000)

11. Investments

1.1.2007 – 31.12.2007	Subsidiary shares	Associate shares	Other shares and participations	Loan receivables	Total
Balance sheet value at beginning of year	6 484	22	111	12 889	19 506
Increases	0	0	0	30	30
Decreases	-1 651	0	-9	0	-1 660
Balance sheet value at end of year	4 833	22	102	12 919	17 875

1.1.2006–31.12.2006	Subsidiary shares	Associate shares	Other shares and participations	Loan receivables	Total
Balance sheet value at beginning of year	6 484	22	1 831	10 730	19 067
Increases	0	0	0	2 159	2 159
Decreases	0	0	-1 720	0	-1 720
Balance sheet value at end of year	6 484	22	111	12 889	19 506

Subsidiary shares:		Parent company's holding %	Voting power %	No. of shares	Par value	Book value teur
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
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						4 833
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						51
Total						102

12. Receivables

	2007	2006
Non-current receivables		
Loan receivables	623	0
Current receivables		
Receivables from companies in same group		
Trade receivables	7 724	5 111
Loan receivables	3 428	3 446
Accrued income and prepaid expenses	13	4
Other receivables		
Trade receivables	13 463	16 974
Loan receivables	22	34
Accrued income and prepaid expenses	1 119	254
Current receivables, total	25 768	25 823

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

Notes to Parent Company Financial Statements:

(EUR 1,000)

13. Financial assets at fair value through profit or loss

Fund units	2 004	1 943

14. Changes in shareholders' equity

Distribution of shares 31.12.2007	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.and 31.12.	7 000	7 000
Share premium account 1.1 and 31.12.	1 116	1 116
Reserve fund 1.1 and 31.12.	11	11
Retained earnings 1.1.	25 332	21 805
Dividends	-1 022	-613
Profit for the year	7 355	4 140
Retained earnings 31.12.	31 665	25 332
Shareholders' equity, total	39 792	33 459

The distributable funds of the parent company are EUR 31 665 thousand in 2007 (EUR 25 332 thousand 2006).

Treasury shares held by Martela Oyj are 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 31.12.2007: EUR 8.35 /share; (6.5 EUR 2006), total EUR 565 thousand (EUR 440 thousand 2006).

15. Non-current liabilities

	2007	2006
Loans from financial institutions	9 621	11 894

Changes and repayments of non-current liabilities

	Loans from financial institutions	Loans from financial institutions	Pension loans
Non-current liabilities 1.1.	11 894	11 723	2 422
Increases	0	2 422	0
Repayments	-2 273	-2 251	-2 422
Non-current liabilities 31.12.	9 621	11 894	0

Repayments	2008	2009	2010	2011	2012	2013 -
Loans from financial institutions	2 273	2 273	4 507	1 316	1 016	508

Notes to Parent Company Financial Statements:

(EUR 1,000)	2007	2006
16. Current liabilities		
Current liabilities		
Liabilities to group companies		
Trade payables	1 245	1 458
Other current liabilities	0	757
Total	1 245	2 215
Other current liabilities		
Loans from financial institutions	3 273	3 273
Advances received	30	30
Trade payables	4 553	3 748
Other current liabilities	2 796	3 315
Accrued liabilities	3 906	3 407
Other current liabilities, total	14 557	13 773
Current liabilities, total	15 802	15 988
Current liabilities are specified in Notes because items are combined in Balance Sheet		
Essential items of accrued liabilities		
Personnel expenses	2 483	2 735
Interest and financing accruals	123	143
Royalties	92	80
Residual expenses	602	439
Taxes	549	0
Other accrued liabilities	57	10
Accrued liabilities, total	3 905	3 407
17. Pledges granted and contingent liabilities		
Debts secured by mortgages		
Bank loans	12 894	15 167
Property mortgages	11 548	11 548
Corporate mortgages	3 869	3 869
Shares pledged	4	4
Total mortgages	15 421	15 421
Other pledges		
Guarantees as security for rents	97	97
Guarantees given on behalf of companies in the same group.	2 284	2 057
Leasing commitments		
falling due within 12 months	619	742
falling due after 12 months	1 077	640
Total	1 696	1 382
Repurchase sureties	150	161
Other commitments		
Rent commitments	8 727	7 712

Board of Directors' proposal for the distribution of profit

The parent company's distributable funds are EUR 31 665 067.06, of which the profit for the financial year is EUR 7 355 098.53.

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

• distribution of a dividend of EUR 0.50 per share, totalling	EUR 2 043 950.00
• to be left in shareholders' equity	EUR 29 621 117.06

Helsinki, 19 February 2008

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, 20 February 2008

Reino Tikkanen
Authorised Public Accountant

Auditors' 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 1.1.–31.12.2007. 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 my 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 Limited Liability 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 Limited Liability Companies Act.

Helsinki, February 20, 2008

Reino Tikkanen
Authorised Public Accountant

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