

2018



Inspiring
spaces

Martela

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Martela in brief

MARTELA IS A NORDIC LEADER SPECIALISING in user centric working and learning environments.

We offer our customers a single point of contact throughout the workplace lifecycle, from specifying needs to maintenance and optimisation of the workplace.

Martela is a family company founded in 1945 and its shares are quoted on the OMX Nordic Exchange Helsinki. Our main market areas are Finland, Sweden and Norway, and our solutions are also sold globally through our network of dealers. Our production facilities are located in Finland and Poland.

In 2018, the Martela Group's revenue was EUR 103,1 million and it employed an average of 510 employees.



Martela 2018

IN 2018, Martela's revenue and operating result decreased compared to previous year due to postponement of frame agreement negotiations in the Finnish public sector and tightened market situation. Cash flow from operating activities increased significantly compared to previous year.

Implementation of Martela Lifecycle® strategy progressed well among clients and the company's strategically important product portfolio was expanded during the year. Next to its existing service model known as Workplace as Service, Martela developed an entirely new service model with its clients called Learning environment as a Service.

In 2019, Martela will be focusing especially on increasing the sales volumes and improving profitability to support growth in all market areas.

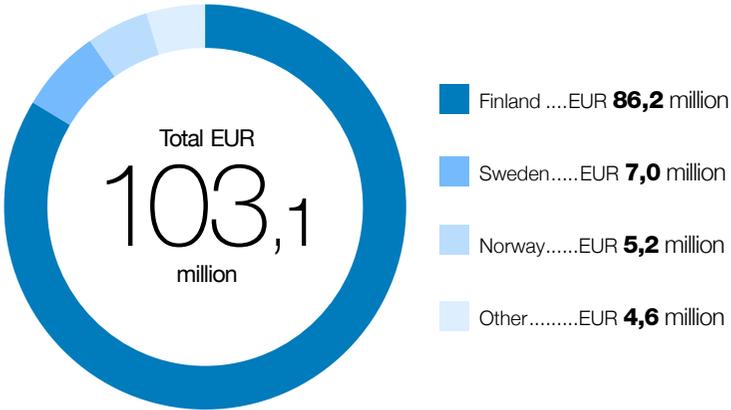
Turnover (EUR million)

103,1

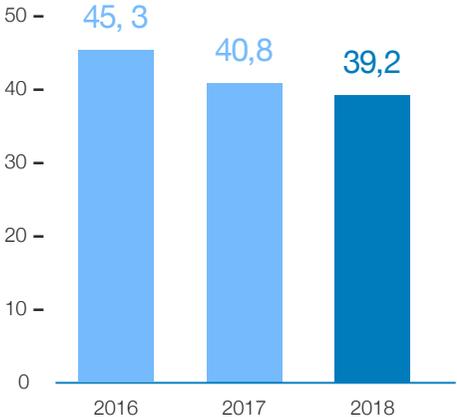
Operating profit (EUR million)

-2,1

Turnover by country



Equity ratio (%)



Personnel (on average)



Challenging market

– operating efficiency improved

AT THE BEGINNING OF 2018, we were optimistic about the future and forecasted solid growth because we had completed an extensive customer-oriented change process in the preceding years and implemented an ERP system to support the change.

However, delays in the tendering of public sector procurement contracts and a decline in the demand for learning environments caused the Finnish market, which is our principal market, to contract. Though there was increased demand from corporate customers, this was not enough to completely make up for the decline in public sector procurements. At the same time, competition grew as new foreign competitors entered the market. In Sweden, the market was relatively stable, but our transformation of the sales channel launched earlier weakened our product and service sales. In contrast, the Norwegian market remained active and our sales developed well. Our revenue for 2018 fell slightly short of the previous year, totalling EUR 103.1 million (2017: EUR 109.5 million).

The decline in revenue was also reflected as a weakening of our profitability. Our operating result

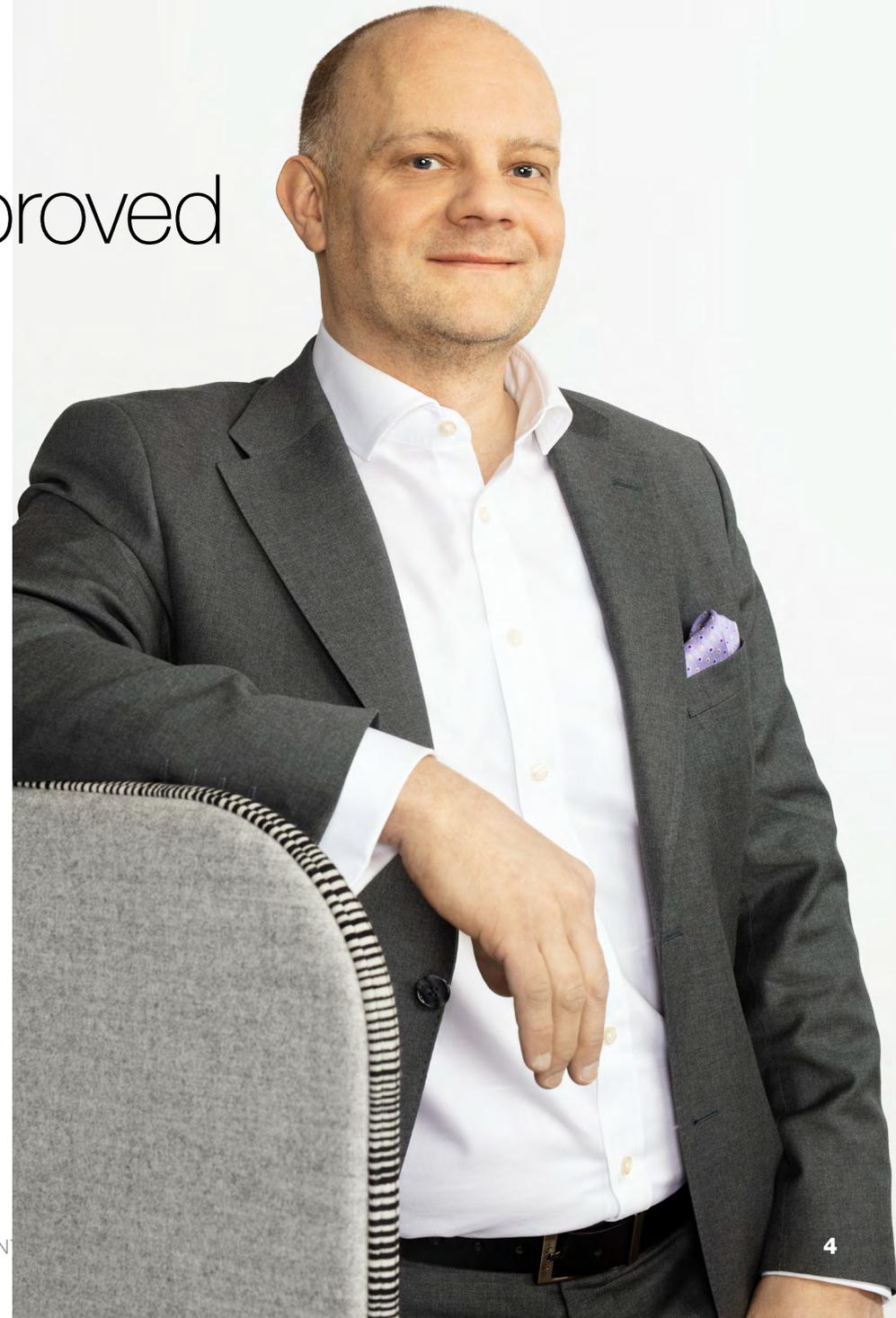
fell short of the previous year at EUR -2.1 million (2017: EUR 0.3 million). The competition that increased during the year also reduced our sales margins. We reacted to the situation with various measures to boost efficiency. One of these measures was to concentrate our logistics and finance functions and sales support functions in Finland. This also benefits our customers.

Customer-oriented operations

There were also plenty of positive achievements and excellent successes in this year of minor profit. Our customers' interest in the Martela Lifecycle® business model reinforced our view that we are leading designers and implementers of the workplaces and learning environments of the future.

As an alternative to traditional methods of procurement we introduced Workplace as a Service, a new type of service model for workplaces. Its monthly fee can include either all of the stages or just selected stages of the lifecycle.

The transformation of the way we work is continuing, and as a developer of user-centric workplaces and learning environments Martela is





Our goal is to offer the best customer experience in our industry and to develop our products and services so that they meet the needs of our customers.



ahead of its competition. Our operations are now more customer-centric and we take our customer needs into account comprehensively. Our brand is highly recognised and according to the Office 2018 survey, our customer experience was the best in our industry. Our goal is to also in the future offer the best customer experience in our industry and to develop our products and services so that they meet the needs of our customers. In addition to developing our service offering, we constantly renew our furniture collection. During 2018, we expanded our product portfolio by introducing several new products in our strategically important Pod product family, which is designed to meet the growing need for flexible spaces. During 2019, we will further expand our product and service offering with innovative new products.

We have also enhanced our own operations. Our investment into a new ERP system will benefit us more as our revenue grows, but even now our delivery reliability is on an excellent level. We

optimised our production and distribution chain. Our shared understanding of our goals and strategy has further strengthened and our cooperation has improved considerably.

Leader in responsibility

In the area of responsibility, Martela has been an exemplary operator and progressive developer of the circular economy for a long time. In accordance with its Lifecycle® strategy, Martela offers high-quality workplaces and learning environments as comprehensive services throughout their lifecycles. The offering includes the specification and planning, implementation and furnishing, and continuous measurement and development.

Workplaces implemented according to the workplace Lifecycle® model improve employees' job satisfaction, facilitate workspace management and make it easier to operate in a responsible way that reduces environmental impacts. When the overall situation is being managed and future needs can be predicted well in advance, it

is possible to have a positive impact on the operating expenses of the premises. Durability and timeless design have always been at the core of Martela's product design. Our maintenance and recycling services allow us to further lengthen the life of products, benefit from versatility or find new users for furniture when changes are made to the use of space. The materials used in the products are safe and durable and can be recycled or used in energy production after use.

Over the previous decade, the importance of responsibility has been elevated to a new level among our customers, as the significance of environmental and climate issues has increased in public discussion. Social responsibility issues regarding the product supply chain, timeless design, quality, adaptability, compatibility, recyclability, minimisation of impacts during the production stage and overall costs are gaining importance in our customers' expectations. The world needs to stop its throwaway culture and consumption needs to be based on sustainable development

and responsible service models. Martela's leading role in providing solutions that fulfil these new criteria and as a responsible producer is a clear competitive advantage.

The way we work continues to change

Our expectations for the current year are still optimistic, but we are now more cautious in our assessments. According to economists' forecasts, our market area's economy will continue to grow moderately. The way we work will continue its transformation and our offering successfully meets the needs of the trends on our operating environment and the needs of our customer base. Therefore, we believe that we will return to profitable growth.

I'd like to warmly thank all Martela employees and our customers, shareholders and partners for their excellent cooperation throughout 2018.

Matti Rantaniemi
CEO

Highlights in 2018

Syvälähti community centre was completed



THE SYVÄLAHTI COMMUNITY CENTRE was completed in Hirvensalo, Turku in summer 2018. The centre contains a school with some 600 students, a day care centre for 140 children, a library, a child welfare clinic, and facilities for youth services and school health care all under one roof. Martela was responsible for the interior design and the furniture. The City of Turku wanted to build a versatile, adaptable and safe building that would serve its various users and offer a modern, healthy and inspiring learning environment.

“A team of professionals from different fields shared a common goal throughout the project and achieved excellent results. The furniture solutions have a key role in the success of the project. And above all, everyone has been really satisfied,” says Jarmo Salo, Principal of Syvälahti school.

→ [Watch the video](#)

Pod product family grew



DURING 2018, Martela expanded its product selection by introducing several new products in its large Pod product family, which is designed to meet the growing need for flexible spaces. The new products PodLounge, Pod-Meeting Cove and Pod Xpress were launched in 2018. They all flexibly adapt to various work environments and needs. The Pod series designed by o4i Design Studio is available in an almost unlimited number of colours, and it can be adapted to suit any kind of interior, which is essential for an inspiring and harmonious workplace. The collection's design is also timeless, which is an important aspect regarding durability.

→ [Find out more about Pod family](#)

New service model: Workplace as a Service



IN 2018, MARTELA launched the Workplace as a Service model. Workplace as a Service is a continuous service model. Within the framework of the service, Martela develops a workplace that meets the current and future needs of an organisation and is also responsible for the implementation and optimisation. The service model enables an organisation to only pay for what it genuinely needs, which means that the problems related to owning furniture no longer exist. Workplace as a Service model is always implemented as a service tailored to customers' needs. The service package can include continuous measurement of space utilisation and user experience, workplace planning and optimisation, furniture and interior design solutions, implementation of changes as well as development of work methods in cooperation with personnel.

→ [Find out more about the service model](#)

#IoTnextlevel

In autumn 2018 Martela learned new and agile ways of developing operations as a result of the #iotnextlevel innovation challenge that was made possible by DNA. During the challenge, a platform measuring the impacts of workplace changes was designed. The challenge helped Martela jolt one step forward. “Now we are much better at experimenting, testing and piloting,” says Martela’s Offering Director Panu Muhonen.

Office 2018: Martela most recognised and promoted

The Office 2018 survey measured awareness, overall score, net promoter score and corporate image factors. Martela was the clear leader in its field in brand awareness, net promoter score and overall score. In corporate image factors, Martela stood apart from other companies in the areas of trustworthiness, delivery reliability and comprehensiveness of overall offering. (Taloustutkimus, 2018.)

Transformation of workplaces continues

DIFFERENT TRENDS have a strong influence on how the way we work changes. Digitalisation has enabled us to work no matter where we are and at any time. Urbanisation is increasing the cost of office space, especially in growth centres, and measures taken to curb climate change mean that we have to consume less energy. As a result, companies want to avoid wasting floor space and increase the efficiency of their premises. As future needs are impossible to predict, acquiring a workplace as a service will become more common. This will allow companies to implement continuous changes flexibly and in a way that saves money.

Progress has advanced from individual offices to open-plan spaces and now to activity-based offices. Various open-plan and shared spaces have become more common and these days very few have a personal office. Telecommuting means that fewer workstations are needed in relation to the number of employees. There is less need for storage furniture as paperless methods of working have increased, which has also enabled shared workstations. The way we

use meeting rooms has also changed. Meetings usually include a group of two or three people, whereas traditional meeting rooms are built to accommodate large groups. Digitalisation has resulted in physical meetings being replaced with videoconferences.

Continuous change

There has also been a massive change in the content of work and work-related roles. This change is also continuous and its pace is accelerating. Working is increasingly made up of thinking, exchange of ideas and cooperation among colleagues. Tasks requiring concentration alternate with times when interaction is needed, and it is impossible to avoid interruptions. Organisations have flat hierarchies and success is rated with results rather than hours spent at the office, so there is more need for self-management. Knowledge work places more strain on employees' mental wellbeing than on their physical wellbeing, which is an increasingly important factor from the perspective of productivity.

Methods of working, the roles and duties related to work and management methods are

all changing, so workplaces must also change. These changes require comfortable workplaces that consider individual needs. User-centric workplaces have areas for collaboration, concentration, communication and chill-out. The workplace is a strong management tool that can have an efficient impact on an organisation's working methods, job satisfaction and productivity. A comfortable workplace is also one factor that can help employers stand out when competing for new talents.

Investments in workplaces are considerable, so the workplace must always be optimal so that the company can operate there as efficiently as possible. Workplace planning is based on the company's goals, the nature of the work carried out in the work community, and various work roles. By understanding the requirements of the workplace as a whole and taking all the needs of the work community into consideration, we can create comfortable workplaces that improve productivity and renew work and management cultures and that are also ecological and cost-efficient. Efficient facilities also require constant



The workplace is a strong management tool that can have an efficient impact on an organisation's working methods, job satisfaction and productivity.

maintenance and monitoring of their use and the experiences of their users so that, when needs change, they can be quickly modified. Data on the rates and methods of utilisation of premises can be collected by analysing electronic space booking data and with surveys and studies of utilisation rates. The results can be used to develop and modify spaces so that they better serve the needs of the organisation.

Learning environments are changing

The operating culture at educational institutes is radically changing, and teaching and learning methods are increasingly varied. New practices and methods also require a new type of learning environment. Its renewal should be done in a user-centric and participatory way. Schools and learning environments have traditionally been designed to last for decades. However, the current speed of change means it is difficult to predict when and how ways of teaching and learning will change and what demands this will place on learning environments.



Service models

Workplace as a Service

Work spaces have traditionally been designed to last five to seven years. However, the current fast-paced working environment makes it impossible to know when and how the organisational situation, number of employees and ways of working are in need of change. Martela's service model Workplace as a Service ensures that the work environment is always optimal. Instead of individual furniture orders, the model offers organizations a comprehensive solution for the entire lifecycle of the workplace that takes continuous care of work spaces, furniture – and people. An integral part of the service is continuous work space optimization according to the changing needs of users. The service model allows for the organization to pay only for the services it truly needs, and erases problems related to ownership of furniture. Within the model, the workplace is always equipped to answer to current needs and goals.

All of Martela's service models comply with the Waste Nothing principle; for example, changing existing furniture is not an end of itself. If proper use for existing furniture cannot be found, the furniture can be found new uses through the Martela Outlet.

Learning environment as a Service

The operating culture of learning environments is changing, and the ways of teaching and learning are more diverse than before. New practices and methods set requirements also for the renewal of the learning environment. Developed through service design and in cooperation with clients, Martela's new service model Learning environment as a Service answers this challenge.

By adapting the model, schools and other places of learning no longer have to own a single furniture but can rent the needed solutions as a service. The most important benefit of the Learning environment as a Service model is that it creates a practical framework for the renewal of learning environments and is a concrete way of bringing circular economy to schools on a practical level.

Value for customer



Ability to respond quickly to changing needs



Improved user-experience and increased well-being



Increase in productivity and ability to innovate



Renewal of operational and management culture



Decreased and predicted total costs

Martela Lifecycle[®] – User-centric workplaces and learning environments

USER-CENTRIC WORKPLACES AND learning environments adapt to a wide range of needs and situations. They have areas for a variety of activities, such as collaboration, communication, chill-out and concentration. The best workplaces and learning environments are created based on the goals and values of each customer and by listening to the needs of end users. The more successfully an environment facilitates work and learning, the more satisfied its users are, which boosts productivity and wellbeing. This improves the way people work and study!

Martela Lifecycle[®] is based on a comprehensive concept that covers the entire lifecycle of workplaces and learning environments. In the concept, development and maintenance of premises and furniture is continuous, ensuring that workplaces can evolve with the changing needs. Martela's service models enable workplaces and learning environments to be acquired as a service. They ensure the best-possible workplaces and learning environments even during rapid periods of change.

Specification

In the specification phase future needs regarding changes are considered. If a company has the opportunity to move to new premises, the specification phase provides support for finding the right kind of facilities. The new premises are often 20–40% smaller than those required in tra-

ditional offices. The specification always starts with the business goals and the definition of user-driven needs by looking at the company's users and tasks, and the nature of the work and its needs, and at the goals of the work environment change. The goals of the change are always derived from the company's strategy and targets, which means that they will help take the company towards its future vision. The carefully implemented specification includes a measurement of the utilization rate of premises, workshops and a workplace survey and involves users in the change. At the end of the specification phase the customer receives a workplace report and a space usage plan based on this.

Planning

User-centric workplace planning ensures a responsibly created and maintained work environment for the company that also supports its functions. Space and interior design help to optimise the functionality of the work environment and the use of space. In the design stage, a company-specific space plan is created that takes into account existing furniture, recycling of excess furniture and opportunities for renting furniture and familiarisation of employees with the new facilities. As a result of the planning, the customer receives a custom-made space plan that is used in implementing the change. It is also possible to lease the workplace as a whole instead of purchasing it.

Implementation

The successful implementation of the change and maintenance work is ensured with careful advance planning and efficient project management. Martela takes care of everything, from removals, installation and recycling of the furniture and the final clean-up as well as familiarising the personnel with the new way of working.

Maintenance

The maintenance stage includes an investigation into the development needs of the workplace. This is based on a user experience survey and utilization rate measurements, and development proposals drawn up on the basis of the results of these. Continuous maintenance and optimisation reduce the need for major changes, help to lower costs and ensure the wellbeing of employees and the efficiency of work as the premises will continue to support work after organisational changes or the change of work methods.

Organisations and working methods are changing continuously. It is advisable to regularly check if the work environment supports the current ways of working. The changes required in the workplace do not necessarily have to be substantial, but they can have a major effect on productivity and employee wellbeing.

Workplace or Learning environment as a Service

Instead of individual furniture orders, the service models allow customers to select a comprehensive solution for the entire lifecycle of the workplace or learning environment that focuses constantly on the premises, the furniture and the people. An essential aspect of the service is the continuous optimisation of the workplace or learning environment in accordance with the changing needs of the users. The service model means that the customer only needs to pay for what it genuinely needs, which erases problems related to owning furniture. All of Martela's service models observe the Waste Nothing principle: we don't change furniture just for the sake of change and we recycle furniture that is not needed.

Value for customers

A successful workplace and learning environment encourages employees to be more engaged in their work, which is directly related to efficiency, cost savings, job satisfaction and cooperation. Successful companies understand the potential of the workplace as a management tool. A functional environment serves as a management tool that encourages users to show initiative, take responsibility, achieve the company's KPIs and ensures a smooth flow of information. A good environment is a source of creativity that supports the performance of high-quality work and wellbeing.

Board of Directors' Report and Financial Statements

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Board of Directors' Report

Key figures

The Group's revenue for the financial year was EUR 103.1 million (109.5). The operating result for the year was EUR -2.1 million (0.3). Earnings per share were EUR -0.57 (-0.15). Cash flows from operating activities totalled EUR 7.4 (-7.6) million. The equity-to-assets ratio was 39.2 per cent (40.8) and gearing was 0.7 per cent (29.0). The return on investment for the year was -4.9 per cent (1.6).

Description of the business

Martela is one of the Nordic leaders in the workplace industry. Martela designs and implements best workplace and learning environments. Martela supplies user-centric solutions into today's workplaces – mobile work and activity based offices. Martela also offers the widest selection of services supporting changes in interior planning as well as supporting maintenance. Our total offering comprises of the change of the whole workplace from its specification and planning to implementation and maintenance.

Martela's offering and product development

In line with its Lifecycle strategy Martela creates high-quality services for workplaces and learning environments along the full lifecycle. Our offering includes workplace and learning environment specification and planning, implementation and furnishing as well as continuous measurement and optimisation.

To add to the traditional way of purchasing, Martela has introduced a new service model, Workplace as a Service. The monthly service fee can include everything from one to all of the lifecycle phases.

During 2018, Martela expanded its product offering by introducing several new products to the strategically important Pod product family, which is designed for the increasing need for adaptable working environments.

EUR -1.9 (-2.1) million has been entered in the Group profit and loss statement as research and development expenses.

Market situation

There has not been any major changes in the private sector market conditions. However, demand for Finnish public sector will temporarily be affected negatively by postponement of frame agreement negotiations. However the demand for Martela's products and services is fundamentally affected by the general economic situation and by the extent to which companies and the public sector need to strengthen the utilisation of their spaces and make their workplaces more effective as management tools.

Group structure

There were no changes in Group structure during the review period.

Revenue and operating result

The January–December 2017 revenue was EUR 103.1 million (109.5) and declined 5.9 % on the comparison

period. Compared to the previous year, revenue declined in all market areas with the exception of Norway. Revenue declined in Finland by 1.2%, in Sweden by 40.0% and in the group Other countries by 27.9%. Revenue in Norway grew by 26.2%.

Revenue was impacted by postponement of frame agreement negotiation in the public sector. Impact was significant especially in the last quarter of the year. Excluding the public sector, we were able to grow in all other customer segments in Finland.

Revenue in Sweden decreased compared to last year due to change in sales channel. Revenue in Norway grew according to the strategic plan. Revenue in Other countries decreased compared to last year due to lack of larger projects.

The Group's operating result for the January–December was EUR -2.1 million (0.3). This was mainly influenced by decreases sales volume and increased competition, which resulted to lower sales margin.

The January–December result before taxes was EUR -2.5 million (0.0). The January–December result was EUR -2.4 million (-0.6).

Financial position

The cash flow from operating activities in January–December was EUR 7.4 million (-7.6). Improvement was strongly driven by enhanced invoicing process and improved turnover of receivables.

At the end of the period, interest-bearing liabilities stood at EUR 10.7 million (13.8) and net liabilities were EUR 0.1 million (6.6). At the end of the period, short-term limits of EUR 5.0 million were in use (6.8) and available limits stood at EUR 1.8 million.

The gearing ratio at the end of the period was 0.7% (29.0) and the equity ratio was 39.2% (40.8). Financial income and expenses were EUR -0.4 million (-0.2).

Financing arrangements include covenant clauses in which the ratio between the Group's net liabilities and EBITDA and the Group's equity ratio are calculated. The key figures calculated at the end of the review period did fulfill the covenant clauses.

The balance sheet total stood at EUR 50.0 million (56.4) at the end of the period.

Capital expenditure capital expenditure

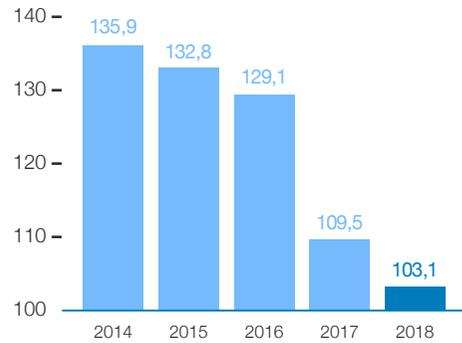
The Group's gross capital expenditure for January–December came to EUR 1.7 million (2.1).

The group management team

M.Sc. (Econ) Kalle Lehtonen was appointed as Chief Financial Officer (CFO) and Management Team member. He started in his role on April 25, 2018.

M.Sc.Eng Ville Taipale was appointed to VP Customer Supply Management and member of the Management Team. He started in his role on September 17, 2018.

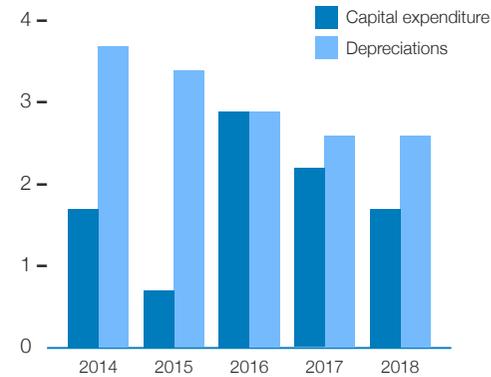
REVENUE



OPERATING PROFIT



CAPITAL EXPENDITURE AND DEPRECIATIONS



EARNINGS/SHARE AND DIVIDENDS



In addition, CEO Matti Rantaniemi, VP Innovation to Market Mikko Mäkelä and VP Sales and Marketing Johan Westerlund belong to the Group Management Team.

Personnel

The Group employed an average of 510 people (508), which represents an increase of 2 persons or 0.4%. Personnel on average employed in Finland was 432 (435), in Sweden 28 (27), in Norway 11 (10) and in Group other countries 39 (36).

The number of employees in the Group was 501 (507) at the end of the review period. Personnel costs in January–December totalled EUR 26.7 million (27.1).

Non-financial information

MANAGEMENT OF CORPORATE RESPONSIBILITY

Responsibility forms an integral part of Martela's strategy and operations. Until the end of 2018, the VP, People & Sustainability was responsible for the corporate responsibility and quality and environmental management system of the Group. From the beginning of 2019, the responsibility was transferred to VP, Customer Supply Management. Sustainability Steering Group supervises corporate responsibility with members from the Management Group and the Sustainability Manager as the secretary.

More detailed information on the Group's corporate responsibility principles, goals and achievements can be found in a separate Sustainability Report published annually. The 2018 Sustainability Report will be published after the annual report.

Since 2011, Martela's corporate responsibility has been guided by the Martela Corporate Code of Conduct approved by the Board of Directors. The principles contain references to international corporate responsibility commitments. The company has engaged itself in the UN Global Compact challenge, which aims at promoting

human rights, rights in working life, environmental protection and the eradication of corruption and bribery.

As Martela operates in an international market, it also takes into account any international treaties, commitments and recommendations that concern its work. The most important ones are:

- The UN Universal Declaration of Human Rights
- OECD Guidelines for Multinational Enterprises
- The ILO Declaration on Fundamental Principles and Rights at Work and other ILO conventions related to its activities

Since 2011, the practical activities of the company have been guided by the corporate responsibility policies approved by the Management Group concerning matters related to personnel, the environment and purchasing management. The principles and policies published on Martela's website www.martela.com/responsibility are reviewed and, when necessary, updated annually under the coordination of the Sustainability Steering Group. The principles and policies cover social and employee matters and matters related to respecting human rights and eradication of corruption and bribery.

DESCRIPTION OF THE BUSINESS OPERATING MODEL

The Martela Lifecycle® model takes into account the entire life cycle of the workplace. Martela supports the sustainability of its client companies by offering sustainable workplace solutions throughout their entire lifecycle and by ensuring responsible recycling of any furniture that is no longer needed.

The Group has had, since the 1990s, the ISO 9001 quality and ISO 14001 environmental management system certifications, granted by an independent party, as proof of continuous improvement of its operations, meeting customer expectations and taking environmental matters into account.

In the manufacturing process, there is an emphasis on a strong supplier chain. Martela's own manufacturing is focused on final assembly and remanufacturing production at its logistics centre in Nummela, Finland, which

also houses most of the company's R&D and purchasing. The assembly of upholstery components takes place at Martela's own plant in Poland. The manufacture of table top and storage components takes place mainly at Kidex Oy, Martela's subsidiary located in Kitee, Finland.

The Martela headquarters in Pitäjänmäki, Helsinki, houses sales and support functions in addition to the Group administration. Martela has several sales offices across Finland, Sweden and Norway. In other countries, the sale of Martela's products takes place mostly through a dealer network.

The purchasing of products and services from service providers accounts for approximately 70% of Martela Group's turnover, while Martela itself concentrates on final assembly and service business. Martela had about 150 suppliers of materials and components for standard products. Of the material purchases, approximately 70% came from Finland, Sweden or Poland, and about 10% from outside Europe.

Approximately a quarter of the Group's turnover goes on salaries and social security payments. Martela values local manufacturing and employment. As the share of its service business is growing, the company will keep creating more new jobs close to its markets. The distribution of financial value will be discussed in further detail in the forthcoming Sustainability Report.

ENVIRONMENTAL MATTERS

Martela's Environmental Policy, approved by the Group Management Team, aims to decrease the company's environmental impacts and promote recycling. The policy gives instructions on taking environmental matters into account in the development of its offering, through which the company will also have an indirect impact on the environmental effects of its customers.

The essential environmental aspects in Martela's operations are presented in the materiality assessment found in the Sustainability Report. One of the most important is to help customers continuously improve efficient use of space, resulting opportunities to reduce greenhouse emissions and energy consumption.

Martela has no exhaustive access to their customers' measurements of efficient use of space and energy consumption. In Martela's own operations, the parameters of energy and material consumption are being monitored. Martela's purchased energy consists mainly of district heating and electricity. Most of the Group's direct energy consumption is based on district heating (approx. 5 GWh), electricity (approx. 5 GWh), and combustion of its own transportation of materials (approx. 5 GWh).

Martela acquired approximately 11 million kg of materials, half of which were wood-based and a quarter metal-based. Through the recycling business, Martela processes a few million kg of recycled material coming from customers, most of which is reusable. In its own operations, Martela produces approximately 1.2 million kg of waste, of which 97 per cent can be reused as energy or recycled material, while the proportion comprising hazardous waste remains around one per cent coming mainly from property and machinery maintenance.

There are no significant environmental risks involved in Martela's own operations, but global changes in, for example, energy sources and pricing or preferences concerning various raw materials and forms of working may have an impact on Martela's operations in the future.

Environmental goals, their realisation and more detailed environmental metrics are published annually in the Sustainability Report.

SOCIAL MATTERS AND HUMAN RESOURCES

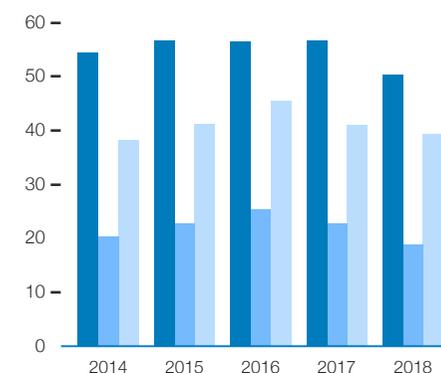
The People Policy includes the principles of responsible human resources management, clarifies and unifies

GEARING



■ Interest bearing net debt
■ Equity
■ Gearing

EQUITY RATIO %



■ Balance sheet total
■ Equity
■ Equity ratio %

the management of human resources and promotes maintenance and development of the corporate and employer image.

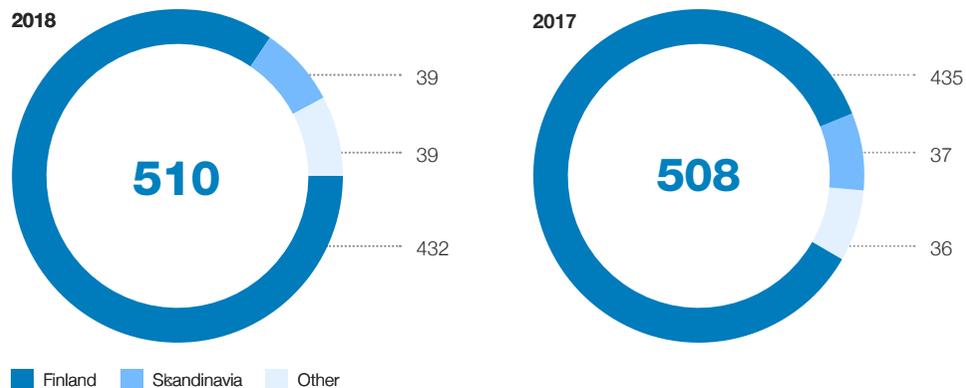
According to the materiality assessment in the Sustainability Report, improvement of occupational wellbeing is the most important social and human resources issue in Martela's operations. The benefit gained through the Martela Lifecycle® model for improving occupational wellbeing is quite small in Martela's own operations where approximately half of the personnel are knowledge workers. The biggest improvement potential is found in the indirect benefit for occupational wellbeing in its entire customer base through implementation of Martela Lifecycle® model.

Martela does not often have the opportunity to fully inspect the measurement results of the occupational wellbeing of its customers. In Martela's own operations, follow-up of occupational wellbeing with the People Spirit questionnaire has been included in the Sustainability Programme, where the target has been set at the AAA level.

In 2018, the emphasis was on developing people's expertise, improving occupational wellbeing and strengthening internal dialogue within the organisation. In the spring, the annual People Spirit survey was conducted in the organisation, where an overall score of A (i.e. satisfactory) was reached. On the basis of the results, an action plan was made in every unit of the organisation. An internal ongoing occupational wellbeing feedback mechanism, the Pulse Survey, was launched at the end of the 2017. In addition, the Martela Talent Programme, piloted in 2016, was taken into general use with personal Talent discussions and development plans during 2018. The Talent programme is based, on the one hand, on the strategic expertise of the organisation and, on the other hand, on the strengths and areas of interest of individual employees.

The company's Sustainability Report contains a comprehensive description of the social and human resource issues.

PERSONNEL BY AREAS, ON AVERAGE



RESPECTING HUMAN RIGHTS

Matters related to respecting human rights are discussed in, for example, the company's People Policy and Sustainability Policy for Supply Chain. The main principle is to offer equal opportunities to all of employees and to treat each employee equally. In the requirements for the suppliers, the focus is on observing national legislation and ILO conventions, depending on which of them is found more demanding from the viewpoint of employee rights. No breaches of respecting human rights have been observed in Martela's operations or supply chain.

Martela's products are manufactured on the basis of customer orders, which means that the supply chains are short and that the acquisitions mainly take place from the neighbouring areas and from elsewhere in Europe. In Europe, where there is a long tradition of follow-up of working conditions and legislation, the risks related to respecting human rights are smaller. The social risks of Martela's suppliers have been thoroughly investigated and are always reviewed when selecting new suppliers and in conjunction with supplier audits.

During 2018, two separate policies, Purchasing Principles and Social Requirements for suppliers were combined to Martela Sustainability Policy for Supply Chain. This change was done to emphasise the social responsibility also in the supply chain of our suppliers. New policy was communicated to the major suppliers during the summer 2018. Through following sustainability survey, the company received a commitment to the requirements set in Martela Sustainability Policy for Supply Chain from 153 material, component and product suppliers. In addition, some expressed their desire to have more detailed discussion on the updated requirements.

Sustainability training has been held for Martela's personnel in various forms on an annual basis since 2011. In the 2018 education, the participants were asked about the recent addition our Corporate Code of Conduct of not accepting any inappropriate behaviour in our work community. Almost 70% of the personnel replied to the survey. More than 90% of the respondents were aware of the updated issue in the content of the Corporate Code of Conduct. A more detailed questionnaire on the equality issues will be held during 2019.

PREVENTION OF CORRUPTION AND BRIBERY

Matters related to prevention of corruption and bribery are discussed in, for example, the Corporate Code of

Conduct and Sustainability Policy for Supply Chain. Martela does not accept bribery in any form in its business in any of its market areas. Giving or receiving bribes is not permitted under any circumstances.

All transactions are recorded through the financial management/bookkeeping of each subsidiary. Martela's auditor KPMG inspects the bookkeeping and transactions of all its subsidiaries. The bookkeeping is transparent to the CFO of the Group.

The commitment to Sustainability Policy for Supply Chain received through the sustainability survey 2018 also contained a commitment to unconditional honesty as a basis for business operations. Corruption and bribery are not acceptable in any form.

Almost 70% of the personnel participated the 2018 Sustainability education, where the participants were asked whether they were aware of the absolute ban on corruption and bribery in the Martela Corporate Code of Conduct. Almost 90% of the respondents were aware of the absolute ban. The education also raised a questions whether instructions that are more detailed should be given for the limits of gifts or hospitality. About 40% would like to have concrete limits to gifts and hospitality to help everyday situations where almost 20% preferred current instruction with reference to conventional limits of hospitality. Personal conflict of interest was identified in the clearest examples by 90% of respondents.

Share

Martela has two share series, A and K, with each K share entitling its holder to 20 votes at a General Meeting and each A share entitling its holder to one vote. Private holders of K shares have shareholder agreement that restricts the sale of K shares to any party outside the existing holders of K shares. There is a total of 604,800 K shares and a total of 3,550,800 A series, together 4,155,600 shares.

In January–December, a total of 1 357 890 (1 950 776) of the company's series A shares were traded on the NASDAQ OMX Helsinki exchange, corresponding to 38.2% (54.9) of the total number of series A shares.

The value of trading turnover was EUR 7.0 million (19.9), and the share price was EUR 2.96 at the end of the period (7.47). During January–December, the share price was EUR 8.48 at its highest and EUR 2.91 at its lowest. At the end of December, equity per share was EUR 4.54 (5.46).

There were no disclosure notifications in 2018. More information on the Martela Corporation shares and shareholders can be found under note 28 of the Notes to the financial statements.

TREASURY SHARES

Martela did not purchase any of its own shares in January–December. Martela owns a total of 13 082 Martela A shares and its holding of treasury shares amounted to 0.3% of all shares and 0.1% of all votes. Out of the shares, 12 036 were purchased at an average price of EUR 10.65 and 1 046 were transferred from Martela Corporation's joint account to the treasury shares reserve based on the decision by AGM on March 13, 2018.

SHARE-BASED INCENTIVE PROGRAMME

In the effective share-based incentive programme there are two earning periods, which are 2017–2018 and 2019–2020. The Board of Directors will decide the earning criteria and the goals for each criterion of the programme at the beginning of each earning period.

The target group for the 2017–2018 and 2019–2020 earning periods is the Group's Management Team. The potential reward of the programme from the earning period 2017–2018 is based on the Group's Earnings

before Interest and Taxes (EBIT) and from the earning period 2019–2020 based on the Group's revenue and Earnings before Interest and Taxes (EBIT). No incentives will be paid for the earning period 2017–2018. The potential reward for the earning period 2019–2020 will be paid in one transaction as shares and a cash portion in year 2021. The cash portion is aimed to cover taxes and other costs related to the reward. The shares paid as reward may not be transferred during an approximate one-year restriction period established for the shares. For shares earned from the performance period 2019–2020, the restriction period will end on 30 April 2022. Management of the share-based incentive scheme has been outsourced to an external service provider.

No shares have been distributed based on the programme.

2018 Annual general meeting

Martela Corporation's Annual General Meeting was held on March 13, 2018. The AGM approved the financial statements for 2017 and discharged the members of the Board of Directors and the Managing Director from liability. The AGM decided, in accordance with the Board of Directors' proposal, to distribute a dividend of EUR 0.32 per share. The dividend was paid on April 12, 2018.

The number of members on the Board of Directors was confirmed as seven. Minna Andersson, Kirsi Komi, Eero Leskinen, Eero Martela, Heikki Martela and Anni Vepsäläinen were re-elected as members of the Board of Directors and Katarina Mellström was elected as a new member of the Board of Directors.

KPMG Oy Ab, Authorised Public Accountants, was reappointed as the company's auditor.

The AGM approved the Board of Directors' proposals, detailed in the meeting notice, to authorise the Board to acquire and/or dispose of Martela shares. The Annual General Meeting resolved, in accordance with the proposal of the Board of Directors, to amend the Articles 2 and 9 of the Articles of Association of the Company as follows:

“2 § Line of Business

The Company's line of business is to produce planning, execution and maintenance of work environments and to produce thereto related services, consulting, manufacturing, installing and relocating. In addition, the Company may own and possess shares, securities and other property.”

“9 § Audit

The Company has one ordinary auditor who shall be an audit firm with an authorised public accountant as the auditor with principal responsibility. The term of office of the auditor expires at the closing of the first Annual General Meeting following his election.

The Annual General Meeting resolved to, in accordance with the Board's proposal, within the meaning of chapter 3, section 14 a (3) of the Companies Act, that the rights to shares in the book-entry system and the rights carried by the shares will be forfeited with regards to the shares in the joint account and that the aforementioned shares shall be passed to the Company.

The new Board of Directors convened after the AGM and elected from its members Heikki Martela as Chairman and Eero Leskinen as Vice Chairman.”

Administration

Martela Corporation 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, by other regulations concerning public listed companies, and by its Articles of Association. The company complies with the NASDAQ OMX Guidelines

for Insiders and the Corporate Governance Code 2015 for Finnish listed companies published by the Securities Market Association. More information on Martela's governance can be found on the company's website.

Published since 2010, Martela responsibility reports include extensively the non-financial information required by the accounting law reforms. The year 2018 responsibility report is published after the annual year report.

Risks

The principal risk regarding profit performance relates to the general economic uncertainty and the consequent effects on the overall demand in Martela's operating environment. Due to the project-based nature of the sector, forecasting short-term developments is challenging. In accordance with Martela's risk management model, the risks are classified and guarded against in different ways.

As the production of Martela's products is based on orders placed by customers, supply chain is short and purchases are mainly from neighbouring area and from other parts of Europe. Extensive warehousing is not needed. The product assembly is automated and based on component subcontracting and on assembly carried out by Martela.

Risks of damage are covered with appropriate insurance and this provides comprehensive coverage for property, business interruption, supplier interruption and loss liability risks. The services of an external partner are used in insurance as well as in legal matters.

Finance risks are discussed in note 22 of the notes to the financial statements.

SHORT-TERM RISKS

The principal risk regarding profit performance relates to the general economic uncertainty and the consequent effects on the overall demand in Martela's operating environment. Due to the project-based nature of the sector, forecasting short-term developments is challenging. Also postponement of frame agreement negotiations in the Finnish public sector will cause uncertainty in the first half of 2019.

Events after the end of the financial year

Martela Group lowered its revenue and operating result guidance for 2018 with the stock exchange release on the 9th of January 2019.

No other significant events requiring reporting have taken place since the January–December period, and operations have continued according to plan.

Outlook for 2019

The Martela Group anticipates that its revenue and operating result in 2019 will improve slightly compared to the previous year. Due to normal seasonal variations, the Group's operating result accumulates during the second half of the year.

Proposal of the board of directors for distribution of profit

The Board of Directors will propose to the AGM that a dividend of EUR 0.10 per share be distributed for 2018.

Annual general meeting

Martela Corporation's AGM will be held on March 14, 2019 at 3 p.m. in Martela House, Helsinki. The notice of the Annual General Meeting will be published in a separate release on February 5, 2019.

Consolidated comprehensive income statement

| (EUR 1000) | Note | 1.1-31.12.2018 | 1.1-31.12.2017 |
|---|------|----------------|----------------|
| Revenue | 1 | 103 100 | 109 537 |
| Other operating income | 2 | 1 094 | 752 |
| Changes of inventories of finished goods and work in progress | | -126 | 1 275 |
| Raw material and consumables used * | | -61 460 | -64 189 |
| Production for own use | | 475 | 0 |
| Employee benefits expenses | 3 | -26 703 | -27 091 |
| Other operating expenses * | 4 | -15 873 | -17 385 |
| Depreciation and impairment | 5 | -2 576 | -2 638 |
| Operating profit (loss) | | -2 070 | 260 |
| Financial income | 7 | 441 | 304 |
| Financial expenses | 7 | -821 | -537 |
| Profit (loss) before taxes | | -2 451 | 28 |
| Income taxes | 8 | 84 | -664 |
| Profit (loss) for the financial year | | -2 367 | -636 |
| Other comprehensive income: | | | |
| Items that will not later be recognised through profit or loss | | | |
| Items resulting from remeasurement of the net debt related to defined benefit plans | | 113 | -271 |
| Taxes from items that will not later be recognised through profit or loss | | -25 | 9 |
| Items that may later be recognised through profit or loss | | | |
| Translation differences | | -130 | -230 |
| Total comprehensive income | | -2 408 | -1 128 |
| Allocation of profit (-loss) for the financial year | | | |
| Equity holders of the parent | | -2 367 | -636 |
| Allocation of total comprehensive income | | | |
| Equity holders of the parent | | -2 408 | -1 128 |
| Earnings per share of the profit attributable to the equity holders of the parent | | | |
| Basic earnings/share, EUR | 9 | -0,57 | -0,15 |
| Diluted earnings/share, EUR | 9 | -0,57 | -0,15 |

* The comparison year figures of 2017 have been changed to match the classification of 2018. The change increased the Raw material and consumables used expenses by EUR 744 thousand and decreased other operating expenses with the same amount.

Consolidated cash flow statement

| (EUR 1000) | 1.1-31.12.2018 | 1.1-31.12.2017 |
|--|----------------|----------------|
| Cash flows from operating activities | | |
| Cash flow from sales | 110 436 | 104 970 |
| Cash flow from other operating income | 397 | 515 |
| Payments on operating costs | -104 114 | -109 660 |
| Net cash from operating activities before financial items and taxes | 6 718 | -4 176 |
| Interest paid | -242 | -294 |
| Interest received | 3 | 5 |
| Other financial items | -142 | 46 |
| Dividends received | 4 | 7 |
| Taxes paid | 1 056 | -3 209 |
| Net cash from operating activities (A) | 7 397 | -7 622 |
| Cash flows from investing activities | | |
| Capital expenditure on tangible and intangible assets | -975 | -2 165 |
| Proceeds from sale of tangible and intangible assets | 1 213 | 237 |
| Net cash used in investing activities (B) | 238 | -1 928 |
| Cash flows from financing activities | | |
| Proceeds from short-term loans | 6 000 | 8 723 |
| Repayments of short-term loans | -8 984 | -3 740 |
| Repayments of long-term loans | 0 | 0 |
| Dividends paid and other profit distribution | -1 326 | -1 520 |
| Net cash used in financing activities (C) | -4 309 | 3 463 |
| Change in cash and cash equivalents (A+B+C), increase +, decrease - | 3 326 | -6 087 |
| Cash and cash equivalents at the beginning of year | 7 283 | 13 425 |
| Translation differences | -16 | -55 |
| Cash and cash equivalents at the end of year | 10 594 | 7 283 |

Consolidated balance sheet

| (EUR 1 000) | Note | 31.12.2018 | 31.12.2017 |
|-------------------------------------|-------|---------------|---------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 10 | 6 776 | 7 297 |
| Tangible assets | 11 | 4 581 | 5 186 |
| Available-for-sale financial assets | | 8 | 53 |
| Investment properties | 12 | 45 | 600 |
| Deferred tax assets | 14 | 122 | 142 |
| Non-current assets, total | | 11 531 | 13 278 |
| Current assets | | | |
| Inventories | 15 | 8 544 | 8 863 |
| Trade receivables | 13,16 | 17 153 | 23 682 |
| Loan receivables | 13,16 | 0 | 32 |
| Accrued income and prepaid expenses | 13,16 | 2 173 | 3 301 |
| Cash and cash equivalents | | 10 594 | 7 283 |
| Current assets, total | | 38 464 | 43 161 |
| ASSETS, TOTAL | | 49 995 | 56 439 |

| (EUR 1 000) | Note | 31.12.2018 | 31.12.2017 |
|--|-------|---------------|---------------|
| EQUITY AND LIABILITIES | | | |
| Equity attributable to holders of the parent | | | |
| | 17 | | |
| Share capital | | 7 000 | 7 000 |
| Share premium account | | 1 116 | 1 116 |
| Other reserves | | -9 | -9 |
| Treasury shares * | | -128 | -128 |
| Translation differences | | -940 | -810 |
| Retained earnings | | 11 751 | 15 457 |
| Equity, total | | 18 790 | 22 625 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 14 | 383 | 491 |
| Pension obligations | 20 | 442 | 565 |
| Financial liabilities | 13,19 | 3 956 | 6 206 |
| Non-current liabilities, total | | 4 781 | 7 262 |
| Current liabilities | | | |
| Financial liabilities | 13,19 | 6 319 | 7 065 |
| Interest-bearing current liabilities, total | | 6 319 | 7 065 |
| Non-interest-bearing current liabilities, total | | | |
| Advances received | 13,21 | 2 036 | 997 |
| Trade payables | 13,21 | 8 612 | 8 503 |
| Accrued liabilities and prepaid income | 13,21 | 6 723 | 6 719 |
| Other current liabilities | 13,21 | 2 733 | 3 266 |
| Non-interest-bearing current liabilities, total | | 20 105 | 19 486 |
| LIABILITIES, TOTAL | | 31 204 | 33 814 |
| EQUITY AND LIABILITIES, TOTAL | | 49 994 | 56 439 |

* The shares acquired for and assigned to share-based incentive scheme are shown in accounting terms as treasury shares. See notes 17.

Statement of changes in equity

| (EUR 1 000) | Share capital | Share premium account | Other reserves | Treasury shares | Translation diff. | Retained earnings | Equity total |
|--|---------------|-----------------------|----------------|-----------------|-------------------|-------------------|---------------|
| Equity attributable to equity holders of the parent | | | | | | | |
| Equity 1.1.2017 | 7 000 | 1 116 | -9 | -502 | -579 | 18 149 | 25 174 |
| Other comprehensive income | | | | | | | |
| Profit (-loss) for the financial year | | | | | | -636 | -636 |
| Other items of comprehensive income adjusted by tax effects | | | | | | | |
| Translation differences | | | | | -230 | | -230 |
| Items resulting from remeasurement of the net debt related to defined benefit plans (incl. Deferred taxes) | | | | | | -263 | -263 |
| Total comprehensive income | | | | | -230 | -899 | -1 129 |
| Share-based incentives | | | | 374 | | -273 | 101 |
| Business transactions with owners | | | | | | | |
| Dividends | | | | | | -1 290 | -1 290 |
| Withholding tax on dividends | | | | | | -230 | -230 |
| Business transactions with owners, total | | | | | | -1 520 | -1 520 |
| Equity 31.12.2017 | 7 000 | 1 116 | -9 | -128 | -810 | 15 457 | 22 625 |
| Equity 1.1.2018 | 7 000 | 1 116 | -9 | -128 | -810 | 15 457 | 22 625 |
| Other comprehensive income | | | | | | | |
| Profit (-loss) for the financial year | | | | | | -2 367 | -2 367 |
| Other items of comprehensive income adjusted by tax effects | | | | | | | |
| Translation differences | | | | | -130 | | -130 |
| Items resulting from remeasurement of the net debt related to defined benefit plans (incl. Deferred taxes) | | | | | | 88 | 88 |
| Total comprehensive income | | | | | -130 | -2 279 | -2 408 |
| Share-based incentives | | | | | | -101 | -101 |
| Business transactions with owners | | | | | | | |
| Dividends | | | | | | -1 125 | -1 125 |
| Withholding tax on dividends | | | | | | -201 | -201 |
| Business transactions with owners, total | | | | | | -1 326 | -1 326 |
| Equity 31.12.2018 | 7 000 | 1 116 | -9 | -128 | -940 | 11 751 | 18 791 |

More information in Notes 17 Equity and 18 Share-based payments.

Accounting Principles for the Consolidated Financial Statements

Martela Group

Martela Corporation supplies ergonomic and innovative furniture solutions and provides interior planning services.

The Group's parent company is Martela Oyj, a Finnish public limited company domiciled in Helsinki, street address Takkatie 1, FI-00370 Helsinki. The company's A-shares are listed on Nasdaq Helsinki.

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

These financial statements were authorised for issue by the Board of Directors of Martela Oyj on February 4th 2019. The Finnish Limited Liability Companies Act permits the shareholders to approve or reject the financial statements in the general meeting that is held after publishing the financial statements. As well, the general meeting has a possibility to amend the financial statements.

BASIS OF PREPARATION

Martela's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as on December 31 2018. 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 additional requirements of 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. All presented figures have been rounded, which is why the sum of individual figures might deviate from the presented sum. The key financial indicators have been calculated using exact figures. Martela's consolidated financial statements cover the full calendar year, and this represents the financial period for the parent company and the Group companies.

Martela Group has applied as from 1 January 2018 the following new and amended standards that have come into effect.

- IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2018): IFRS 9 replaces the existing guidance in IAS 39. The new standard includes revised guidance on the classifica-

tion and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The impacts of IFRS 9 on Martela's consolidated financial statements affect mainly the classification of the Group's financial assets and liabilities as well as the determination of credit loss reservations. The changes in the classification did not have significant impact on the disclosure or valuation of financial assets and liabilities and the changes in determination of credit losses did not have significant impact on Martela's profit.

- IFRS 15 Revenue from Contracts with Customers, Effective date of IFRS 15 and Clarifications to IFRS 15 (effective for financial years beginning on or after 1 January 2018): The new standard replaces current IAS 18 and IAS 11 standards and related interpretations. In IFRS 15 a five-step model is applied to determine when to recognise revenue, and at what amount. Revenue is recognised when (or as) a company transfers control of goods or services to a customer either over time or at a point in time. The standard introduces also extensive new disclosure requirements.

The implementation of IFRS 15 did not have a significant impact on Martela's financial statements. Martela's customer agreements consist mainly of one-off product or service deliveries, combinations of services and products and continuous services. Additionally, Martela has frame agreements with customers. The customer deliveries are usually short projects in which the deliverables and their transaction prices are identifiable and to which the new standard did not cause changes in the time of revenue recognition compared to earlier.

The transaction prices in Martela's customer agreements do not include variable pricing or financing components in a significant magnitude.

IFRS 15 standard requires additional expenses for gaining of customer agreements and fulfilling the agreements to be activated into the balance sheet. The Group has no such additional expenses.

Martela has used the cumulative effect method in the implementation of the new standard.

- Amendments to IFRS 2 - Clarification and Measurement of Share-based Payment Transactions
The amendments clarify the accounting for certain types of arrangements. Three accounting areas are covered: measurement of cash-settled share-based payments; classification of share-based payments settled net of tax withholdings; and accounting for a modification of a share-based payment from cash-settled to equity-settled. The change did have an impact on the notes regarding share based payments in Martela.

Other amended standards did not have an effect on Martela's financial reporting.

The profit and loss statement form 2017 has been adjusted to match the 2018 classification of costs. The change increases the costs classified as materials and services by EUR 744 thousand and decreases the amount of other operating expenses by the same amount.

Use of estimates

The preparation of the financial statements in conformity with IFRS requires Group management to make certain estimates 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. Martela is considered to be in control of a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are included in the consolidated financial statements by using the acquisition method. The intra-group transactions, unrealised margins on intra-group deliveries, intra-group receivables and liabilities as well as intra-group profit distribution are eliminated.

Associates are companies in which the Group has significant influence. Significant influence generally arises when Group controls more than 20% of a company's voting power or when Group otherwise has significant influence but no control. Associates are consolidated using equity method after significant influence has been acquired until significant influence ceases. Share of the result of associates is calculated as a percentage of the groups ownership and it is presented in a separate line in the statement of comprehensive income. Unrealised profits between group and associates are eliminated using the group's ownership percentage. Investments in associates include also acquired goodwill.

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. At the end of the reporting period, the monetary assets and liabilities are translated into functional currencies at the exchange rate at the end of the reporting period. Exchange rate gains and losses related to business operations are treated as adjustments to the purchases and sales. Exchange rate gains and losses in financing are treated as adjustments to financial income and expenses.

The statements of comprehensive income and cash flows of foreign subsidiaries for the period are translated into euros at the average rates for the financial year and the balance sheets at the average rates of the European Central Bank at the end of the reporting period. The translation of the profit or loss and comprehensive income for the period at different exchange rates in the statement of comprehensive income and in the balance sheet causes a translation difference which is recognised in other comprehensive income. The exchange rate differences arising from the elimination of the cost of the foreign subsidiaries and the exchange rate differences arising from the translation of post-acquisition equity are also recognised in other comprehensive income. Sim-

ilar treatment is applied to intra-group non-current loans which in substance are equity and form a part of the net investment in the operation in question. When a subsidiary is disposed of, all or in part, the accumulated translation differences are reclassified to profit and loss as part of the gain or loss on disposal.

Government grants

Grants received from the states or other similar sources are recognised and presented as other operating income when they meet the recognition criteria. Grants related to the acquisition of tangible and intangible assets are recognised as deductions from the carrying amount of the assets in question. Grants are recognised as income over the useful life of a depreciable/amortisable asset by way of a reduced depreciation/amortisation charge.

Revenue recognition principles

Furniture is mainly delivered to customer as installed. The control of the furniture is transferred to the customer once the deliverables in the contract are fulfilled, i.e. the furniture is delivered to customer and installed and the customer has approved the delivery. The significant risks and rewards of ownership of the furniture is also transferred to the buyer through the approval of the delivery. Revenue from sold goods is recognised as the control of the goods is transferred to the buyer according to the agreement. The normal warranty for standard Martela produced products in normal use is five years and for other standard products two years.

Consultative services consist of workshops and interviews for specification of the demands placed on the work environment and interior planning services. The deliverable is fulfilled and the control is transferred to the customer as the product of the service is delivered to the customer. Revenue from consultative services is recognised as the deliverable is fulfilled.

In removals services, the value of the service is received by the customer as Martela provides the service. In such cases, the revenue is recognised over time. The removal services provided by Martela are mainly short in duration. In case a removal services project lasts for several months the revenue recognised based on either invoicing of the achieved project milestones or on actual work hours registered for the project.

Leases in which substantially all the risks and rewards incidental to ownership of an asset remain with the lessor, are classified as other lease contracts and recognised as revenue in the statement of comprehensive income on a straight-line basis over the lease term.

The transaction prices for the sold goods and services are defined for each deliverable on the sales orders and no variable considerations are in use. Martela does not have capitalised costs for obtaining or of fulfilling customer contracts. Sales receivables are typically due latest within two months from invoicing. The customer contracts do not include significant financing components provided by Martela.

Revenue consists of income from customer contracts according to IFRS 15 and income from customer contracts that are classified as leases based on the contract contents.

Employee benefits

PENSION LIABILITIES

The Group has arranged defined contribution plans and defined benefit plans for retirement. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to

pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Contributions made to defined contribution plans are recognised in profit or loss 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 over 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.

Pension expenses (service cost in the period) and the net interest for the net debt related to the defined benefit pension plan are recognised through profit or loss. Pension expenses are included in employee benefit expenses. Items resulting from the remeasurement of the net debt (or net asset) related to the defined benefit plan are recorded in items of other comprehensive income in the financial period during which they emerge. These include actuarial gains and losses and returns on assets included in the plan, among other items. Past service costs are recognised in expenses through profit or loss on the earlier of the following dates: the date when the plan is amended or reduced, or the date when the entity recognises the reorganisation expenses related to this or the benefits related to the termination of the employment relationship.

SHARE-BASED PAYMENTS

In the Group's share-based incentive system, with vesting periods 2017–2018 and 2019–2020, payments are made in a combination of shares and cash. Share rewards are measured at fair value at the grant date and recognised as expenses over the vesting period. The vesting conditions are taken into account in the number of shares which are expected to vest by the end of the validity period. Measurements are adjusted at the end of each reporting period and the settlement is recognised under equity. The expense determined at the time of granting the share-based incentives is based on the Group's estimate of the number of shares which are expected to vest by the end of the vesting period. The assumed vesting takes account of the maximum incentive, the assumed achievement of non-market based earnings targets and the reduction of persons participating the plan. The Group updates the estimate of the final number of shares at the end of each reporting period. Their impact on profit or loss is presented in the statement of comprehensive income under employment benefits expenses.

Operating profit

Operating profit is the Group's profit from operations before financial items and income taxes. Exchange rate differences arisen in the translation of trade receivables and payables denominated in foreign currencies are included in operating profit.

Income taxes

The taxes recognised in the consolidated statement of comprehensive income include current tax based on the taxable income of the Group companies for the financial year, taxes for previous years and the change in deferred taxes. For transactions and other events recognised in profit or loss, any related tax effects are also recognised in profit or loss. For transactions and other events recognised outside profit or loss (either in other

comprehensive income or directly in equity), any related tax effects are also recognised either in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are recognised on temporary differences between the tax bases and IFRS carrying values of assets and liabilities in the financial statements. 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. Deferred tax liabilities are most often recognised to the full extent in the balance sheet. The main temporary differences arise in the measurement of buildings at fair value in accordance with the exemption permitted by the IFRS 1 transition standard (1.1.2014). Deferred taxes are measured by using the tax rates enacted or substantively enacted by the end of the reporting period.

Intangible assets

GOODWILL

Goodwill resulting from business combinations represents the excess of the consideration transferred over the fair value of the net identifiable assets acquired.

Goodwill is tested annually or more frequently if there are indications that the value might be impaired. Testing is performed at least at the end of each financial year. For this purpose, goodwill is allocated to cash generating units. An impairment loss is recognised whenever the carrying amount of cash-generating unit exceeds the recoverable amount. Impairment losses are recognised in the comprehensive income statement. An impairment loss in respect of goodwill is never reversed.

RESEARCH AND DEVELOPMENT

Research and development is active and continuous in the Group and if individual development projects are of such a scope in relation to operations and if the capitalisation criteria are fulfilled, these projects are capitalised. Research expenditure is recognised an expense when incurred. R&D related equipment is capitalised in machinery and equipment.

OTHER INTANGIBLE ASSETS

An intangible asset is initially capitalised in the balance sheet at cost if the cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group. Other intangible assets include software licences, IT programmes, patents and other corresponding rights. Patents, licences and other rights are measured at historical cost, less amortisation and any impairment.

The useful lives of intangible assets are as follows:

| | |
|---|------------|
| Licences..... | 3–5 years |
| IT programmes..... | 3–10 years |
| Customership..... | 4 years |
| Brands..... | 6 years |
| Patents and other corresponding rights..... | 10 years |

Amortisation is recognised using the straight-line method.

TANGIBLE ASSETS

Land, buildings, machinery and equipment constitute the majority of tangible assets. They are measured in the balance sheet at historical cost or deemed cost, less accumulated depreciation and any impairment.

When a part of an item of property, plant and equipment (accounted for as a separate asset) is renewed, the expenditure related to the new item is capitalised and the possibly remaining balance sheet value removed from the balance sheet. Other expenditure arising later is capitalised only when future economic benefits will flow to the Group. Other expenditure for repairs or maintenance is expensed when it is incurred. Those borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. A tangible asset once classified as held for sale is not depreciated. Land is not depreciated. The estimated depreciation periods are as follows:

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

The residual values and useful lives of tangible assets are reviewed at least at each financial year-end and, if necessary, are adjusted to reflect changes in the expected future economic benefits. Gains and losses from the sale or disposal of tangible assets are recognised in profit and loss and presented under other operating income or other operating expenses.

INVESTMENT PROPERTIES

Land areas that are held for currently undetermined future use are classified as investment properties. They are measured at historical cost, less impairment losses.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

The carrying amounts of assets are assessed at the end of each reporting period 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 costs to sell and its value in use. An impairment loss is recognised if the balance sheet value of an asset or a cash-generating unit exceeds the recoverable amount of it. Impairment losses are recognised in the statement of comprehensive income.

If there are indications that impairment losses no longer exist or that they have diminished, the recoverable amount is estimated. An impairment loss previously recognised in the statement of comprehensive income is reversed if the estimates used in measuring the recoverable income have 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 in which the Group has substantially all the risks and rewards incidental to ownership are classified as finance leases. Assets acquired under finance leases, less accumulated depreciation, are carried under tangible assets. These assets are depreciated over the shorter of the useful lives of the tangible assets and the lease

term. Lease obligations are included in interest-bearing financial liabilities.

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

Inventories

Inventories are measured at the lower of cost and net realisable value. The value of inventories is determined by using weighted average purchase prices and it includes all direct expenditure incurred by acquiring the inventories and also a part of the production overhead costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventory value includes adjustments caused by obsolescence.

Financial assets

Group's financial assets are classified into the following groups: financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortised costs. 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 and derecognised on the trade date. The Group derecognises financial assets when it has lost its right to receive the cash flows or when it has transferred substantially all the risks and rewards to an external party.

Derivatives and investments in mutual fund units are classified as financial assets at fair value through profit or loss. Investments in mutual fund units are measured at fair value on the basis of published price quotations in an active market, and changes in the fair value are recognised in profit or loss in the year in which they arise. Derivatives to which hedge accounting is not applied are classified as being held for trading purposes. The fair values of derivatives are based on share market prices at the end of the reporting period and the changes in the fair values are recognised in profit or loss for the period in which they arise. Martela Group has not applied hedge accounting in the financial years 2018 or 2017. The category also includes shares of non-listed companies that are classified as held for sale.

Financial assets measured at amortised costs include assets that are held in a business model whose object is achieved by holding the assets and collecting contractual cash flows until the due date. The cash flow from the assets consist of solely payments of principal and interest on the principal amount outstanding. They are originally recognised at fair value and subsequently measured at amortised cost. The group recognises a deduction in the financial assets recognised at amortised cost based on expected credit losses. These assets are included in either current or non-current financial assets (they are included in the latter if they mature over 12 months later). The category includes loan, trade and other receivables that are not derivatives.

Cash and cash equivalents comprise cash in hand, in banks and in demand bank deposits, as well as other current, very liquid investments. Items qualifying as cash and cash equivalents have original maturities of three months or less from the date of acquisition.

IMPAIRMENT OF FINANCIAL ASSETS

At the end of each reporting period, the Group assesses whether objective evidence exists of the impairment of an individual financial asset or a group of financial assets. Impairment will be recognised through profit or loss.

A simplified model according to IFRS 9 is used in assessing the expected credit losses on trade receivables: credit losses are recognised to an amount that represents the expected credit losses for the full lifetime. The expected credit losses are assessed based on historical information on credit losses and on the information on the future financial circumstances available on the review date.

FINANCIAL LIABILITIES

The Group classifies its financial liabilities in the following categories: financial liabilities measured at amortised cost (mainly includes borrowings from financial institutions and trade payables) and financial liabilities at fair value through profit or loss (derivative liabilities).

Financial liabilities are initially recognised at fair value and are subsequently measured either at amortised cost or at fair value, based on the classification made. 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. Financial liabilities are regarded as current, unless the Group has an absolute right to postpone the repayment of the debt until a minimum of 12 months after the end of the reporting period. Financial liabilities (in full or in part) are not eliminated from the balance sheet until the debt has ceased to exist – in other words, when the obligation specified in the agreement has been fulfilled or rescinded or ceases to be valid.

Share capital

Outstanding ordinary 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 own equity instruments are presented as deductions from equity. If Martela Oyj buys back its own equity instruments, their cost is deducted from equity.

DIVIDENDS

Dividends proposed by the Board of Directors are not recorded in the financial statements but the related liability is only recognised when approved by a general meeting of shareholders.

Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be estimated reliably. The amount recognised as a provision is equal to the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is possible to receive compensation for part of the obligation from a third party, the compensation is recognised as a separate asset, but only when receipt of the compensation is virtually certain.

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 mainly relate on the utilisation of deferred tax assets against future

taxable income and on the measurement of assets. Estimates and assumptions are based on management's current best knowledge at the end of the reporting period, reflecting historical experience and other reasonable assumptions.

IMPAIRMENT TESTING

The carrying amounts of non-current assets are assessed at the end of each reporting period to observe whether there are any indications that the balance sheet value of an asset or a cash-generating unit exceeds the recoverable amount of it.

If such indications exist, the recoverable amount of the asset will be estimated at the higher of its fair value less costs to sell and its value in use. Value in use is calculated based on discounted forecast cash flows. An impairment loss is recognised if the balance sheet value of an asset or a cash-generating unit exceeds the recoverable amount of it. Impairment losses are recognised in the statement of comprehensive income.

If there are indications that impairment losses no longer exist or that they have diminished, the recoverable amount is estimated. An impairment loss previously recognised in the statement of comprehensive income is reversed if the estimates used in measuring the recoverable income have 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.

Goodwill is tested for impairment annually regardless of whether there is any indication of impairment. An impairment loss in respect of goodwill is never reversed. (Note 10)

The recoverable amounts of cash generating units have been determined using calculations based on value in use. In the calculations, forecast cash flows are based on financial plans approved by management, covering a period of five years. The central assumptions concern development of growth and profitability. The cash flows beyond the five-year period are estimated based on 1,5% growth.

The usability of inventory items in the valid sales product portfolio is investigated in the valuation of inventories. If the sales portfolio does not include products where an inventory item is used, the value of such an item is written down.

The value of sales receivables that are overdue for more than 180 days are written down to half of their value and receivables overdue for more than a year are written down to their full value. However, if it is highly likely to receive payments for overdue receivables, they are not written down.

Deferred tax receivables

The prerequisites for recognition of deferred tax receivables are assessed at the end of each reporting period. Assumptions made by the managers of the Group companies on taxable income in future financial periods have been taken into account when evaluating the amount of deferred tax assets. Various internal and external factors can have a positive or negative effect on deferred tax assets. These include restructuring in the Group, amendments to tax laws (such as changes to tax rates or a change to the period of utilisation of confirmed deductible tax losses) and changes to the interpretations of tax regulations. Deferred tax assets recognised in an earlier reporting period are recognised in expenses in the consolidated statement of comprehensive income if the unit in question is not expected to accumulate sufficient taxable income to be able to utilise the temporary differences, such as confirmed tax losses, on which the deferred tax assets are based.

Deferred tax assets are not recorded for taxation losses in subsidiaries.

Application of new and revised IFRS's and IFRIC interpretations

The IASB has published the following new and amended standards and interpretations that have not yet taken effect and have not yet been applied by Martela. Martela will adopt these on the effective date of each standard and interpretation, or if the effective date is not the first day of the financial period, at the beginning of the financial period following the effective date.

- IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019): The new standard replaces the current IAS 17 standard and related interpretations. IFRS 16 requires the lessees to recognise the lease agreements on the balance sheet as a right-of-use assets and lease liabilities. The accounting model is similar to current finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short term contracts in which the lease term is 12 months or less, or to low value items i.e. assets of value about USD 5 000 or less. The lessor accounting remains mostly similar to current IAS 17 accounting.
- Martela has decided to implement the standard using the modified retrospective method without recalculation of comparative figures. The implementation effect is taken against the opening balance 1st of January 2019. The rental period of the lease contracts is either the period in lease agreement or an estimated rental period. Estimated rental periods are used for open ended agreements. The estimated rental periods are 2 years for rented offices and sales facilities and 1 year for warehouses. The implementation of the standard will increase Martela's balance sheet by approximately EUR 6,5 million and to decrease the equity ratio by approximately 4,5 percentage points. In the income statement the operative costs will decrease by EUR 0,1 million (decreased rental costs by EUR 2,5 million and increased depreciations by EUR 2,4 million) and to increase the financial expenses by EUR 0,1 million. In the cash flow statement a change is caused by reclassification of a part of the rental payments as repayment of rental agreement liabilities and represented in the financing activities.
- Plan amendment, Curtailment or Settlement (Amendments to IAS 19)* (effective for financial years beginning on or after 1 January 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity uses updated actuarial assumptions to determine its current service cost and net interest for the period and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The change is estimated not to have a significant impact on Martela's income statement.

*The adoption of other new or amended standards is not expected to have an effect on Martela's financial reporting.

1. Segment reporting

As a result of harmonising and combining processes, the organisation, reporting and systems, as of 2017, the company reports consolidated figures as a single segment and in addition reports revenue by country. Revenue will be reported by the location of a customer in following countries: Finland, Sweden, Norway and Other countries.

| (EUR 1 000) | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|----------------------------------|-----------------|-----------------|
| Revenue by area | | |
| Finland | 86 228 | 87 269 |
| Sweden | 7 042 | 11 730 |
| Norway | 5 212 | 4 131 |
| Other areas | 4 618 | 6 407 |
| Total | 103 100 | 109 537 |
| Income from the sale of goods | 90 223 | 95 373 |
| Income from the sale of services | 12 877 | 14 164 |
| Total | 103 100 | 109 537 |

Revenue includes EUR 103 thousand (85) income from sold furniture that, based on the customer agreement, is classified as rental income.

| (EUR 1 000) | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|---|-----------------|-----------------|
| Assets and liabilities from contracts with customers | | |
| Trade receivables | 17 153 | 23 682 |
| Accrued income based on customer contracts | 834 | 978 |
| Prepayments based on customer contracts | 2 036 | 997 |

| Information about geographical regions | Intangible assets 31.12.2018 | Intangible assets 31.12.2018 |
|---|---------------------------------|---------------------------------|
| Non-current assets | | |
| Finland | 6 776 | 4 298 |
| Sweden | 0 | 84 |
| Other regions | 0 | 199 |
| Total | 6 776 | 4 581 |
| Intangible assets 31.12.2017 | | |
| Finland | 7 297 | 4 773 |
| Sweden | 0 | 108 |
| Other regions | 0 | 305 |
| Total | 7 297 | 5 186 |

2. Other operating income

| (EUR 1 000) | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|----------------------------------|-----------------|-----------------|
| Gains on sale of tangible assets | 613 | 10 |
| Rental income | 278 | 185 |
| Other income from operations | 202 | 557 |
| Total | 1 094 | 752 |

3. Employee benefits expenses

| (EUR 1 000) | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|--|-----------------|-----------------|
| Salaries and wages | -21 706 | -21 124 |
| Pension expenses, defined contribution plans | -3 511 | -3 525 |
| Pension expenses, defined benefit plans | -238 | -217 |
| Part paid as share-based incentives | 165 | -824 |
| Other salary-related expenses | -1 414 | -1 402 |
| Personnel expenses in the income statement | -26 703 | -27 091 |
| Other fringe benefits | -374 | -802 |
| Total | -27 078 | -27 892 |

A total of EUR -111 thousand for 2018 and EUR -1 343 thousand from 2017 were recognised in the result from the incentives and salary-related expenses associated with the incentive scheme. Salaries, fees and share-based payments are presented in more detail under Note 25 Related-party transactions.

More information about share-based incentive programme is in note 18.

| Personnel | 2018 | 2017 |
|------------------------------------|------------|------------|
| Personnel on average, workers | 265 | 273 |
| Personnel on average, officials | 245 | 235 |
| Personnel on average, total | 510 | 508 |
| Personnel at year end | 501 | 507 |
| Personnel on average in Finland | 432 | 435 |
| Personnel on average in Sweden | 28 | 27 |
| Personnel on average in Norway | 11 | 10 |
| Personnel on average in Poland | 39 | 36 |
| Total | 510 | 508 |

4. Other operating expenses

Other operating expenses are reported by type of expense.

| (EUR 1 000) | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|-----------------------|-----------------|-----------------|
| Freight | -1 557 | -1 228 |
| Travel | -1 118 | -1 198 |
| Administration | -2 308 | -2 277 |
| IT | -2 910 | -3 111 |
| Marketing | -1 099 | -1 238 |
| Vehicles | -557 | -680 |
| Real estate | -3 733 | -3 664 |
| Other | -2 589 | -3 246 |
| Total | -15 873 | -16 641 |
| Auditors' fees | | |
| Auditing | -86 | -85 |
| Other services | -6 | -5 |
| Total | -92 | -90 |

Auditors' fees are included in administration expenses.

5. Depreciation and impairment

| (EUR 1 000) | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|----------------------------|-----------------|-----------------|
| Depreciation | | |
| Intangible assets | -902 | -850 |
| Tangible assets | | |
| Buildings and structures | -599 | -634 |
| Machinery and equipment | -1 075 | -1 154 |
| Depreciation, total | -2 576 | -2 638 |

6. Research and development expenses

The income statement includes research and development expenses of EUR -1 853 thousand (EUR -2 105 thousand in 2017).

7. Financial income and expenses

| (EUR 1 000) | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|---|-----------------|-----------------|
| Financial income | | |
| Interest income on loans and other receivables | 3 | 6 |
| Foreign exchange gain on loans and other receivables | 433 | 292 |
| Other financial income | 5 | 7 |
| Total | 441 | 304 |
| Financial expenses | | |
| Interest expenses from financial liabilities measured at amortised cost | -226 | -291 |
| Foreign exchange losses on loans and other receivables | -468 | -146 |
| Other financial expenses | -127 | -99 |
| Total | -821 | -537 |
| Financial income and expenses, total | -381 | -232 |
| Total exchange rate differences affecting profit and loss are as follows: | | |
| Exchange rate differences, sales (included in revenue) | -185 | -296 |
| Exchange rate differences, purchases (included in adj. of purchases) | -59 | -121 |
| Exchange rate differences, financial items | -35 | 146 |
| Exchange rate differences, total | -279 | -272 |

8. Income taxes

| (EUR 1 000) | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|---|-----------------|-----------------|
| Income taxes, financial year | -37 | -789 |
| Taxes for previous years | 8 | 50 |
| Change in deferred tax liabilities and assets | 113 | 75 |
| Total | 84 | -664 |

Reconciliation between the income statement's tax expense and the income tax expense calculated using the Martela Group's domestic corporation tax rate 20.0%.

| (EUR 1 000) | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|---|-----------------|-----------------|
| Profit before taxes | -2 451 | 28 |
| Taxes calculated using the domestic corporation tax rate | -490 | 6 |
| Different tax rates of subsidiaries abroad | -60 | 96 |
| Taxes for previous years | 8 | 50 |
| Recognition of unused tax losses not booked earlier | -56 | -1 152 |
| Elimination of the internal profit of which no deferred tax accounted for | 0 | 1 738 |
| Tax-exempt income | -13 | -94 |
| Non-deductible expenses | 35 | 70 |
| Unbooked deferred tax assets on losses in taxation | 698 | 29 |
| Other items | -207 | -79 |
| Income taxes for the year in the p/l (+ = expense, - = profit) | -84 | 664 |

9. Earnings per share

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

| (EUR 1 000) | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|---|-----------------|-----------------|
| Profit attributable to equity holders of the parent | -2 367 | -636 |
| Weighted average number of shares (1000) | 4 143 | 4 144 |
| Basic earnings per share (eur/share) | -0,57 | -0,15 |

The company has no diluting instruments 31.12.2018 or 31.12.2017.

10. Intangible assets

| (EUR 1 000) | 1.1.–31.12.2018 | | | | 1.1.–31.12.2017 | | | |
|---------------------------------------|-------------------|------------|------------------|---------------|-------------------|------------|------------------|---------------|
| | Intangible assets | Goodwill | Work in progress | Total | Intangible assets | Goodwill | Work in progress | Total |
| Acquisition cost 1.1. | 13 135 | 883 | 154 | 14 172 | 9 292 | 883 | 2 204 | 12 378 |
| Increases | | | 529 | 529 | 3 868 | 0 | 1 819 | 5 687 |
| Decreases | | | -204 | -204 | -25 | 0 | -3 868 | -3 893 |
| Acquisition cost 31.12. | 13 135 | 883 | 478 | 14 496 | 13 135 | 883 | 154 | 14 172 |
| Accumulated depreciation 1.1. | -6 876 | 0 | 0 | -6 876 | -6 057 | 0 | 0 | -6 057 |
| Accumulated depreciation, decreases | | | | 0 | 24 | 0 | 0 | 24 |
| Depreciation for the year 1.1.–31.12. | -847 | | | -847 | -843 | 0 | 0 | -843 |
| Exchange rate differences | 2 | | | 2 | 0 | 0 | 0 | 0 |
| Accumulated depreciation 31.12. | -7 721 | 0 | 0 | -7 721 | -6 876 | 0 | 0 | -6 876 |
| Carrying amount 1.1. | 6 259 | 883 | 154 | 7 297 | 3 235 | 883 | 2 204 | 6 321 |
| Carrying amount 31.12. | 5 414 | 883 | 478 | 6 776 | 6 259 | 883 | 154 | 7 297 |

Goodwill

The Group's goodwill EUR 883 thousand (EUR 883 thousand in 2017) relates to the Grundell acquisition Martela made in 31 December 2011. The expected future cash flows will be generated through more extensive service solutions encompassing also products and the already implemented profit improving actions. The revenue growth is also supported by the renewed strategy of Martela that increases the emphasis on service within the Group.

Impairment testing

Goodwill is tested annually or more frequently if there are indications that the amount might be impaired. In assessing whether goodwill has been impaired, the carrying value of the cash generating unit has been compared to the recoverable amount of the cash carrying unit. The recoverable amount of the goodwill is determined based on the value in use calculations. The value in use is calculated based on the discounted forecast cash flows. The cash flow forecasts rely on the plans approved by the management concerning profitability and the growth rate of revenue. The plans cover a five-year period taking into account the recent development of the business.

In impairment testing the average growth is estimated to be 1,5% and EBIT 2,6%. The use of testing model requires making estimates and assumptions concerning market growth and general interest rate level. The used pre-tax discount rate is 11,0% (10,4%) which equals the weighted average cost of capital.

The cash flows after the five-year period have been forecasted by estimating the future growth rate of revenue to be 1,5%. Based on the impairment test there is no need to recognise an impairment loss.

Sensitivity analysis of impairment testing

The carrying value of the cash generating unit is EUR 4.4 million higher than the book value according to the performed impairment test. The rise in discount rate by 32% or the actual operating profit (EBIT) level on the terminal year to be 3 percentage points lower than estimated would cause the recoverable amount of the cash generating units to be the same as the book value.

11. Tangible assets

(EUR 1 000)

| 1.1.2018–31.12.2018 | Land areas | Buildings | Machinery and equipment | Other tangible assets | Work in progress | Total |
|--|-------------------|------------------|--------------------------------|------------------------------|-------------------------|----------------|
| Acquisition cost 1.1. | 66 | 24 203 | 31 340 | 34 | 0 | 55 643 |
| Increases | | 215 | 919 | | | 1 134 |
| Decreases | | | -42 | | | -42 |
| Exchange rate differences | | -8 | -46 | | | -54 |
| Acquisition cost 31.12. | 66 | 24 410 | 32 170 | 34 | 0 | 56 681 |
| Accumulated depreciation 1.1. | 0 | -21 531 | -28 928 | 0 | 0 | -50 459 |
| Accumulated depreciation, decreases | 0 | 0 | 40 | 0 | 0 | 40 |
| Depreciation for the year 1.1.–31.12. | 0 | -609 | -1 081 | 0 | 0 | -1 691 |
| Exchange rate differences | 3 | -31 | 35 | 0 | 0 | 7 |
| Accumulated depreciation 31.12. | 3 | -22 171 | -29 933 | 0 | 0 | -52 102 |
| Carrying amount 1.1. | 66 | 2 672 | 2 412 | 34 | 0 | 5 184 |
| Carrying amount 31.12. | 69 | 2 239 | 2 237 | 34 | 0 | 4 581 |
| 1.1.2017–31.12.2017 | Land areas | Buildings | Machinery and equipment | Other tangible assets | Work in progress | Total |
| Acquisition cost 1.1. | 66 | 24 178 | 33 253 | 34 | 3 | 57 534 |
| Increases | 0 | 105 | 370 | 0 | 36 | 511 |
| Decreases | 0 | 0 | -2247 | 0 | -39 | -2 286 |
| Exchange rate differences | 0 | -80 | -36 | 0 | 0 | -116 |
| Acquisition cost 31.12. | 66 | 24 203 | 31 340 | 34 | 0 | 55 643 |
| Accumulated depreciation 1.1. | 0 | -20 909 | -29 993 | 0 | 0 | -50 901 |
| Accumulated depreciation, decreases | 0 | 0 | 2165 | 0 | 0 | 2 165 |
| Depreciation for the year 1.1.–31.12. | 0 | -640 | -1154 | 0 | 0 | -1 795 |
| Exchange rate differences | 0 | 18 | 54 | 0 | 0 | 72 |
| Accumulated depreciation 31.12. | 0 | -21 531 | -28 928 | 0 | 0 | -50 460 |
| Carrying amount 1.1. | 66 | 3 269 | 3 260 | 34 | 3 | 6 632 |
| Carrying amount 31.12. | 66 | 2 672 | 2 412 | 34 | 0 | 5 186 |

Tangible assets, finance leases

Tangible assets include assets acquired through finance leases as follows:

| | 1.1.–31.12.2018 | | | 1.1.–31.12.2017 | | |
|--|-------------------------|-----------|---------------|-------------------------|-------------|---------------|
| | Machinery and equipment | Buildings | Total | Machinery and equipment | Buildings | Total |
| Acquisition cost 1.1. | 4 202 | 0 | 4 202 | 4 059 | 654 | 4 713 |
| Increases | 263 | 0 | 263 | 142 | 0 | 142 |
| Decreases | 0 | 0 | 0 | 0 | 0 | 0 |
| Exchange rate differences | 0 | 0 | 0 | 0 | 0 | 0 |
| Acquisition cost 31.12. | 4 465 | 0 | 4465 | 4 202 | 654 | 4 856 |
| Accumulated depreciation 1.1. | -4 014 | 0 | -4 014 | -3 864 | -654 | -4 518 |
| Depreciation for the year 1.1.–31.12. | -167 | 0 | -167 | -150 | 0 | -150 |
| Exchange rate differences | 0 | 0 | 0 | 0 | 0 | 0 |
| Accumulated depreciation 31.12. | -4 181 | 0 | -4 181 | -4 014 | -654 | -4 668 |
| Carrying amount 1.1. | 188 | 0 | 188 | 195 | 0 | 195 |
| Carrying amount 31.12. | 284 | 0 | 284 | 188 | 0 | 188 |

The plant of Bodafors, Sweden, was sold in 2007. Part of it was leased back on a long-term lease that is classified as a finance lease. The lease contract ended on 31st March 2017.

12. Investment properties

Martela does not have investment properties per 31.12.2018. Financial statements of 2017 included a land area belonging to Kiinteistö Oy Ylähanka. The land area was sold during year 2018.

13. Book values of financial assets and liabilities by group

| (EUR 1 000) | Financial assets measured at amortised costs | Financial assets measured at fair value through profit or loss | Financial liabilities measured at amortised cost | Book values of balance sheet items | Fair value | Hierarchy level | Note |
|--|--|--|---|---|-------------------|------------------------|-------------|
| 2018 balance sheet items | | | | | | | |
| Non-current financial assets | | | | | | | |
| Other financial assets | | 8 | | 8 | 8 | 2 | |
| Current financial assets | | | | | | | |
| Trade and other receivables | 17 153 | | | 17 153 | 17 153 | 2 | 16 |
| Book value by group | 17 153 | 8 | | 17 161 | 17 161 | | |
| Non-current financial liabilities | | | | | | | |
| Interest-bearing liabilities | | | 3 956 | 3 956 | 3 956 | 2 | 19 |
| Current financial liabilities | | | | | | | |
| Interest-bearing liabilities | | | 6 319 | 6 319 | 6 319 | 2 | 19 |
| Trade payables and other liabilities | | | 11 363 | 11 363 | 11 363 | 2 | 21 |
| Book value by group | | | 21 638 | 21 638 | 21 638 | | |
| | Loans and other receivables | Available for sale financial assets | Financial liabilities recognised at amortised acquisition cost | Book values of balance sheet items | Fair value | Hierarchy level | Note |
| 2017 balance sheet items | | | | | | | |
| Non-current financial assets | | | | | | | |
| Other financial assets | | 53 | | 53 | 53 | 2 | |
| Current financial assets | | | | | | | |
| Trade and other receivables | 23 714 | | | 23 714 | 23 714 | 2 | 16 |
| Book value by group | 23 714 | 53 | | 23 767 | 23 767 | | |
| Non-current financial liabilities | | | | | | | |
| Interest-bearing liabilities | | | 6 206 | 6 206 | 6 206 | 2 | 19 |
| Current financial liabilities | | | | | | | |
| Interest-bearing liabilities | | | 7 065 | 7 065 | 7 065 | 2 | 19 |
| Trade payables and other liabilities | | | 11 784 | 11 784 | 11 784 | 2 | 21 |
| Book value by group | | | 25 055 | 25 055 | 25 055 | | |

Other financial assets include investments in unlisted equities. They have been measured at acquisition cost as fair value cannot be assessed reliably. The book values of trade receivables and receivables other than those based on derivatives are estimated to essentially correspond to their fair values due to the short maturity of the receivables. The book values of debts are estimated to correspond to their fair values. Interest rate level has no material effect. 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. Fair values of each financial asset and liability group are presented in more detail under the note indicated in the table above.

Assets and liabilities recognised at fair value in the financial statements are categorised into three levels in the fair value hierarchy based on the inputs used in the valuation technique to determine their fair value. The three levels are:

Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly e.g. discounted cash flows or valuation models.

Level 3. Inputs for the asset or liability that are not based on observable market data and the fair value determination are widely based on management's judgement and the use of that in commonly approved valuation models.

Classification changes of financial assets caused by the implementation IFRS 9

| (EUR 1 000) | Classification under IAS 39 | Classification under IFRS 9 | Carrying amount 31.12.2017 | Carrying amount 1.1.2018 |
|-----------------------------|-------------------------------------|--|----------------------------|--------------------------|
| Other financial assets | Available for sale financial assets | Financial assets measured at fair value through profit or loss | 53 | 53 |
| Trade and other receivables | Loans and other receivables | Financial assets measured at amortised costs | 23714 | 23714 |

14. Deferred tax assets and liabilities

(EUR 1 000)

| Changes in deferred taxes during 2018 | 1.1.2018 | Recognised in the income statement | Recognised in the other comprehensive income | Exchange rate differences | 31.12.2018 |
|--|-------------|------------------------------------|--|---------------------------|-------------|
| Deferred tax assets | | | | | |
| Pension obligations | 84 | 0 | -25 | 0 | 58 |
| Other temporary differences | 58 | 5 | 0 | 0 | 64 |
| Total | 142 | 5 | -25 | 0 | 122 |
| Deferred tax liabilities | | | | | |
| On buildings measured at the fair value of the transition date | 396 | -66 | 0 | 0 | 330 |
| Other temporary differences | 95 | -43 | 0 | 0 | 53 |
| Total | 491 | -109 | 0 | 0 | 383 |
| Deferred tax assets and liabilities, total | -350 | 113 | -25 | 0 | -261 |

| Changes in deferred taxes during 2017 | 1.1.2017 | Recognised in the income statement | Recognised in the other comprehensive income | Exchange rate differences | 31.12.2017 |
|--|-------------|------------------------------------|--|---------------------------|-------------|
| Deferred tax assets | | | | | |
| Pension obligations | 75 | 0 | 9 | 0 | 84 |
| Other temporary differences | 69 | -11 | 0 | 0 | 58 |
| Total | 144 | -11 | 9 | 0 | 142 |
| Deferred tax liabilities | | | | | |
| On buildings measured at the fair value of the transition date | 462 | -66 | 0 | 0 | 396 |
| Other temporary differences | 115 | -20 | 0 | 0 | 95 |
| Total | 577 | -86 | 0 | 0 | 491 |
| Deferred tax assets and liabilities, total | -433 | 75 | 9 | 0 | -350 |

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 2018 results, total about EUR 15.3 million (15.2). These losses have no expiry date according to knowledge available on the time of report release.

15. Inventories

| (EUR 1 000) | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|-------------------------------|-----------------|-----------------|
| Raw materials and consumables | 7 037 | 6 782 |
| Work in progress | 1 100 | 960 |
| Finished goods | 407 | 1 122 |
| Total | 8 544 | 8 863 |

The value of inventories has been written down by -362 thousand (-392 thousand 2017) due to obsolescence.

In the valuation of inventories the fair value of an item as well as its usage in current product portfolio offered is monitored. Should the current product portfolio no longer carry the product to which the item is used, the item is written down. If the product is still on sale but there has been decision to finish its selling, it will be written down to equal half of its value.

16. Current trade receivables and other receivables

| (EUR 1 000) | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|--|-----------------|-----------------|
| Trade receivables | 17 153 | 23 682 |
| Loan receivables | 0 | 32 |
| Accrued income and prepaid expenses of | | |
| Personnel expenses | 150 | 218 |
| Advances | 2 023 | 3 083 |
| Accrued income and prepaid expenses total | 2 173 | 3 301 |
| Total | 19 326 | 27 015 |

17. 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 share capital is EUR 14 000 000 and the minimum capital EUR 3 500 000. The counter value of a share is 1.68. The K shares carry 20 votes at the annual general meeting and the A shares 1 vote each. Both share series have the same dividend rights.

| Changes in share capital | Number of shares | Share capital | Share premium account | Treasury shares | Treasury shares, share-based incentive-system | Total |
|---|------------------|---------------|-----------------------|-----------------|---|--------------|
| 1.1.2017 | 4 108 454 | 7 000 | 1 116 | -502 | 0 | 7 614 |
| Acq. of shares for share-based incentive system * | | | | | | |
| Shares given * | 35 110 | | | 374 | | 374 |
| Shares returned | | | | | | |
| Share issue | | | | | | |
| 31.12.2017 | 4 143 564 | 7 000 | 1 116 | -128 | 0 | 7 988 |
| Acq. of shares for share-based incentive system * | | | | | | |
| Shares given * | 0 | | | 0 | | 0 |
| Shares returned | -1 046 | | | | | |
| Share issue | | | | | | |
| 31.12.2018 | 4 142 518 | 7 000 | 1 116 | -128 | 0 | 7 988 |

Martela Oyj owns 13 082 A shares. Out of the shares 12 036 were purchased at an average price of EUR 10.65 and 1 046 were transferred from Martela Corporation's joint account to the treasury shares reserve based on the decision by AGM on March 13, 2018. The number of treasury shares is equivalent to 0.31% of all shares and 0.08% of all votes.

*Acquisition of shares for the share-based incentive scheme and the management of the scheme have been outsourced to an external service.

Translation differences in equity comprises translation differences of financial statements of foreign subsidiaries when translated into euros and of investments in foreign units. Other reserves consist of reserve funds.

The share premium account is a fund established in accordance with the previous Finnish Companies Act. According to the present Liability Companies Act (effective from 1 September, 2006), it is included in restricted shareholders' equity and can no longer be accumulated. The share premium account can be reduced in accordance with the regulations on the reduction of share capital, and it can be used as a fund increase to increase share capital. The acquisition cost of treasury shares is deducted from shareholders' equity (including the related transaction costs).

The parent company's distributable equity was 27 699 thousand on 31.12.2018.

18. Share-based payments

Share-based incentive programme 2017–2018 and 2019–2020

In the effective share-based incentive programme there are two earning periods, which are 2017–2018 and 2019–2020. The Board of Directors will decide the earning criteria and the goals for each criterion of the programme at the beginning of each earning period. The target group for the 2017–2018 and 2019–2020 earning periods is the Group's Management Team. The potential reward of the programme from the earning period 2017–2018 is based on the Group's Earnings before Interest and Taxes (EBIT) and from the earning period 2019–2020 based on the Group's revenue and Earnings before Interest and Taxes (EBIT). No incentives will be paid for the earning period 2017–2018. The potential reward for the earning period 2019–2020 will be paid in one transaction as shares and a cash portion in year 2021. The cash portion is aimed to cover taxes and other costs related to the reward. The shares paid as reward may not be transferred during an approximate one-year restriction period established for the shares. For shares earned from the performance period 2019–2020, the restriction period will end on April 30 2022.

| Program | Share-based incentive programme 2017–2018 and 2019–2020 | | |
|---|--|-------------------------------------|-----------------------------|
| | Share | | |
| Tyyppi | Earning period 2017 | Earning period 2017–2018 | Earning period 2019–2020 |
| Instrument | | | |
| Issuing date | 15.12.2016 | 15.12.2016 | 13.12.2018 |
| Maximum amount, pcs | 100 000 | 100 000 | 100 000 |
| Dividend adjustment | No | No | No |
| Grant date | 15.12.2016 | 15.12.2016 | 13.12.2018 |
| Beginning of earning period | 1.1.2017 | 1.1.2017 | 1.1.2019 |
| End of earning period | 31.12.2017 | 31.12.2018 | 31.12.2020 |
| End of restriction period | 15.04.2018 | 30.04.2019 | 30.04.2021 |
| Vesting conditions | EBIT | EBIT | Revenue and EBIT |
| Maximum contractual life, yrs | 1,3 | 2,3 | 2,3 |
| Remaining contractual life, yrs | 0,3 | 2,3 | 2,3 |
| Number of persons at the end of reporting year | 6 | 6 | 5 |
| Payment method | Cash & Equity | Cash & Equity | Cash & Equity |
| Changes during the period 2018 | Earning period 2017–2018 | Earning period 2019–2020 | Total |
| 01.01.2018 | | | |
| Outstanding at the beginning of the reporting period, pcs | 88 000 | 0 | 88 000 |
| Changes during the period | | | |
| Granted | 0 | 92 000 | 92 000 |
| Forfeited | 36 200 | | 36 200 |
| Shares given | 0 | | 0 |
| Outstanding at the end of the period | 51 800 | 92 000 | 143 800 |

Effects from the share based incentive programme 2017 – 2018

| | Total |
|---|-----------|
| Expenses for the financial year, share-based payments, equity settled | - 165 197 |
| Liabilities arising from share-based payments on 31.12.2018 | 0 |

IFRS 2 requires an entity to measure the award at its fair value and recognised over the vesting period. The award is recognised in equity in its full extent. The fair value of the share-based scheme when granted was the value of a company's share.

19. Financial liabilities

| (EUR 1 000) | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|--------------------|-----------------|-----------------|
| Non-current | | |
| Bank loans | 3 829 | 6 127 |
| Finance leases | 127 | 79 |
| Total | 3 956 | 6 206 |
| Current | | |
| Bank loans | 6 156 | 6 952 |
| Pension loans | 0 | 0 |
| Finance leases | 162 | 113 |
| Total | 6 319 | 7 065 |

The Group's bank loans have either variable or fixed interest rates. The Group's average interest rate is 1.9% (2.0% 2017). The current portions of debt are presented more in detail under Note 22 Management of financial risks.

A covenant linked to net debt to EBITDA-ratio and the Group's equity ratio was attached to a part of the Group's bank loans. The net debt to EBITDA ratio can be at maximum 4.0 and the equity ratio 30% at minimum. When calculating these figures, the net debt is the net debt of the review date and the EBITDA is the sum of the four preceding quarter EBITDA. If Martela breaches this covenant, the loans will fall due immediately unless Martela manages to recover the ratio during the following quarter or the lender gives a waiver. The total value of loans submitted to this covenant was EUR 10.0 million on 31.12.2018. The covenants were met on 31.12.2018.

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 and pension loans.

More information in Note 24 Pledges granted and contingent liabilities.

| Finance lease liabilities are payable as follows: | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|---|-----------------|-----------------|
| Finance leases – total amount of minimum lease payments | | |
| No later than one year | 169 | 120 |
| Later than one year and no later than five years | 132 | 82 |
| Later than five years | 0 | 0 |
| Total | 301 | 202 |
| Finance leases – present value of minimum lease payments | | |
| No later than one year | 162 | 113 |
| Later than one year and no later than five years | 127 | 79 |
| Later than five years | 0 | 0 |
| Total | 290 | 192 |
| Unearned finance expense | 12 | 10 |

The average interest of financial leases was 3.5% in 2018 and 3.8% in 2017.

| Changes not affecting financial cash flow | 31.12.2017 | Cash flows | Transfer between groups | Other change | 31.12.2018 |
|--|---------------|---------------|-------------------------|--------------|---------------|
| Long-term loans total | 6 206 | 0 | -2 250 | 0 | 3 956 |
| Short-term loans total | 7 065 | -2 984 | 2 250 | -13 | 6 319 |
| Loans total from the financing activities | 13 271 | -2 984 | 0 | -13 | 10 275 |

20. Pension obligations

Martela's defined benefit plans concern its operations in Finland. The arrangements are made through insurance companies. The plans are partly funded.

On the balance sheet, the commitment to those insured is presented as a pension liability, and the part of this liability that falls under the responsibility of insurance company is presented as an asset. As the funds belong to the insurance companies, they cannot be itemised in Martela's consolidated financial statements.

In insurance arrangements, the amount of funds is calculated using the same discount rate used for the determination of pension liabilities. This means that a change in discount rate does not pose a significant risk. In addition, an increase in life expectancy does not pose a significant risk for Martela, as insurance companies will bear most of the impact of this.

The pensions are fixed to 2016 salary levels and accounted for accordingly.

| (EUR 1 000) | Present value of the defined benefit liability | | Fair value of the funds included in the plan | | Net debt of the defined benefit liability | |
|--|--|---------------|--|---------------|---|-------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Changes in defined benefit liability: | | | | | | |
| 1.1. | 3 002 | 4 037 | -2 588 | -3 667 | 416 | 371 |
| Recognised in profit or loss | | | | | | |
| Service cost in the period | 167 | 170 | | | 167 | 170 |
| Past service cost | 0 | -1 400 | 0 | 1 400 | | |
| Interest expense or income | 48 | 72 | -43 | -67 | 5 | 5 |
| | 216 | -1 158 | -43 | 1 333 | 173 | 175 |
| Recognised in other comprehensive income | | | | | | |
| Items resulting from remeasurement: | | | | | | |
| Gains (-) or losses (+) resulting from changes in demographical assumptions | 0 | 0 | | | 0 | |
| Actuarial gain (-) and losses (+) resulting from changes in financial assumptions | -114 | 186 | | | -114 | 186 |
| Experience based profits (-) or losses (+) | -94 | 216 | | | -94 | 216 |
| Return on the funds included in the plan, excluding items in interest expenses or income (+/-) | | | 95 | -130 | 95 | -130 |
| | -208 | 401 | 95 | -130 | -112 | 272 |
| Other items | | | | | | |
| Employer's payments (+) | -49 | -279 | -133 | -124 | -182 | -402 |
| | -49 | -279 | -133 | -124 | -182 | -402 |
| 31.12. | 2 961 | 3 002 | -2 669 | -2 588 | 294 | 416 |

The Group anticipates that it will pay a total of EUR 141 thousand to defined benefit pension plans in the financial period of 2019.

Sensitivity analysis

The following table illustrates the effects of changes in the most significant actuarial assumptions on the funds related to the defined benefit pension liability and plans.

| | Defined benefit liability | Fair value of the funds included in the plan |
|---|---------------------------|--|
| Effect of a change in the assumption employed | The assumption is growing | The assumption is growing |
| Discount rate (0.5% change) | -8.8% | -8.1% |
| Increase in salaries (0.5% change) | N/A | N/A |
| Mortality rate (a change of 5% points) | -1.1% | -1.9% |

The weighted average of the duration of hte plans is 19,0 years.

21. Current liabilities

| (EUR 1 000) | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|--|-----------------|-----------------|
| Advances received | 2 036 | 997 |
| Trade payables | 8 612 | 8 503 |
| Total | 10 649 | 9 501 |
| Accrued liabilities and prepaid income of | | |
| Personnel expenses | 3 917 | 3 756 |
| Interests | 18 | 14 |
| Royalties | 141 | 190 |
| Residual expenses | 2 636 | 2 753 |
| Other | 11 | 5 |
| Total | 6 723 | 6 719 |
| Other current liabilities | 2 733 | 3 266 |
| Other | 2 733 | 3 266 |
| Current liabilities | 20 105 | 19 486 |

22. Management of financial risks

Financial risks are unexpected exceptions relating to exchange rates, 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 result and net assets. The general principles of risk management are approved by Board of Directors and the practical implementation of financial risk management is on the responsibility of the parent company's financial administration.

Market risks

Market risks comprise the following three risks: Currency risk, interest rate risk and price risk. The associated fluctuations in exchange rates, market interest rates and market prices may lead to changes in the fair value of financial instruments and in the future cash flows, and hence they impact the result and balance sheet 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. Translation risks result from incoming cash flows denominated in foreign currencies. Translation risk arise when the value of the capital invested in the parent company's foreign subsidiaries, annual profits and loans change as a result of exchange rate fluctuations.

Transaction risks

Martela's major trading currencies are 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 if seen necessary. The Group has not hedged against transaction risks during the financial periods of 2017 and 2018.

Translation risks

The main translation risks derive from equity or subordinated loans provided by the parent company to its subsidiaries in Sweden, Poland and Russia. If needed, the company hedges against translation risks by using currency loan 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.

The following table presents currency risks per instrument and currency.

Transaction risks per instrument and currency 31.12.2018 (EUR 1 000)

| | EUR | SEK | PLN | NOK |
|-------------------|------------|--------------|----------|------------|
| Trade receivables | 0 | 1 361 | 0 | 990 |
| Trade payables | -21 | 115 | 0 | -19 |
| Total | -21 | 1 476 | 0 | 971 |

Transaction risks per instrument and currency 31.12.2017 (EUR 1 000)

| | EUR | SEK | PLN | NOK |
|-------------------|---------------|--------------|--------------|--------------|
| Trade receivables | -548 | 8 707 | 1 360 | 2 161 |
| Trade payables | -1 307 | -215 | -18 | -1 |
| Total | -1 855 | 8 491 | 1 342 | 2 160 |

The impact of other currencies is minor.

Analysis of sensitivity to transaction risk

The following table presents the average impact of 10 per cent change in exchange rates on 31 December on the company's financial result before taxes and capital for 2018 (2017). The estimates are based on the assumption that no other variables change.

| Analysis of sensitivity to transaction risk (thousands) | Impact on shareholders' equity | Impact on result |
|---|--------------------------------|------------------|
| 31.12.2018 | | |
| EUR | | +/- 2 |
| SEK | 0 | +/-148 |
| PLN | 0 | +/- 0 |
| NOK | 0 | +/- 97 |
| 31.12.2017 | | |
| EUR | 0 | +/- 186 |
| SEK | 0 | +/- 849 |
| PLN | 0 | +/- 134 |
| NOK | 0 | +/- 216 |

Interest rate risks

The Group's interest rate risks relate mainly to the Group's loan portfolio. The duration of loans varies between 1–5 years. The Group can raise either fixed-interest or variable-interest loans and can use interest rate swaps.

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 can invest 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 1 000) | 31.12.2018 | 31.12.2017 |
|-----------------------------------|---------------|---------------|
| Fixed rate | | |
| Financial liabilities | 290 | 192 |
| Variable rate | | |
| Financial liabilities | 9 985 | 13 079 |
| Total | 10 275 | 13 271 |

Analysis of sensitivity to interest rate risks

Impact of 1 per cent increase in interest rate on financial result before taxes 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 1 000) | Impact on shareholders' equity | Impact on result |
|--|--------------------------------|------------------|
| 31.12.2018 | | |
| Financial liabilities | | |
| Variable rate financial instruments | 0 | -100 |
| 31.12.2017 | | |
| Financial liabilities | | |
| Variable rate financial instruments | 0 | -131 |

Price risk

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 risk

Credit risk arises from the possibility that a counterparty will not meet its contractual payment obligations. 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 financial 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's 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 the 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 the 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 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 correspond 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 1 000) | 2018 | 2017 |
|--|---------------|---------------|
| Financial assets measured at fair value through profit or loss | 8 | 53 |
| Loans and other receivables | 17 153 | 23 714 |
| Cash and cash equivalents | 10 594 | 7 283 |
| Total | 27 754 | 31 050 |

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 1 000) | 2018 | Incl. Credit loss provision | 2017 | Incl. Credit loss provision |
|---|---------------|-----------------------------|---------------|-----------------------------|
| Unmatured | 14 037 | 69 | 15 433 | 0 |
| Matured 1–30 days | 2 116 | 30 | 3 374 | 0 |
| Matured 31–60 days | 390 | 6 | 792 | 0 |
| Matured over 60 days | 609 | 739 | 4 082 | 787 |
| Total | 17 153 | 844 | 23 682 | 787 |

The determination of credit loss provision was changed due to the implementation of IFRS 9.

A provision is made to the trade receivables according to following, unless it is highly likely to receive payment for the receivable: undue receivables 0,5%, 0–6 months overdue 2%, 6–12 months overdue 10%, 12–24 months overdue 50% and over 24 months overdue 100%. In year 2017 a provision of 50% was made to all trade receivables overdue over 180 days.

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

| Region (EUR 1 000) | 2018 | 2017 |
|--------------------------|---------------|---------------|
| Finland | 12 926 | 11 324 |
| Scandinavia | 2 889 | 11 225 |
| Other European countries | 846 | 810 |
| Other regions | 491 | 323 |
| Total | 17 153 | 23 682 |

Credit risks from trade receivables are not concentrated.

In 2018 EUR -1 thousand (EUR -394 thousand in 2017) in credit losses has been recognised as expenses and presented in other operating expenses.

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 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 equivalent at the year 2018 end were EUR 10 594 thousand and unused credit limits EUR 1 750 thousand.

| Contractual cash flows mature as follows (EUR 1000): | 2019 | 2020 | 2021 | 2022 | 2023 | Later | Total | Balance sheet value |
|--|---------------|------------|------------|----------|----------|--------------|---------------|---------------------|
| Bank loans | 6 156 | 743 | 86 | | | 3 000 | 9 985 | 9 985 |
| Pension loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial leases | 162 | 127 | 0 | 0 | 0 | 0 | 290 | 290 |
| Trade payables | 8 612 | 0 | 0 | 0 | 0 | 0 | 8 612 | 8 612 |
| Bank overdrafts, used | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loan interest and guarantee fees | 97 | 57 | 13 | | 0 | 0 | 167 | |
| Total | 15 028 | 927 | 99 | 0 | 0 | 3 000 | 19 054 | |
| Guarantees given* | 5 | 0 | 14 | 0 | 0 | 0 | 19 | |
| Total | 15 033 | 927 | 113 | 0 | 0 | 3 000 | 19 073 | |

* Guarantees given to third-party on rents given to subsidiaries by the parent company.

Cash and cash equivalent at the year 2017 end were EUR 7 283 thousand and unused credit limits EUR 2 700 thousand.

| Contractual cash flows mature as follows (EUR 1000): | 2018 | 2019 | 2020 | 2021 | 2022 | Later | Total | Balance sheet value |
|--|---------------|--------------|--------------|------------|--------------|----------|---------------|---------------------|
| Bank loans | 6 952 | 1 143 | 1 156 | 743 | 3 086 | 0 | 13 079 | 13 079 |
| Pension loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial leases | 113 | 79 | 0 | 0 | 0 | 0 | 192 | 192 |
| Trade payables | 8 503 | 0 | 0 | 0 | 0 | 0 | 8 503 | 8 503 |
| Bank overdrafts, used | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loan interest and guarantee fees | 133 | 97 | 57 | 13 | 0 | 0 | 300 | |
| Total | 15 701 | 1 319 | 1 213 | 756 | 3 086 | 0 | 22 074 | |
| Guarantees given* | 5 | 0 | 14 | 0 | 0 | 0 | 19 | |
| Total | 15 706 | 1 319 | 1 227 | 756 | 3 086 | 0 | 22 093 | |

*Guarantees given to third-party on rents given to subsidiaries by the parent company.

Management of capital structure

It is the Group's objective to ensure an effective capital structure that will secure its operating capacity in the capital markets in all circumstances irrespective of volatility. The Group's Board of Directors assess the capital structure on a regular basis. The Group uses the equity ratio to monitor its capital structure. The equity ratio formula is presented in the following table:

| Equity ratio | 31.12.2018 | 31.12.2017 |
|--|-------------|-------------|
| Shareholders' equity | 18 791 | 22 625 |
| Balance sheet total - advance payments | 47 959 | 55 442 |
| Equity to assets ratio % | 39,2 | 40,8 |

23. Operating leases

| (EUR 1 000) | 31.12.2018 | 31.12.2017 |
|---|--------------|--------------|
| Minimum lease payments under non-cancellable operating leases are as follows: | | |
| No later than one year | 2 847 | 2 851 |
| Later than one year and not later than five years | 4 937 | 5 740 |
| Later than five years | 0 | 0 |
| Total | 7 785 | 8 591 |

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 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 2018 includes rents paid on the basis of operating leases totalling EUR -4 029 thousand (EUR -3 929 thousand in 2017).

24. Pledges granted and contingent liabilities

| (EUR 1 000) | 31.12.2018 | 31.12.2017 |
|-----------------------------------|---------------|---------------|
| Debts secured by mortgages | | |
| Bank and pension loans | 9 985 | 13 079 |
| Property mortgages | 7 565 | 7 565 |
| Corporate mortgages | 14 294 | 14 916 |
| Shares pledged | 0 | 4 |
| Total mortgages | 21 859 | 22 485 |
| Other pledges | | |
| Guarantees as security for rents | 308 | 243 |

25. Related party transactions

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

Members of the Board hold a total of 6.2% of the share capital and 14.0% of the votes. The CEO had 6 667 Martela A shares as at December 31 2018.

| Group structure | Domicile | Holding (%) 31.12.2018 | Of votes (%) 31.12.2018 | Sales company | Production company |
|---------------------------------|----------|---------------------------|----------------------------|------------------|-----------------------|
| Parent company | | | | | |
| Martela Oyj | Finland | | | x | x |
| Susidiaries | | | | | |
| Kidex Oy | Finland | 100 | 100 | x | x |
| Grundell Muuttopalvelut | Finland | 100 | 100 | x | |
| Kiinteistö Oy Ylähanka | Finland | 100 | 100 | | |
| Martela AB, Nässjö | Sweden | 100 | 100 | x | |
| Aski Avvecklingsbolag AB, Malmö | Sweden | 100 | 100 | | |
| Martela AS, Oslo | Norway | 100 | 100 | x | |
| Martela Sp.z o.o., Warsaw | Poland | 100 | 100 | x | x |

Management employee benefits

The Group has determined key persons in management to be:

Members of the Board of Directors

CEO

Group Management Team

The table below presents the employee benefits received by key persons in management. Voluntary pension plans, which include both defined contribution plans and defined benefit plans, are recognised as post-employment benefits.

| (EUR 1 000) | 2018 | 2017 |
|---|---------------|---------------|
| Management employee benefits | | |
| Salaries and other short-term employee benefits | -1 337 | -1 245 |
| Share-based benefits | 0 | -1 123 |
| Total | -1 337 | -2 368 |
| Salaries and fees | | |
| Board members | -173 | -166 |
| CEO | -262 | -705 |
| Management team members (excl. CEO) | -902 | -1 497 |
| Total | -1 337 | -2 368 |

| Fees paid to Board members: | 2018 | 2017 |
|------------------------------------|---------------|---------------|
| Andersson Minna **** | -20,4 | -15,3 |
| Komi Kirsi | -22 | -21 |
| Leskinen Eero | -22 | -21 |
| Martela Eero | -22 | -21 |
| Martela Heikki | -42,4 | -40,8 |
| Mellström Katarina *** | -16,5 | 0 |
| Metsäranta Pinja** | 0 | -4,5 |
| Närhinen Yrjö * | -5,5 | -21 |
| Vepsäläinen Anni | -22 | -21 |
| Yhteensä | -172,8 | -165,6 |

*in Board until Q1 2018 ** in Board until Q1 2017

new member from Q1 2018 *new member from Q2 2017

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

| Salaries, fees and pension commitment to CEO | 2018 | 2017 |
|---|------|------|
| Salaries and fees | -262 | -705 |
| Statutory earnings-related pension payment (TyEL) on salaries | -62 | -162 |

Salaries include also share-based incentives

The period of notice is 6 months with respect to both the present CEO and the company, and in the event of dismissal by the company, the CEO is entitled, besides of the notice period, to a lump-sum compensation equalling his salary for 6 months.

CEO and the Group management team has long term share-based incentive programme in which it is possible to receive Martela A shares when the set targets are met. The earning periods are 2017–2018 individually and cumulative and 2019–2020. Fees based on the programme are paid as a combination of cash and shares.

The financial statements 2017 include as a reservation EUR -165 thousand related to the programme which was reversed into the profit and loss of 2018. No share-based incentives are paid based on years 2017 and 2018 outcomes.

More information in Note 18 Sharebased payments.

26. Key financial indicators for the Group

| Martela Group 2014–2018 | | 2018 | 2017 | 2016 | 2015 | 2014 |
|---------------------------------------|-------------|-------|-------|-------|-------|-------|
| Revenue | EUR million | 103,1 | 109,5 | 129,1 | 132,8 | 135,9 |
| Change in revenue | % | -5,9 | -15,2 | -2,8 | -2,3 | 2,7 |
| Export and operations outside Finland | EUR million | 17,0 | 22,3 | 33,1 | 35,9 | 47,8 |
| in relation to revenue | % | 16,5 | 20,4 | 25,6 | 27,0 | 35,1 |
| Exports from Finland | EUR million | 16,3 | 18,4 | 16,5 | 11,1 | 14,3 |
| Gross capital expenditure | EUR million | 1,7 | 2,2 | 2,9 | 0,7 | 1,7 |
| in relation to revenue | % | 1,6 | 2,1 | 2,2 | 0,5 | 1,3 |
| Depreciation | EUR million | 2,6 | 2,6 | 2,9 | 3,4 | 3,7 |
| Research and development | EUR million | 1,9 | 2,0 | 1,9 | 2,1 | 2,8 |
| in relation to revenue | % | 1,8 | 1,8 | 1,5 | 1,6 | 2,1 |
| Personnel on average | | 510 | 508 | 550 | 622 | 742 |
| Change in personnel | % | 0,4 | -7,6 | -11,6 | -16,2 | -3,6 |
| Personnel at the end of year | | 501 | 507 | 506 | 575 | 670 |
| of which in Finland | | 425 | 435 | 435 | 430 | 505 |

| Profitability | | 2018 | 2017 | 2016 | 2015 | 2014 |
|------------------------|--------------|-------|-------|-------|-------|-------|
| Operating profit | EUR million | -2,1 | 0,3 | 6,2 | 4,1 | 0,2 |
| in relation to revenue | % | -2,0 | 0,2 | 4,8 | 3,1 | 0,1 |
| Profite before taxes | EUR million | -2,5 | 0,0 | 5,6 | 3,4 | -0,6 |
| in relation to revenue | % | -2,4 | 0,0 | 4,4 | 2,5 | -0,4 |
| Profit for the year* | EUR million | -2,4 | -0,6 | 3,3 | 2,5 | -0,7 |
| in relation to revenue | % | -2,3 | -0,6 | 2,6 | 1,9 | -0,5 |
| Revenue/employee | EUR thousand | 202,2 | 215,6 | 234,8 | 213,5 | 183,2 |
| Return on equity | % | -11,4 | -2,7 | 13,9 | 11,6 | -3,4 |
| Return on investment | % | -4,9 | 1,6 | 18,2 | 12,1 | 0,5 |

| Finance and financial position | | 2018 | 2017 | 2016 | 2015 | 2014 |
|----------------------------------|-------------|------|------|-------|------|------|
| Balance sheet total | EUR million | 50,0 | 56,4 | 56,2 | 56,0 | 54,2 |
| Equity | EUR million | 18,8 | 22,6 | 25,2 | 22,7 | 20,3 |
| Interest-bearing net liabilities | EUR million | 0,1 | 6,6 | -4,8 | 3,8 | 6,8 |
| in relation to revenue | % | 0,1 | 6,0 | -3,7 | 2,8 | 5,0 |
| Equity ratio | % | 39,2 | 40,8 | 45,3 | 40,9 | 38,1 |
| Gearing | % | 0,7 | 29,0 | -18,9 | 16,6 | 33,4 |
| Net cash flow from operations | EUR million | 7,4 | -7,6 | 11,7 | 3,9 | 6,2 |
| Dividends paid | EUR million | 1,3 | 1,5 | 1,0 | 0,4 | 0,0 |

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

27. Key share-related figures

| | | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-------------|----------|----------|----------|----------|----------|
| Earnings per share | EUR | -0,57 | -0,15 | 0,81 | 0,61 | -0,18 |
| Earnings per share (diluted) | EUR | -0,57 | -0,15 | 0,81 | 0,61 | -0,18 |
| Share par value | EUR | 1,68 | 1,68 | 1,68 | 1,68 | 1,68 |
| Dividend* | EUR | 0,1 *) | 0,32 | 0,37 | 0,25 | 0,10 |
| Dividend/earnings per share | % | -17,5 | -208,4 | 45,80 | 41,20 | -55,60 |
| Effective dividend yield | % | 3,38 | 4,3 | 2,90 | 7,10 | 3,40 |
| Equity per share | EUR | 4,54 | 5,47 | 6,13 | 5,54 | 5,02 |
| Price of A share 31.12. | EUR | 2,96 | 7,47 | 12,84 | 3,53 | 2,91 |
| Share-issue adjusted number of shares | tpcs | 4 155,60 | 4 155,60 | 4 155,60 | 4 155,60 | 4 155,60 |
| Average share-issue adjusted number of shares | tpcs | 4 155,60 | 4 155,60 | 4 155,60 | 4 155,60 | 4 155,60 |
| Price/earnings ratio | | -5,18 | -48,64 | 15,90 | 5,80 | -16,20 |
| Market value of shares** | EUR million | 12,26 | 30,95 | 52,75 | 14,40 | 11,90 |

*Proposal by the Board of Directors

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

Formulas to key figures

| | | |
|---------------------------------|---|--|
| Earnings / share | = | $\frac{\text{Profit attributable to equity holders of the parent}}{\text{Average share issue-adjusted number of shares}}$ |
| Price / earnings multiple (P/E) | = | $\frac{\text{Share issue-adjusted share price at year end}}{\text{Earnings / share}}$ |
| Equity / share, EUR | = | $\frac{\text{Equity attributable to the equity holders of the parent}}{\text{Share issue-adjusted number of share at year end}}$ |
| Dividend / share, EUR | = | $\frac{\text{Dividend for the financial year}}{\text{Share issue-adjusted number of share at year end}}$ |
| Dividend / earnings, % | = | $\frac{\text{Dividend / share} \times 100}{\text{Earnings / share}}$ |
| Effective dividend yield, % | = | $\frac{\text{Share issue-adjusted dividend / share} \times 100}{\text{Share issue-adjusted share price at the year end}}$ |
| Market value of shares, EUR | = | Total number of shares at year end x share price on the balance sheet date |
| Return on equity-% | = | $\frac{\text{Profit/loss for the financial year} \times 100}{\text{Equity (average during the year)}}$ |
| Return on investment-% | = | $\frac{(\text{Pre-tax profit/loss} + \text{interest expenses} + \text{other financial items}) \times 100}{\text{Balance sheet total} - \text{non-interest-bearing liabilities (average during the year)}}$ |
| Equity ratio, % | = | $\frac{\text{Equity} \times 100}{\text{Balance sheet total} - \text{advances received}}$ |
| Gearing, % | = | $\frac{\text{Interest-bearing-liab.} - \text{cash, cash equiv. and liq. asset securities} \times 100}{\text{Equity}}$ |
| Personnel on average | = | Month-end average number of personnel in active employment |
| Interest-bearing net debt | = | Interest-bearing debt – cash and other liquid financial assets |

28. Shares and shareholders

Share capital

The number of registered Martela Oyj shares on 31.12.2018 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 annual 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 Nasdaq Helsinki.

| Distribution of shares 31.12.2018 | Number, pcs | 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 |

| The largest shareholders by number of shares 31.12.2018 | K series shares | A series shares | Total 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 |
| Martela Heikki | 52 122 | 130 942 | 183 064 | 4,4 | 1 173 382 | 7,5 |
| Palsanen Leena | 4 486 | 131 148 | 135 634 | 3,3 | 220 868 | 1,4 |
| Palsanen Jaakko | 1 600 | 132 140 | 133 740 | 3,2 | 164 140 | 1,0 |
| AC Invest Oy | 0 | 104 459 | 104 459 | 2,5 | 104 459 | 0,7 |
| Meissa-Capital Oy | 0 | 86 487 | 86 487 | 2,1 | 86 487 | 0,6 |
| Nordea Bank Ab, Finland branch, nominee reg. | 0 | 76 286 | 76 286 | 1,8 | 76 286 | 0,5 |
| Lindholm Tuija | 43 122 | 28 221 | 71 343 | 1,7 | 890 661 | 5,7 |
| Martela Pekka | 69274 | 8 | 69 282 | 1,7 | 1 385 488 | 8,9 |
| Kelhu Markku | 0 | 50 000 | 50 000 | 1,2 | 50 000 | 0,3 |
| Andersson Minna | 49200 | 0 | 49 200 | 1,2 | 984 000 | 6,3 |
| Martela Mari | 20 219 | 9 596 | 29 815 | 0,7 | 413 976 | 2,6 |
| Martela Ilie | 13218 | 8 368 | 21 586 | 0,5 | 272 728 | 1,7 |
| Martela Jarmo | 8 919 | 2 150 | 11 069 | 0,3 | 180 530 | 1,2 |
| Other shareholders | 50640 | 2 223 021 | 2 273 661 | 54,7 | 3 235 821 | 20,7 |
| Total | 604 800 | 3 550 800 | 4 155 600 | 100 | 15 646 800 | 100 |

The list includes all shareholders holding over 1% of the shares or votes.

The Board of Directors hold 6.2% of shares and 14.0% of votes.

Martela Oyj owns 13 082 pcs A shares. Out of the shares, 12 036 were purchased at an average price of EUR 10.65 and 1 046 were transferred from Martela Corporation's joint account to the treasury shares reserve based on the decision by AGM on March 13, 2018.

The number of treasury shares is equivalent to 0.31% of all shares and 0.08% of all votes.

The Annual General Meeting has in 2018 re-authorised the Board of Directors to decide, for the following year, on share issue, on acquiring and/or disposing of the company's shares in deviation from the pre-emptive rights of shareholders.

The AGM approved the Board of Directors' proposals, detailed in the meeting notice, to authorise the Board to acquire and/or dispose of Martela shares. The authorisation is for a maximum 415 560 of the company's A series shares.

Breakdown of share ownership by number of shares held 31.12.2018.

| Shares, pcs | Number of shareholders | % of total shareholders | Number of shares | % | Number of votes | % of votes |
|--|------------------------|-------------------------|------------------|--------------|-------------------|--------------|
| 1-500 | 2 912 | 78,9 | 425 742 | 10,2 | 425 742 | 2,7 |
| 501-1000 | 386 | 10,5 | 299 169 | 7,2 | 302 969 | 1,9 |
| 1001-5000 | 299 | 8,1 | 626 431 | 15,1 | 724 851 | 4,6 |
| Over 5000 | 92 | 2,5 | 2 787 339 | 67,1 | 13 854 858 | 88,5 |
| Total | 3 689 | 100,0 | 4 138 681 | 99,6 | 15 308 420 | 97,8 |
| of which nominee-registered | 6 | | 52 540 | 1,3 | 52 540 | 0,3 |
| In the waiting list and collective account | 4 | | 16 919 | 0,4 | 338 380 | 2,2 |
| Total | | | 4 155 600 | 100,0 | 15 646 800 | 100,0 |

Breakdown of shareholding by sector 31.12.2017

| Shares, pcs | Number of shareholders | % of total shareholders | Number of shares | % | Number of votes | % of votes |
|--|------------------------|-------------------------|------------------|--------------|-------------------|--------------|
| Private companies | 163 | 4,4 | 1 046 716 | 25,2 | 6 594 716 | 42,1 |
| Financial and insurance institutions | 12 | 0,3 | 129 255 | 3,1 | 175 126 | 1,1 |
| Public corporations | 1 | 0,0 | 335 400 | 8,1 | 335 400 | 2,1 |
| Non-profit entities | 9 | 0,2 | 18 246 | 0,4 | 18 246 | 0,1 |
| Households | 3 494 | 94,7 | 2 538 154 | 61,1 | 8 159 893 | 52,2 |
| Foreign investors | 10 | 0,3 | 18 370 | 0,4 | 25 039 | 0,2 |
| Total | 3 689 | 100,0 | 4 086 141 | 98,3 | 15 308 420 | 97,8 |
| of which nominee-registered | 6 | | 52 540 | 1,3 | 52 540 | |
| In the waiting list and collective account | | | 16 919 | 0,4 | 338 380 | 2,2 |
| Total | | | 4 155 600 | 100,0 | 15 646 800 | 100,0 |

Parent Company Income Statement

| (EUR 1 000) | Note | 1.1. – 31.12.2018 | 1.1. – 31.12.2017 |
|--|------|-------------------|-------------------|
| Revenue | 1 | 98 049 | 95 819 |
| Change in inventories of finished goods and work in progress | | -526 | 63 |
| Production for own use | | 475 | 0 |
| Other operating income | 2 | 1 309 | 783 |
| Materials and services | 3 | -70 331 | -63 230 |
| Personnel expenses | 4 | -16 209 | -15 917 |
| Other operating expenses | | -12 332 | -11 323 |
| Depreciation and impairment | 5 | -2 334 | -1 383 |
| Operating profit (loss) | | -1 899 | 4 812 |
| Financial income and expenses | 6 | -471 | -238 |
| Profit (loss) before appropriations and taxes | | -2 370 | 4 574 |
| Depreciation difference | 7 | 0 | 12 |
| Group contributions | 7 | 1 784 | -230 |
| Depreciation difference and Group contributions | 7 | 1 784 | -218 |
| Income taxes | 8 | 23 | -695 |
| Profit (loss) for the financial year | | -563 | 3 661 |

Parent Company Balance Sheet

| (EUR 1 000) | Note | 31.12.2018 | 31.12.2017 |
|-------------------------------------|------|---------------|---------------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Intangible assets | 9 | | |
| Intangible rights | | 8 388 | 9 321 |
| Other long-term expenditure | | 5 429 | 6 211 |
| Advance payments | | 478 | 154 |
| | | 14 295 | 15 686 |
| Tangible assets | 10 | | |
| Land and water areas | | 80 | 80 |
| Buildings and structures | | 1 929 | 2 002 |
| Machinery and equipment | | 713 | 573 |
| Other tangible assets | | 23 | 23 |
| | | 2 745 | 2 678 |
| Investments | 11 | | |
| Shares in subsidiaries | | 7 498 | 7 498 |
| Receivables from subsidiaries | | 6 960 | 6 960 |
| Other shares and participations | | 8 | 13 |
| | | 14 466 | 14 470 |
| CURRENT ASSETS | | | |
| Inventories | | | |
| Materials and supplies | | 5 782 | 5 411 |
| Work in progress | | 1 012 | 875 |
| Finished goods | | 689 | 1 353 |
| Advances paid to suppliers | | 286 | 760 |
| | | 7 770 | 8 399 |
| Non-current receivables | 12 | | |
| Trade receivables | | 20 156 | 27 288 |
| Loan receivables | | 1 460 | 1 048 |
| Accrued income and prepaid expenses | | 2 879 | 3 031 |
| | | 24 495 | 31 368 |
| Cash and cash equivalents | | 9 185 | 6 012 |
| | | 72 956 | 78 613 |

| (EUR 1 000) | Note | 31.12.2018 | 31.12.2017 |
|--|------|---------------|---------------|
| EQUITY AND LIABILITIES | | | |
| SHAREHOLDERS' EQUITY | | | |
| Shareholders' equity | 13 | | |
| Share capital | | 7 000 | 7 000 |
| Share premium account | | 1 116 | 1 116 |
| Reserve fund | | 11 | 11 |
| Retained earnings | | 28 262 | 25 927 |
| Profit for the year | | -563 | 3 661 |
| Total | | 35 826 | 37 715 |
| Appropriations | | | |
| Accumulated depreciation difference | 14 | 0 | 0 |
| LIABILITIES | | | |
| Non-current | 15 | | |
| Loans from financial institutions | | 3 829 | 6 114 |
| Accrued liabilities and prepaid income | | 150 | 150 |
| | | 3 979 | 6 264 |
| Current | 16 | | |
| Loans from financial institutions | | 6 143 | 6 000 |
| Pension loans | | 0 | 0 |
| | | 6 143 | 6 000 |
| Advances received | | 1 755 | 854 |
| Trade payables | | 17 037 | 9 315 |
| Accrued liabilities and prepaid income | | 5 248 | 15 614 |
| Other current liabilities | | 2 968 | 2 850 |
| | | 27 009 | 28 633 |
| Liabilities, total | | 37 130 | 40 898 |
| | | 72 956 | 78 613 |

Parent Company's Cash Flow Statement

| (EUR 1 000) | 1.1.–31.12.2018 | 1.1.–31.12.2017 |
|---|-----------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash flows from sales | 105 600 | 91 151 |
| Cash flow from other operating income | 1 369 | 552 |
| Payments on operating costs | -99 993 | -90 441 |
| Net cash from operating activities before financial items and taxes | 6 976 | 1 262 |
| Interests paid and other financial payments | -472 | -244 |
| Dividends received | 0 | -1 |
| Taxes paid | 1 173 | -3 305 |
| Net cash from operating activities (A) | 7 677 | -2 287 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditure on tangible and intangible assets | -535 | -1 703 |
| Proceeds from sale of tangible and intangible assets | -57 | 234 |
| Loans granted | -1 026 | -721 |
| Repayments of loan receivables | 582 | 255 |
| Net Cash used in investing activities (B) | -1 036 | -1 936 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from current loans | 6 000 | 7 700 |
| Repayments of current loans | -8 143 | -3 586 |
| Dividends and other profit distribution | -1 326 | -1 520 |
| Net cash used in financing activities (C) | -3 469 | 2 594 |
| CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C) (+ increase, - decrease) | 3 173 | -1 629 |
| Cash and cash equivalent at the beginning of financial year* | 6 012 | 7 640 |
| Cash and cash equivalent at the end of financial year* | 9 185 | 6 012 |

*Including cash

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 assets have been recorded to appreciated values, 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. 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. Shareholders loans denominated in foreign currency to subsidiaries are considered as investments. Currency exchange rate differences are hence not recognised in parent company financial statements. Exchange rate differences related to shareholder loans are recognised in the Consolidated financial statements.

Intangible assets:

Intangible assets are reported in the balance sheet at cost and depreciated according to the plan (by straight line method). Intangible assets are depreciated according to their estimated useful life in 3–10 years. Goodwill is depreciated by straight line method in 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. The change in accumulated depreciation difference is presented as a separate item in the parent company's profit and loss statement and the accumulated depreciation difference as a separate item in the balance sheet.

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 undertakings are recognised at cost and permanent impairments are deducted.

Impairment testing of long term assets:

Goodwill and investments in subsidiaries are tested for impairment annually. The recoverable cash amount from the subsidiaries is based on value in use calculations in the testing. The forecasted cash flows are based on 5-year financial plans approved by management. The central assumptions of the plans comprise of subsidiary growth and profitability assumptions. The cash flows beyond the five-year period is estimated based on 1,5% growth.

Inventories:

Inventories are recognised at weighted average purchase prices. The value of inventories is reduced with respect to nonmarketable items. The cost of goods includes also a share of the overhead costs of production.

Financial assets at fair value through profit and loss:

Investments in fund units are classified as financial assets at fair value through profit and loss. Investments are measured at fair value on the basis of quoted prices in active markets, and changes in fair value are recognised in the income statement in the year in which they were incurred.

Derivatives:

The company held no derivatives on 31 December 2018 or 31 December 2017.

The options for derivatives to be used by the company include currency forward contracts and interest rate swap agreements. The currency forward contracts are used to hedge the net position remaining after reconciliation of forecast revenues and expenses. The interest rate swap agreement relates to changing the floating-rate loan to a fixed-rate one. The fair values of derivatives are based on market prices on the balance sheet date, and changes in the fair values are recognised in the income statement for the period in which they arise.

Income tax:

The company income taxes are recognised on accrual basis and are calculated according to local tax legislation with adjustments from previous financial years. In the financial statements the company does not recognise deferred tax receivables or deferred tax liabilities.

Revenue and recognition policies:

Revenue is recognised on 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 in profit or loss in the year they arise. Research and development-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) are recognised in "Other operating income". Losses from disposal of assets and other costs are recognised in "Other operating expenses".

Operating leases:

All leasing payments are reported as rent expenses.

Share-based payments:

In the company's share-based incentive system with vesting periods 2017–2018 and 2019–2020 the payments are made in a combination of shares and cash. Share rewards are measured at their fair value at the grant date and recognised as expenses over the vesting period. The vesting conditions are taken into account in the number of shares, which are expected to vest by the end of the validity period. The valuations are adjusted at the end of each reporting period. The determination of the fair value of the reward takes place in two parts: a part settled as shares and a part settled as cash. The part settled as shares is recognised under equity and the cash share under liabilities.

Treasury shares:

The treasury shares held by the parent company are reported as a deduction from equity.

1. Breakdown of revenue by market area, % of revenue

| | 2018 | 2017 |
|--------------|------------|------------|
| Finland | 84 | 78 |
| Scandinavia | 12 | 17 |
| Other | 4 | 5 |
| Total | 100 | 100 |

2. Other operating income

| (EUR 1 000) | 2018 | 2017 |
|-------------------------------|--------------|------------|
| Gains on sale of fixed assets | 0 | 7 |
| Rental income | 1 242 | 144 |
| Other operating income | 57 | 633 |
| Other operating income | 10 | 0 |
| Total | 1 309 | 783 |

3. Materials and services

| (EUR 1 000) | 2018 | 2017 |
|--|----------------|----------------|
| Purchasing during the financial year | -53 051 | -54 248 |
| Change in inventories of materials and suppliers | 371 | 1 106 |
| External services | -17 651 | -10 088 |
| Materials and supplies, total | -70 331 | -63 230 |
| Auditor's fees | | |
| Auditing | -58 | -44 |
| Tax services | 0 | 0 |
| Other services | 0 | 0 |
| Auditor's fees, total | -58 | -44 |

4. Personnel expenses and number of personnel

| (EUR 1 000) | 2018 | 2017 |
|--|----------------|----------------|
| Salaries, CEO | -262 | -705 |
| Salaries of Board and directors | -173 | -166 |
| Salaries of Board and directors and CEO, total | -435 | -871 |
| Other salaries | -12 825 | -11 667 |
| Pension expenses | -2 453 | -2 782 |
| Other salary-related expenses | -497 | -596 |
| Personnel expenses in the income statement | -16 209 | -15 917 |
| Fringe benefits | -256 | -701 |
| Total | -16 465 | -16 618 |
| Personnel | | |
| Personnel on average, workers | 86 | 93 |
| Personnel on average, officials | 189 | 181 |
| Personnel on average, total | 275 | 274 |
| Personnel at the year end | 269 | 278 |

5. Depreciation and write-down

| (EUR 1 000) | 2018 | 2017 |
|--|---------------|---------------|
| Depreciation according to plan | | |
| Intangible assets | -1 919 | -940 |
| Tangible assets | | |
| Buildings and structures | -79 | -81 |
| Machinery and equipment | -336 | -362 |
| Depreciation according to plan, total | -2 334 | -1 383 |
| Impairments | 0 | 0 |
| Depreciations and impairments, total | -2 334 | -1 383 |

6. Financial income and expenses

| (EUR 1 000) | 2018 | 2017 |
|--|-------------|-------------|
| Financial income and expenses | | |
| Interest income from short-term investments | 4 | 5 |
| Interest income from short-term investments from Group companies | 55 | 55 |
| Foreign exchange gains | 1 | 92 |
| Interest expenses | -216 | -258 |
| Losses on foreign exchange | -218 | -46 |
| Other financial expenses | -96 | -86 |
| Total | -471 | -238 |

7. Depreciations and Group contributions

| (EUR 1 000) | 2018 | 2017 |
|---|--------------|-------------|
| Appropriations | | |
| Depreciation difference | 0 | 12 |
| Group contributions, given - / received + | 1 784 | -230 |
| Group contributions, total | 1 784 | -230 |
| Appropriations, total | 1 784 | -218 |

8. Income Taxes

| (EUR 1 000) | 2018 | 2017 |
|------------------------------|-----------|-------------|
| Income taxes from operations | 0 | -745 |
| Taxes from previous years | 23 | 50 |
| Total | 23 | -695 |

Deferred tax liabilities and assets have not been included into income statement nor balance sheet. There were no deferred tax asset related to periodising differences nor losses in 2017 and 2018.

9. Intangible assets

| (EUR 1 000) | Intangible rights | Other long-term expenses | Work in progress | Intangible assets total |
|--|-------------------|--------------------------|------------------|-------------------------|
| 1.1.2018–31.12.2018 | | | | |
| Acquisition cost 1.1. | 12 415 | 12 141 | 154 | 24 711 |
| Increases | 0 | 197 | 324 | 522 |
| Acquisition cost 31.12. | 12 415 | 12 339 | 478 | 25 232 |
| Accumulated depreciation 1.1. | -3 095 | -5 929 | 0 | -9 024 |
| Depreciation for the year 1.1.–31.12. | -933 | -979 | 0 | -1 912 |
| Accumulated depreciation 31.12. | -4 028 | -6 907 | 0 | -10 936 |
| Carrying amount 1.1. | 9 320 | 6 212 | 154 | 15 687 |
| Carrying amount 31.12. | 8 387 | 5 430 | 478 | 14 295 |

| | Intangible rights | Other long-term expenses | Work in progress | Intangible assets total |
|--|-------------------|--------------------------|------------------|-------------------------|
| 1.1.2017–31.12.2017 | | | | |
| Acquisition cost 1.1. | 3 215 | 8 273 | 2 203 | 13 692 |
| Increases | 9 200 | 3 868 | 1 819 | 14 887 |
| Decreases | 0 | 0 | -3 868 | -3 868 |
| Acquisition cost 31.12. | 12 415 | 12 141 | 154 | 24 711 |
| Accumulated depreciation 1.1. | -3 062 | -5 023 | 0 | -8 085 |
| Depreciation for the year 1.1.–31.12. | -33 | -906 | 0 | -939 |
| Accumulated depreciation 31.12. | -3 095 | -5 929 | 0 | -9 024 |
| Carrying amount 1.1. | 154 | 3 250 | 2 203 | 5 607 |
| Carrying amount 31.12. | 9 321 | 6 211 | 154 | 15 686 |

There was change in the operating model in 2017 as Martela Oyj (mother company) bought the businesses of its subsidiaries in Sweden and Norway. The businesses were transferred from subsidiaries to the mother company.

Based on this, a booking of EUR 9.2 million into goodwill was done in 2017 and it will be depreciated in 10 years and tested for impairment yearly.

10. Tangible assets

| (EUR 1 000) | | | | | |
|--|-------------------|------------------|--------------------------------|------------------------------|----------------|
| 1.1.2018–31.12.2018 | Land areas | Buildings | Machinery and equipment | Other tangible assets | Total |
| Acquisition cost 1.1. | 80 | 10 617 | 11 517 | 23 | 22 237 |
| Increases | 0 | 6 | 499 | 0 | 505 |
| Decreases | | | -17 | | |
| Acquisition cost 31.12. | 80 | 10 623 | 11 999 | 23 | 22 725 |
| Accumulated depreciation 1.1. | 0 | -8 615 | -10 944 | 0 | -19 559 |
| Depreciation for the year 1.1.–31.12. | 0 | -79 | -342 | 0 | -422 |
| Accumulated depreciation 31.12. | 0 | -8 694 | -11 286 | 0 | -19 980 |
| Carrying amount 1.1. | 80 | 2 002 | 573 | 23 | 2 678 |
| Carrying amount 31.12. | 80 | 1 929 | 713 | 23 | 2 745 |
| 1.1.2017–31.12.2017 | Land areas | Buildings | Machinery and equipment | Other tangible assets | Total |
| Acquisition cost 1.1. | 80 | 10 617 | 11 452 | 23 | 22 172 |
| Increases | 0 | 0 | 65 | 0 | 65 |
| Acquisition cost 31.12. | 80 | 10 617 | 11 517 | 23 | 22 237 |
| Accumulated depreciation 1.1. | 0 | -8 534 | -10 582 | 0 | -19 116 |
| Depreciation for the year 1.1.–31.12. | 0 | -81 | -362 | 0 | -443 |
| Accumulated depreciation 31.12. | 0 | -8 615 | -10 944 | 0 | -19 559 |
| Carrying amount 1.1. | 80 | 2 083 | 870 | 23 | 3 056 |
| Carrying amount 31.12. | 80 | 2 002 | 573 | 23 | 2 678 |

Revaluations included in buildings 2018 total EUR 1 850 thousand (1 850 in 2017).

Carrying amount of production machinery and equipment in 2018 was EUR 130 thousand (324 in 2017).

11. Investments

(EUR 1 000)

1.1.2018–31.12.2018

| | Subsidiary shares | Shares in associated undertakings | Other shares and participations | Shareholder loan receivables | Total |
|---|-------------------|-----------------------------------|---------------------------------|------------------------------|---------------|
| Balance sheet value at beginning of year | 7 498 | 0 | 13 | 6 960 | 14 471 |
| Increases | 0 | 0 | 0 | 0 | 0 |
| Decreases | 0 | 0 | -4 | 0 | -4 |
| Balance sheet value at end of year | 7 498 | 0 | 9 | 6 960 | 14 466 |

1.1.2017–31.12.2017

| | Subsidiary shares | Shares in associated undertakings | Other shares and participations | Shareholder loan receivables | Total |
|---|-------------------|-----------------------------------|---------------------------------|------------------------------|---------------|
| Balance sheet value at beginning of year | 7 677 | 0 | 15 | 6 940 | 14 632 |
| Increases | 0 | 0 | 0 | 20 | 20 |
| Decreases | -179 | 0 | -2 | 0 | -181 |
| Balance sheet value at end of year | 7 498 | 0 | 13 | 6 960 | 14 470 |

| Subsidiary shares: | | Parent company's holding % | Of total votes % | Number of shares | Par value (1 000) | Book value (EUR 1 000) |
|--|---------|----------------------------|------------------|------------------|-------------------|------------------------|
| | | holding % | votes % | shares | | |
| Kidex Oy | Finland | 100 | 100 | 200 | EUR 2.208 | 2.208 |
| Muuttopalvelu Grundell Oy | Finland | 100 | 100 | 100 | EUR 8 | 4.440 |
| Kiinteistö Oy Ylähanka | Finland | 100 | 100 | 510 | EUR 9 | 8 |
| Martela AB, Nässjö | Sweden | 100 | 100 | 50 000 | SEK 5.000 | 550 |
| Askí avvecklingsbolag AB, Malmö | Sweden | 100 | 100 | 12 500 | SEK 1.250 | 132 |
| Martela AS, Oslo | Norway | 100 | 100 | 200 | NOK 200 | 24 |
| Martela Sp.z o.o., Warsaw | Poland | 100 | 100 | 3 483 | PLN 3.483 | 135 |
| Total | | | | | | 7 498 |
| Other shares and participations | | | | | | 8 |

12. Receivables

| (EUR 1 000) | 2018 | 2017 |
|---|---------------|---------------|
| Current receivables | | |
| Receivables from Group companies | | |
| Trade receivables | 3 852 | 7 049 |
| Loan receivables | 1 460 | 1 048 |
| Accured income and prepaid expenses | 1 200 | 35 |
| Receivables from others | | |
| Trade receivables | 16 303 | 20 239 |
| Accured income and prepaid expenses | 1 679 | 2 996 |
| Current receivables, total | 24 495 | 31 368 |
| Accured income and prepaid expenses, main items: | 2018 | 2017 |
| Related to personnel expenses | 169 | 201 |
| Related to income taxes | 182 | 1 332 |
| Related to payments in advance | 236 | 385 |
| Related to other accured income and prepaid expenses | 1 093 | 1 078 |
| Accured income and prepaid expenses total | 1 679 | 2 996 |

13. Changes in shareholders' equity

| Distribution of shares 31.12.2018 | Number of shares | 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 | 13 082 | | | | |
| Number of shares outstanding | 4 142 518 | | | | |
| Shareholders' equity | 2018 | | | 2017 | |
| Restricted equity | | | | | |
| Share capital 1.1. and 31.12. | 7 000 | | | 7 000 | |
| Share premium account 1.1. and 31.12. | 1 116 | | | 1 116 | |
| Unrestricted equity | | | | | |
| Reserve fund 1.1. and 31.12. | 11 | | | 11 | |
| Retained earnings 1.1. | 29 589 | | | 27 447 | |
| Dividends | 0 | | | 0 | |
| Profit (loss) for the year | -1 326 | | | -1 520 | |
| Retained earnings 31.12. | -563 | | | 3 661 | |
| Retained earnings 31.12. | 27 698 | | | 29 589 | |
| Shareholders' equity total | 35 826 | | | 37 715 | |

The distributable equity of the parent company is EUR 27 698 thousand in 2017 (29 589 thousand in 2017).

Treasury shares held by Martela Oyj are reported as a deduction from retained earnings.

Martela Oyj owns 13 082 A shares (12 036 in 2017). Out of the shares, 12 036 were purchased at an average price of EUR 10.65 and 1 046 were transferred from Martela Corporation's joint account to the treasury shares reserve based on the decision by AGM on March 13, 2018.

Market value of treasury shares on 31.12.2018 was EUR 2.96 per share (7.47), total EUR 38.7 thousand (89.9 thousand in 2017).

The acquisition cost of shares for the incentive scheme has been treated in the IFRS consolidated financial statement as an item comparable to treasury shares.

14. Depreciation difference

| (EUR 1 000) | 2018 | 2017 |
|-------------------------------------|----------|----------|
| Appropriations | | |
| Accumulated depreciation difference | 0 | 0 |
| Total | 0 | 0 |

15. Non-current liabilities

| (EUR 1 000) | 2018 | 2017 |
|-----------------------------------|--------------|--------------|
| Loans from financial institutions | 3 829 | 6 114 |
| Accured expenses | 150 | 150 |
| Total | 3 979 | 6 264 |

Changes and repayments of non-current liabilities

| | 2018 | 2017 |
|--|--------------|--------------|
| Loans from financial institutions | | |
| Loans 1.1. | 6 114 | 6 114 |
| Repayments | -1 143 | |
| Loans 31.12. | 4 971 | 6 114 |

| | 2018 | 2017 |
|-----------------------------------|------|------|
| Accured liabilities | | |
| Related to the personnel expenses | 0 | 150 |

| Repayments | 2018 | 2019 | 2020 | 2021 |
|-----------------------------------|--------------|--------------|------------|--------------|
| Loans from financial institutions | 1 143 | 1 143 | 743 | 3 086 |
| Total | 1 143 | 1 143 | 743 | 3 086 |

16. Current liabilities

| (EUR 1 000) | 2018 | 2017 |
|--|---------------|---------------|
| Current liabilities | | |
| Liabilities to Group companies | | |
| Trade payables to Group companies | 9 790 | 1 747 |
| Accured liabilities to Group companies | 1 975 | 11 612 |
| Total | 11 766 | 13 359 |
| Other current liabilities | | |
| Loans from financial institutions | 6 143 | 6 000 |
| Advances received | 1 755 | 854 |
| Trade payables | 7 247 | 7 569 |
| Other current liabilities | 2 968 | 2 850 |
| Accured liabilities | 3 273 | 4 002 |
| Total | 21 386 | 21 275 |
| Current liabilities, total | 33 152 | 34 633 |

Current liabilities are specified in Notes because items are combined in Balance sheet.

| Essential items of accured liabilities | 2018 | 2017 |
|--|--------------|--------------|
| Personnel expenses | 1 636 | 2 308 |
| Interest and financing accruals | 18 | 14 |
| Royalties | 105 | 116 |
| Residual expenses | 1 515 | 1 564 |
| Accured liabilities, total | 3 273 | 4 002 |

17. Pledges granted and contingent liabilities

| (EUR 1 000) | 2018 | 2017 |
|---|---------------|---------------|
| Debts secured by mortgages | | |
| Bank loans | 9 971 | 12 114 |
| Property mortgages | 7 565 | 7 565 |
| Corporate mortgages | 11 368 | 11 368 |
| Shares pledged | 0 | 4 |
| Total mortgages | 18 933 | 18 933 |
| Other pledges | | |
| Guarantees as security for rents | 308 | 243 |
| Guarantees given on behalf of Group companies | 1 706 | 322 |
| Total | 2 014 | 565 |
| Leasing commitments | | |
| Falling due within 12 months | 385 | 505 |
| Falling due after 12 months | 364 | 708 |
| Total | 749 | 1 213 |
| Rent commitments | 5 297 | 6 234 |

Auditor's Report

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

To the Annual General Meeting of Martela Oyj

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Martela Oyj (business identity code 0114891-2) for the year ended 31 December, 2018. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 4 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Revenue recognition € 103 million

KEY AUDIT MATTER

(Basis of preparation and note 1 to the consolidated financial statements)

- Martela Lifecycle business model comprises sales of both products as well as services.
- The amount and timing of revenue recognition is dependent on the contents of specific customer contract as well as on related terms and conditions.
- Revenue recognition in the financial statements includes the risk of misstated euro denominated sales proceeds either at inaccurate amounts or in incorrect reporting period.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

- We evaluated the appropriateness of the company's revenue recognition policies as well as performed testing of related internal controls.
- As part of our substantive audit procedures we assessed, for example, the accuracy of revenue recognition by testing the recording of deliveries and related invoices in the appropriate accounting period in accordance with the contract terms. Additionally, we acquired external confirmations for open balances with customers stated, inspected payments received as well as matched sales invoices to supporting delivery documentation.
- We also performed data analyses for sales invoicing, where we assessed completeness of invoicing, credit invoices recorded and sales margins per customer and product groups to detect deviations.

Measurement of inventories € 8.5 million

(Basis of preparation and note 15 to the consolidated financial statements)

KEY AUDIT MATTER

- Inventories account for approximately 17% of the consolidated total assets.
- Application of the inventory measurement principles involves management judgement and reporting may also involve an element of risk owing to human error. The estimates of the inventory obsolescence are based on, among others, inventory cycle counts carried out during the year and turnover analyses on which management compiles the total estimation of the need for possible write downs.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

- We assessed the inventory measurement policies established by the company and the consistency of reporting in applying the said policies.
- Our audit procedures included testing of internal controls over inventories as well as substantive testing on quantity and price components affecting the inventory values.
- We assessed the Group's stocktaking practices and performed recalculations both during the financial year and at year-end. We inspected the completeness of inventory counts by using Group's inventory count rate reports and analyzed inventory differences in order to detect possible deviations.
- We also analyzed negative item balances and slow-moving items using data analyses.
- In addition, we evaluated the inventory write-down principles and the adequacy of the write-downs recognized in the financial statements.

Impairment of subsidiary shares and receivables from subsidiaries € 9.2 million and goodwill € 8.3 million

(Accounting policies for parent company financial statements and notes 11, 12 and 16 to parent company financial statements, FAS)

KEY AUDIT MATTER

- The equity of the parent company totals € 35.8 million, of which the distributable funds amount to € 27.7 million.
- A significant proportion of the parent company's assets consist of investments in the subsidiaries. The direct

net investments in the parent company's balance sheet amount to € 9.2 million and the related goodwill to € 8.3 million. The measurement of these investments has a material impact on the determination of the parent company's distributable funds.

- Management prepares annually impairment tests for the above-mentioned subsidiary investments. The calculations involve a significant element of management judgment.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

- We assessed the appropriateness of the cash flow forecasts and the discount rates used. We analyzed critically the considerations underlying the impairment calculations as well as management's assumptions that form the basis on which the future cash flow projections are prepared.
- We involved KPMG valuation specialists to assess the technical correctness of the calculations and to compare the assumptions used to the market and industry data.

Enterprise resource planning software (ERP) and impacts on financial reporting and internal control

KEY AUDIT MATTER

- Martela Group's operations and reporting are highly dependent on IT systems. The ERP software implemented in 2017 presented challenges especially in the previous financial year in respect to customer deliveries, invoicing, debt collection and financial reporting processes, among others.
- The operability of the ERP software has a significant impact on the reliability of financial reporting and functionality of the internal control environment. Consequently we continue to address the ERP and its impacts on both financial reporting and internal control as a key audit matter.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

- As part of the evaluation of the ERP software and control environment in financial reporting we considered general IT controls of the Group as well as integrity of financial information. This included assessment of data security, data protection and continuity planning and inspection of user access rights, among others.
- We performed data analyses on various operational activities to ensure that the financial reporting for the year 2018 has not been materially affected by cut-off errors relating to the previous financial year.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

INFORMATION ON OUR AUDIT ENGAGEMENT

We were first appointed as auditors of Martela Oyj in 1989, and our appointment represents a total period of uninterrupted engagement of 30 years.

OTHER INFORMATION

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, February 13, 2019 KPMG OY AB

Ari Eskelinen

Authorized Public Accountant, KHT

Corporate Governance Statement 2018

Corporate governance

Martela Corporation 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, by other regulations concerning public listed companies, and by its Articles of Association.

The company complies with the NASDAQ OMX Guidelines for Insiders and the Finnish Corporate Governance Code 2015 published by the Securities Market Association. Martela complies with all of the Code's guidelines.

Organisation

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.

In 2018 The Group was organised in units as:

- Sales and Marketing (SM), which is responsible for customer relationships, sales, workplace services and marketing.
- The Innovation to Market (ITM), which is responsible for the company's brand and the development and management of the product portfolio.
- The Customer Supply Management (CSM), which is responsible for after-sales activities, including sourcing, production, removal services, product development, quality assurance, the research laboratory, planning of material flows and logistics.
- The plants have been concentrated at three locations: Nummela (final product assembly) and Kitee (manufacturing of melamine and laminate composites), both in Finland, and Warsaw (upholstery components), Poland.
- People & Communication, which is responsible for human resources, communications, responsibility and environmental management.
- The Group's Finance, IT and IR, which is responsible for the Group's financial planning and reporting, investor relations as well as IT and legal matters.

Annual general meeting

The General Meeting is the company's supreme decision-making body. The Annual General Meeting must be held within six months of the end of the financial year. The financial statements, Board of Directors' report and the auditor's report are presented at the Annual General Meeting. The Meeting decides on the approval of the financial statements, use of the profit shown on the balance sheet, discharging the members of the Board of Directors and the CEO from liability, the fees of the Board members and auditors, and the number of members on the Board. The General Meeting also elects the Directors of the Board and the auditor. Other matters on the agenda of the General Meeting are mentioned in the notice of meeting.

Shares

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. The redeeming of K shares is referred to in the Articles of Association. Private owners of K shares have a valid shareholder agreement that restricts the sale of these shares to other than existing holders of K shares. The company's total share capital on 31 December 2017 was EUR 7 million.

Board of directors

The Board of Directors, elected by the Annual General Meeting each year, 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.

Preparations concerning the composition of the Board of Directors are carried out by the principal shareholders, who propose Board candidates to the Annual General Meeting based on their preparatory work. 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 next Annual General Meeting.

According to the principles of the Board diversity, the members of the Board of Directors must have sufficient and complementary experience and expertise in Martela's most important business sectors and markets. The

Board must have both sexes and a diverse age distribution. Board members should have sufficiently diverse professional and educational background, strategy development and implementation skills, economic expertise, experience in managing companies at various stages of development, innovation, decision-making and questioning skills, and sufficient time for working in the board. The achievement and development of diversity in reaching the goals is assessed in the Board Self-Evaluation Discussion.

The Board has confirmed a Charter defining the duties of the Board, meeting practices, the matters to be dealt with at meetings, the targets set by the Board for its operations, a self-evaluation of these operations, and the Board's committees.

In addition to the duties mentioned in the Limited Liability Companies Act and the Articles of Association, the Board of Directors is responsible for:

- deciding on the Group strategy,
- deciding on the Group structure,
- approving financial statements, interim financial statements and interim reports,
- approving the Group's operating plans, budgets, major investments and donations,
- deciding on business expansion and reduction, acquisitions and divestments,
- deciding on the Risk management policy and principles of the internal control,
- deciding on dividend policy and making a proposal to the Annual General Meeting on the amount of dividend to be paid,
- deciding on the Treasury policy,
- approving and dismissing the CEO and to decide on his salary,
- authorising the Remuneration Committee to decide on the appointments and remuneration of the members of the Group Management Team and the general principles of the Group's performance bonus scheme,
- deciding on Management's share-based incentive schemes,
- regularly approving and revising corporate governance principles and internal policies,
- annually approving the company's internal control and risk management principles and addressing the most significant risks and uncertainties associated with the company's operations,
- appointing board committees and deciding on their reporting,
- accepting stock exchange releases related to the Board's decisions,
- confirming the principles of the Board diversity,
- the other statutory provisions of the Limited Liability Companies Act, the Corporate Governance Code or elsewhere.

The Board convened eight times during the financial year. The average attendance of the Board members was 100 per cent. The Board reviews its own activities annually, either by self-assessment or assessment made by an external consultant. In both cases a summary of the evaluations is jointly discussed at a Board meeting.

The Board has evaluated the independence of its members and determined that Kirsi Komi, Eero Leskinen, Eero Martela, Katarina Mellström and Anni Vepsäläinen are independent of the company. Of the company's largest shareholders, Kirsi Komi, Eero Leskinen, Katarina Mellström and Anni Vepsäläinen are independent members of the Board. The Board has formed from among its members a Human Resource and Rewarding Committee and a Audit Committee, which both have written Charters.

According to the Charter, the key duties of the Human Resource and Rewarding Committee include:

- deciding, with authorisation from the Board, on the remuneration issues and annual performance bonuses of the CEO and the Group Management Team as well as general principles for the Group's performance bonus scheme for the entire personnel,
- preparing for the Board the structure, criteria and target levels of the long-term incentive plans for key personnel,
- processing the appointments of the CEO and Group Management Team members, deputy arrangements and successor issues.

The Compensation Committee also handles remuneration statements in connection with the financial statements.

The Board's Human Resource and Rewarding Committee comprises Heikki Martela, Kirsi Komi and Katarina Mellström.

According to the Charter, the key duties of the Audit Committee include:

- monitoring the financial reporting and interim report processes,
- supervising the financial reporting process,
- monitoring the company's financial condition,
- monitoring the adequacy and effectiveness of the company's internal control and risk management systems,
- processing the description of the internal control and risk management systems related to the financial reporting process included in the Corporate Governance Statement,
- monitoring the statutory audit of the financial statements and the consolidated financial statements,
- observing, together with the auditors and the management of the company, the findings of the auditing carried out and the possible difficulties in carrying out the audit,
- assessing the independence of the auditor or the audit firm, and in particular the provision of ancillary services to the company,
- evaluating the fees charged on auditing and ancillary services and their criteria,
- preparing a proposal for a decision on the election of the auditor,
- assessing the compliance process with laws and regulations and respect for ethical principles in the organisation,
- conducting reports on the company's most significant legal and regulatory procedures.

The Board's Audit Committee comprises Eero Leskinen, Eero Martela and Anni Vepsäläinen.

The secretary of the Board of Directors is a lawyer from the same company from where other legal services is provided to the Group. The Chairman of the Board is in direct contact with the CFO as necessary and regularly with the Company's auditor.

CEO

The Board appoints Martela Corporation's CEO and decides on the terms and conditions of his service relationship, which are defined in a written CEO's service contract. The CEO 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 CEO appoint the members of the Group Management Team. The CEO of Martela Corporation acts as the Chairman of the Group Management Team. The directors responsible for the units and processes are also represented in the Group Management Team. The Group Management Team drafts and reviews strategies, budgets and investment proposals and monitors the financial situation of the Group and its business areas and processes as well as the attainment of operational targets and plans. The Group Management Team meets once a month.

Financial reporting in the group

Martela Corporation's Board of Directors is provided with monthly reports on the financial performance and forecasts of the Group. The reports and forecasts are also presented by the CEO at Board meetings, where they are reviewed.

The Group Management Team meets about once a month to evaluate the financial performance, outlook and risks of the Group.

Auditing

The auditing of Group companies is carried out in accordance with the valid laws in each country 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 CEO and CFO. The auditors of Martela Corporation and the Group are the authorised public accountants KPMG, with Ari Eskelinen, Authorised Public Accountant, as the principally responsible auditor. All the auditors of the Group's companies are in the KPMG chain.

Internal control

The reliability of financial reporting is one of the principal objectives of Martela Corporation's internal control.

The CEO is responsible for the operational management and supervision of the Group according to the guidelines set by the Board.

Martela's strategy is updated and its targets defined on an annual basis. Strategic planning forms the basis of all planning at Martela and is carried out on a rolling basis for the forthcoming period of 2–3 years. Target setting is an internal control prerequisite because the targets of the companies, business areas, functions and supervisors are derived from Group-level targets. For each business area, specific financial and non-financial targets are set in accordance with the business plan, and their attainment is monitored regularly through comprehensive reporting to executive management, for example.

The CFO has overall responsibility for financial reporting in the Group. Reporting to executive management is carried out separately and independently of business operations.

Controllers and financial managers (controller function) are responsible for Group, company and other financial reporting. At Martela, financial reporting is carried out in compliance with guidelines, laws and regulations in a consistent manner throughout the Group. The reliability of financial reporting depends on the appropriateness and reliability of financial and reporting processes and on the control measures taken to ensure these. In 2018, the internal control focused on sales, the processes concerning the management of inventories and the new IT system.

The CFO is responsible for the maintenance and development of reporting processes and defining and implementing control measures. Control measures include guidelines, matching, management reviews and reporting on deviations. The CFO monitors compliance with defined processes and controls. She also monitors the reliability of financial reporting.

The Board of Directors approves Martela's strategy and annual operating plans. It also approves the principles and rules of risk management, and monitors on a regular basis the effectiveness and sufficiency of the internal control and risk management. Furthermore, the Board is responsible for the internal control of the financial reporting process.

Auditors and other external controllers assess the control measures in terms of the reliability of financial reporting.

Risk management and internal audit

Martela's Board of Directors has confirmed the principles of risk management. 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. Group management has supreme operational responsibility for risk management policy.

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 with 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 rest of the business operations and organisation. The company's Board of Directors has included an annual review of risk management in its schedule of work.

Taking into consideration the nature and scope of Martela's business, the company has not considered to be appropriate to form of a separate internal audit function. The internal control is carried out in the form of controls in business processes, and the company will either make its own or, if necessary, conduct separate internal audit reports with external experts.

Risks

In accordance with Martela's risk management model, risks are classified and prepared for in different ways. The manufacture of Martela's products is largely based on the company performing the final assembly and using subcontractors for components. Production control is based on orders placed by customers, which means that there is no need for any large-scale warehousing. Risks of damage are covered by appropriate insurance policies, and these provide comprehensive coverage for property, business interruption, supplier interruption and loss liability risks. Martela uses the services of an external insurance broker to manage insurance matters. The services of an external partner are also used in legal matters.

The responsibility perspectives regarding the supply chain are discussed as part of the annual responsibility report.

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

Management remuneration, benefits and incentive plans

Information on the effect of management remuneration and the share-based incentive plan on the result for the year can be found in the notes of the financial statements and on the company's website.

Insider administration

Martela complies with the Guidelines for Insiders issued by Nasdaq Helsinki Ltd. In addition, Martela's Board of Directors has confirmed specific insider guidelines for the company to complement Nasdaq Helsinki Ltd's Guidelines for Insiders.

The company has defined as permanent insiders persons who work at Martela Group and who have access to all inside information concerning Martela due to their position or task. The information in the permanent insider list is not public. In addition to the permanent insider list, non-public project-specific insider lists shall be established, if necessary, as defined in Nasdaq Helsinki Ltd's Guidelines for Insiders. Permanent insiders are not entered into the project-specific insider lists.

The persons discharging managerial responsibilities, other permanent insiders and persons participating in preparing of financial reports of the company must not trade in Martela's financial instruments prior to the publication of an interim report and financial statement release of the company. The length of the closed period is 30 days at Martela.

Martela discloses inside information that directly concerns Martela or its financial instrument as soon as possible, unless the conditions for delay of disclosure of inside information are met. Martela has defined an internal process in order to evaluate and disclose the inside information and to monitor and evaluate the duration and the conditions for the delay. Martela continuously monitors the situation to ensure that the conditions for the delay are met and the company has the ability to publicly disclose the information immediately in the case of a data leakage.

In accordance with MAR, Martela has an obligation to disclose transactions with Martela's financial instruments conducted by persons discharging managerial responsibilities at the company and persons closely associated with them.

The obligation to disclose transactions applies to the following persons discharging managerial responsibilities at Martela:

- Members of Martela's Board of Directors and CEO, and
- Members of Martela's Group Management Team.

Transactions between companies in the Martela Group conducted by persons discharging managerial responsibilities at Martela and persons closely associated with them are monitored. In 2018, there were no material related party transactions.

Board of Directors



From left: Eero Martela, Kirsi Komi, Minna Andersson, Heikki Martela, Katarina Mellström, Anni Vepsäläinen, Eero Leskinen

Board of Directors

Chairman of the Board

Martela Heikki

Born in 1956, M.Sc. (Econ.), MBA
Member of the Board of Martela Oyj since 1986,
Chairman of the Board of Martela Oyj 2000–2002
and again starting 2015.
Managing Director of Martela Oyj 2002–2015.

Other key duties:

- Chairman of the Board of Marfort Oy
 - Member of the Board of Lappset Group Oy and Filosofian Akatemia Oy
- Owens 130 942 Martela Oyj A shares and 52 122 Martela Oyj K shares.*

Vice Chairman of the Board

Leskinen Eero

Born in 1956, M.Sc. (Tech.)
Member of the Board of Martela Oyj since 2014.

Other key duties:

- Chairman of the Board of Treston Group Oy and Ursviken Group Oy
 - Member of the Board of Nanso Group Oy, Sisco Oy, Terrawise Oy and Limestone Platform AS
- Owens 19 750 Martela Oyj A shares.*

Board members

Andersson Minna

Born in 1973, MEng, MKT (Marketing Degree)
Member of the Board of Martela since 2017.

Other key duties:

- Head of Customer Experience, Canter Oy
- Owens 49 200 Martela Oyj K shares.*

Komi Kirsi

Born in 1963, LL.M.
Member of the Board of Martela Oyj since 2013.

Other key duties:

- Chairman of the Board of Blood Service of the Finnish Red Cross and Docrates Oy
 - Member of the Board of Finnvera, Citycon Oyj, Humana AB, Lindstöm Invest Oy, Metsä Board Oyj and Bittium Oy
- Owens no Martela Oyj shares.*

Martela Eero

Born in 1984, M.Sc. (Tech)
Member of the Board of Martela Oyj since 2015.

Other key duties:

- Senior Consultant, Digital growth, Columbia Road
- Owens 6 710 Martela Oyj A shares and 400 Martela Oyj K shares.*

Mellström Katarina

Born in 1962, M.sc. (Econ)
Member of the Board of Martela Oyj since 2018.

Other key duties:

- Owner, IMM Consulting AB
 - Chairman of the Board, Forsen Group AB
 - Member of the Board, Dataföreningen Certifiering
 - Member of the Advisory Board, University of Stockholm
- Owens no Martela Oyj shares.*

Vepsäläinen Anni

Born in 1963, M.Sc. (Tech.)
Member of the Board since 2016.

Other key duties:

- Managing Director of Finnish Fare and Exhibition Centre
 - Member of the Board of Helsinki Region Chamber of Commerce and Innofactor Oyj
- Owens no Martela Oyj shares.*

Group Management Team



From left: Johan Westerlund, Kalle Lehtonen, Matti Rantaniemi, Ville Taipale, Mikko Mäkelä.

Group Management Team

Chief Executive Officer (CEO)

Rantaniemi Matti

Born in 1973, Engineer, MBA

CEO and member of management team since 2015.

Key work experience:

- Otis Oy, Carrier Oy, Kidde Finland Oy, UTC Building & Industrial Systems Finland, Managing Director, 2011–2015
- Halton Putzair Oy, COO/CEO, 2010–2011
- Infosto Group, Various management positions, 2000–2010

Owns 6 667 Martela Oyj A shares.

Vice President, Customer Supply Management

Taipale Ville

Born in 1971, M.Sc. (Tech.)

Area of responsibility: Group Sourcing, Product Development, Quality Control, Testing Laboratory, Production, Logistics and Removal Service Vice President and member of management team since 2018.

Key work experience:

- Componenta Oy, Vice President, Sourcing and Procurement, 2010–2015
- Fiskars Oy, Director, Sourcing Unit, 2007–2010

- Nokia Oy, Supply chain management and development positions, 1998–2007
 - VTT, Researcher, 1997–1998
- Owns no Martela Oyj shares.*

Chief Financial Officer (CFO)

Lehtonen Kalle

Born in 1974, M.Sc. (Econ.)

Area of responsibility: Group Finance, Investor Relations, Legal Affairs, HR and IT
CFO and member of management team since 2018.

Key work experience:

- Tantalus Rare Earths AG, CFO, 2013–2018
- Ruukki Group Oy, CFO, 2012–2013
- Ruukki Group Oy, Wood Processing Division, CFO, 2009–2012
- Aldata Solution Oy, Group Controller, 2003–2008
- ABB Oy, managerial positions in financial administration, 1998–2003

Owns 5 000 Martela Oyj A shares.

Vice President, Innovation To Market

Mäkelä Mikko

s.1973, DI

Born in 1973, M.Sc. (Tech.)

Area of responsibility: Development of Group's Product and Service Offering, starting 02/2018
Workspace Professional Service and Interior Design
Vice President and member of management team since 2017.

Key work experience:

- Wärtsilä Oy, Director, Strategy and Business Development, 2015–2017
- F-Secure Oy, Leadership in product management and strategy, 2009–2015
- Nokia Oy, Leadership and other tasks of product management and strategy, 2002–2009
- McKinsey & Co, Management consultant, 2000–2002
- Andersen Consulting (Accenture), Management consultant, 1998–2000

Owns no Martela Oyj shares.

Vice President, Sales & Marketing

Westerlund Johan

Born in 1975, M.Sc. (Econ.)

Area of responsibility: Group Customers, Marketing and Sales in Finland, Sweden, Norway and International Dealer Network

Vice President and member of the management team since 2017.

Key work experience:

- Ricchetti Group S.p.a, Managing Director Nordics, 2015–2017
- Pukkila Oy, CEO, 2012–2015
- Newtop Oy, CFO, 2010–2012
- BearingPoint Oy, Management consultant, 2003–2010
- Kraft Foods, Economy and Business Controller positions, 2000–2003

Owns no Martela Oyj shares.

Information for Shareholders

Annual General Meeting

The Annual General Meeting of Martela Oyj will be held on Thursday 14 March 2019 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 Euroclear Finland Ltd no later than 1 March 2019 and the shareholder should register by email to IR@martela.com or by post to Martela Oyj, Investor Relations, PL 44, 00371 Helsinki, no later than 4 March 2019 at 10 a.m.

Payment of dividends

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.10 per share be paid for the financial year 1 January 2018 – 31 December 2018. The dividend will be paid to the shareholders that are registered to the shareholders' register of the Company held by Euroclear Finland Ltd on the record date 18 March 2019. The Board of Directors proposes that the dividend would be paid on 17 April 2019.

Publication of financial information

Martela Corporation's financial information in 2019 will be published as follows:

- January–March (Q1) Financial Review on Thursday April 25, 2019
- January–June (H1) Half Year Report on Friday August 9, 2019
- January–September (Q3) Financial Review on Wednesday November 6, 2019

Financial reports are available in Finnish and English on the company's website (www.martela.fi and www.martela.com). Annual reports are available on the company's website in pdf format. Once published, stock exchange releases are available on the company's website, where you can find all stock exchange releases in chronological order.

Inspiring
spaces

Martela

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