

2017



Inspiring
spaces

Martela

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Martela in brief

MARTELA DESIGNS AND CREATES the best work-places and learning environments for its customers. We offer user centric solutions for modern working environments – for mobile work and activity based offices. Martela's objective is to provide its customers and partners with the best service and high-quality, ergonomic and innovative products. Fast deliveries and an efficient delivery network help us attain this objective.

Martela is one of the leading companies in Nordic countries to concentrate in working environment. We also offer the widest range of services in the market

that support the maintenance and modification of interior solutions. We offer a comprehensive service that can cover the entire process of change from initial inventory and design to removal and maintenance.

Martela is a family company founded over 70 years ago and its shares are quoted on the OMX Nordic Exchange Helsinki. The company has production facilities in Finland and Poland. Our main markets include Finland, Sweden and Norway.

In 2017, Martela Group's turnover was EUR 109.5 million and it employed an average of 508 employees.



Martela in 2017

CHALLENGES IN IMPLEMENTING THE NEW IT SYSTEM had an impact on the entire year's revenue, profitability and cash flow, which declined clearly on the comparison period. The implementation of the new IT system also required more investments than had been anticipated.

The implementation of the Martela Lifecycle® strategy and development of offering in the Nordic countries progressed well. In addition to improving the product selection, Martela introduced an entirely new service model known as Workplace as a Service.

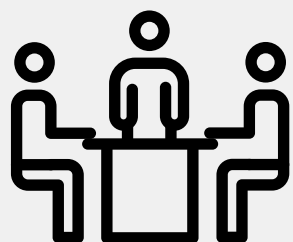
Martela's delivery reliability, improved offering, IT system and procedures, as well as better sales resourcing, boost growth in all market areas.

Turnover (EUR million)

109,5

Operating profit
(EUR million)

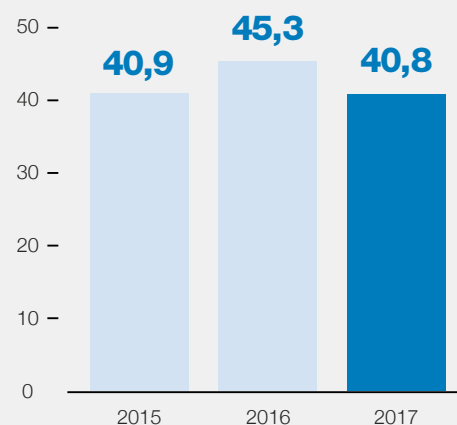
0,3



**Personnel,
on average**

508

Equity ratio (%)



Turnover by country



Total EUR 109,5 million



CEO's review

– Moving forward after a difficult year

PREVAILING MEGATRENDS such as digitalisation and urbanisation shape the world around us and the way we live, study and work. The transformation of work has been rapid and, in recent decades, many tasks have been freed of the constraints of time and place. On the other hand, global competition is placing increasing pressure on productivity.

At Martela, we have always endeavoured to create functional work and study environments of the future. In recent years, our customers' needs have experienced a transformation that is more wide-ranging than ever before. In the future, success will not be achieved simply with functional furniture. Instead, success requires study environments and workplaces that foster interaction, productivity and wellbeing. Our answer to these challenges was to further refine our Martela Lifecycle® strategy in autumn 2016.

Challenges along the way

The change in strategy requires that we adopt a different way of thinking and make sure that the customer is always at the centre of everything. This is why, at the beginning of 2017, we launched an extensive project to reform procedures and information systems. Not everything went according to plan, however. Changes made to our systems brought new challenges, put our personnel under strain and resulted in added costs. Our delivery reliability deteriorated and led to a decline in revenue.

In the latter half of the year we were able to overcome the most serious issues and normalise operations. Despite the challenges, we knew that we were headed in the right direction. In fact, our strategy made progress in leaps and bounds. We renewed our offering on the Swedish and Norwegian markets to match the Martela Lifecycle® strategy. In Sweden, we reinforced our own direct sales organisation which was set up in 2016. Previously we had operated mainly through dealers. Also in 2016, we discontinued direct sales in Poland and Russia and completed planned cost-cutting measures.

The difficulties experienced in implementing the new ERP system had an impact on our financial performance. Revenue declined 15.2 per cent to EUR 109.5 million. Operating profit was EUR 0.3 million (EUR 6.2 million in 2016).

Leader in workplaces of the future

We have improved our offering based on feedback from our customers and created a unique entity as an expert in workplaces. We have also invested heavily in the responsibility of our products and delivery chain. We take responsibility into consideration in all of our operations.

Our operating countries, Finland, Sweden and Norway, lead the field in managing knowledge work. In these countries, organisations typically have low hierarchies and teamwork is an important success factor,

without ignoring the needs of each individual. Our customers have welcomed our new and expanded offering very well. For them it is important that the solutions are based on a comprehensive understanding of their needs. There is certainly demand for user centric and efficient work and study environments.



Our answer to these challenges was to further refine our Martela Lifecycle® strategy in autumn 2016.

Towards the light

The increase in orders in Finland in the fourth quarter of 2017 is a good stepping stone into 2018. The growth of the economy in general reinforces our demand and increases interest in our overall offering. In particular, we expect services to increase their share. In Sweden and Norway, our new operating model has reinforced our brand. The Swedish market especially offers substantial growth potential. Our new information systems allow us to create solutions even more flexibly than

before. The streamlining of our operations still requires fine-tuning but, thanks to the competent and committed team around me, I am confident that the reforms will be completed in full.

I want to thank everyone at Martela for going the extra mile and for your solid cooperation during 2017. I also want to thank our customers, shareholders and partners, who have lent their support to our operations. We head forward with confident minds.

Thank you, Finland

Martela's more than 70 years of success have been based on our ability to answer to the changing needs of workplaces. The birth of this company was influenced by the paper size standard which meant that office furniture had to be designed on new principles. Today, we are moving fast towards paperless offices. Finland and the Finnish work culture have in fact given us excellent headway in improving workplaces. Moreover, the Finnish school system has gained recognition around the world. In honour of the centenary of Finland's independence, I want to thank the society around us for providing us with such an excellent operating environment. I believe that workplaces and learning environments provide Finland with a significant competitive advantage.

Matti Rantaniemi
CEO

Nordic countries leading the way

IN MARTELA'S OPERATING AREAS in Finland, Sweden and Norway, the size of the market for work and learning environments and public spaces is approximately EUR 1.4 billion. Most of this is contributed by Sweden, where the market is approximately EUR 800 million. In both Finland and Norway, the market potential is roughly EUR 300 million. Workplaces – offices – account for approximately 50 per cent of the market, while schools and other learning environments account for some 20 per cent and public spaces 30 per cent. The majority of the sectors' offering comprises office and public indoor space furniture. At present, only a few companies offer life cycle space solutions and design services on the same level as Martela does.

Customers at the centre

Different trends have a strong influence on how the way we work changes. Thanks to digitalisation, we can work no matter where we are. 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 try to avoid wasting floor space and add flexible ways of working.

The content of work and work-related roles has also undergone massive change. Work is increasingly a thought process, success is evaluated in terms of

results, teamwork is close-knit and hierarchies are low. Workplace wellbeing is also an important productivity factor. These changes require comfortable workplaces that take individuals' needs into consideration. As the way we work and roles, duties and managing change, workplaces must also change.



In the future, workplace efficiency, ecology and comfort will increasingly be provided as a service.

Progress has moved from office rooms to open-plan spaces and now to activity-based offices. User centric workplaces have areas for collaboration, communication, chill out and concentration. Planning workplaces is based on the nature of the work carried out in the work community and its different 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.

Schools are changing, too

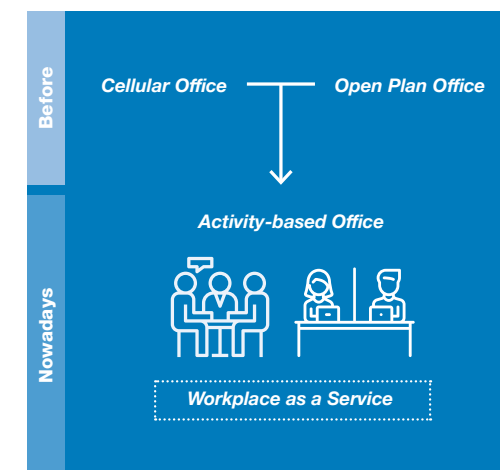
Learning environments are also undergoing similar changes because the way we study has changed. Today, we favour methods that are based on inquiry, observation and independent study. Students are given more responsibility for their studies. Electronic materials have replaced printed ones as sources of information. Learning environments, too, must provide for different kinds of working be durable and easy to modify.

Analysis leads to more efficient solutions

Efficient facilities also require constant maintenance and monitoring of their use so that, when needs change, they can be quickly modified. Data can be collected on utilisation rates and types of use with sensors and analysis software that provide information which can be used in developing spaces to better meet the needs of an organisation.

Nordic countries lead the way

Equal societies and low hierarchies have made the Nordic countries leaders in modern offices and schools. In certain sectors such as IT, this change is also spreading on the global market. Services and various service concepts also offer our sector strong growth potential. In the future, workplace efficiency, ecology and comfort will increasingly be provided as a service. This will allow customers to focus on their own core expertise.



Trends

Change in content of work

Work is increasingly knowledge-oriented and work tasks and roles are diverse. Team work is increasing and hierarchies are lowering.

Work is independent from time and place

Work can be done almost anywhere and employees are easily reached.

Growing demand for productivity

Measuring and achieving results is important. Encounters increase productivity.

Energy efficiency

Energy is expensive and its production causes emissions. Energy efficiency saves both money and environment.

Cost efficiency

Office space is expensive especially in growing areas. A smaller office can provide better functionality.

Martela Lifecycle[®]



Value for customer



Improved employee experience and increased well-being



Increase in productivity and innovation



Renewal of work and management culture



Decreased total costs



A successful environment leads to a more engaged personnel.

Martela Lifecycle®

– user centric workplaces and learning environments

USER CENTRIC WORKPLACES and learning environments support a wide range of needs and situations, including spaces 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 organisation and by listening to the needs of end users. The more the environment supports work and learning, the more satisfied the users are. The way of working and learning is improved!

Martela Lifecycle® is a comprehensive service that covers the entire life cycle of workplaces and learning environments. With this model, maintenance of premises and furniture is continuous ensuring that the workplace evolves with changing needs.

Specification

Future needs of the work environment are considered in the specification phase. If a company has the opportunity to move to new premises, the specification phase provides support for finding the right kind of space. The company that has previously operated in a traditional office can find ample room in usually 20 to 40% smaller premises.

The specification starts with locating user-driven needs by going through the organization's roles, tasks, space and product needs as well as the goals for trans-

forming the work environment. The targets for change are always derived from corporate strategy to ensure that the change supports the organisation towards its future vision. Carefully implemented specification includes, for example, workplace utilisation measurements, workshops and working environment surveys while ensuring end user engagement in the change. At the end of the specification phase, a workplace report and space usage plan are created. These are used in the workspace and interior design planning.



**A good working environment
is a source of creativity and
enables employees to reach
optimal productivity and
well-being.**

Planning

User centric workplace planning ensures a responsibly created and maintained work environment for the organisation. Space and interior design help to optimise

the use of space in the work environment and clarify the company's visual image. In the user centric design phase, a company-specific space plan is created that can take into account existing furnishings, recycling of unneeded pieces and furniture rental opportunities.

As a result of the planning, the customer receives a custom made space plan that is used in implementing the change. The workplace as a whole can also be leased with Martela's flexible financial services. At this stage, a plan for employee orientation for the utilisation of the new space is created. Additionally, a unit audit is carried out for possible removal service and recycling.

Implementation

Careful advance planning and efficient project management ensure a smooth implementation of the change and maintenance work. Martela takes care of all changes beginning from removal service and installation of the office to recycling and final clean-up as well as the introduction of the new working environment to the personnel.

Maintenance

Based on a user experience survey and the actual utilisation measurements, the maintenance phase consists of an enquiry of the workplace needs as

well as development suggestions based on the measurement results. Maintenance reduces need for major changes, lowers costs and supports occupational well-being and work efficiency of employees, as the space supports work also during organisational change.

Organisations and work methods are constantly changing. It is advisable to regularly check if the work environment supports the current ways of working. The changes do not always have to be substantial. Even small changes to the workspace can have a major effect on productivity and employee well-being.

Value for customers

A successful work and learning environment guides and challenges personnel to be more engaged in their work. The environment has a direct link to efficiency, cost savings, employee satisfaction, and cooperation.

Successful organizations often understand the potential of the working environment as a management tool. A successful environment supports its end users in taking initiative. It supports the organization to achieve its key objectives and ensures a smooth flow of information. A good working environment is a source of creativity and enables employees to reach optimal productivity and wellbeing.

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Board of Directors' Report

Key figures

The Group's revenue for the financial year was EUR 109.5 million (129.1). The operating result for the year was EUR 0.3 million (6.2). Earnings per share were EUR -0.15 (0.81). Cash flows from operating activities totaled EUR -7.6 (11.7) million. The equity-to-assets ratio was 40.8 per cent (45.3) and gearing was 29.0 per cent (-18.9). The return on investment for the year was 1.6 per cent (18.2).

Description of the business

Martela is one of largest company focusing into work environment in the Nordic countries. Martela designs and creates the best workplaces and learning environment for its customers. The company offers user centric ergonomic solutions for modern working environment – for mobile work and activity based offices. Martela also offers a wider range of services that support the maintenance and modification of interior solutions than anyone else. Martela offers a comprehensive service that can cover the entire process of change from initial inventory and design to removal and maintenance.

Martela's offering and product development

Instead of individual changes, Martela Lifecycle® offers an approach that covers the entire life cycle of a workplace. In the Martela Lifecycle model, the maintenance of premises and furniture is continuous and the workplace evolves with changing needs. The phases of Martela Lifecycle model are specification, planning, implementation and maintenance.

EUR -2.0 (-1.8) million has been entered in the Group profit and loss statement as research and development expenses.

Market situation

No material changes took place in the market during the period. 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 use their space more efficiently and make their workplaces more effective management tools.

Group structure

The Russian subsidiary LLC Martela was closed down in the financial year. There were no other changes in Group structure during the review period.

Due to the operating model change in the Group, the parent company Martela Oyj in Finland is also responsible of the customers in Sweden and Norway bearing also related risks. Parent company is to pay EUR 9.2 million as compensation for these subsidiaries. The compensation is goodwill at the parent company and is depreciated in 10 years and of its impairment tests are performed yearly.

Revenue and operating result

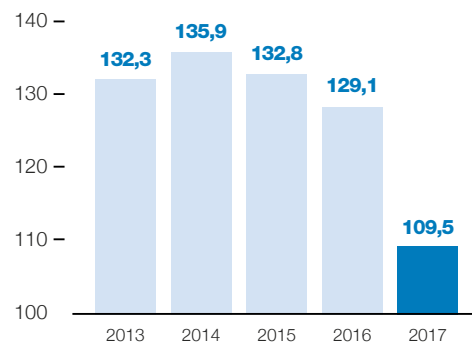
The January–December 2017 revenue was EUR 109.5 million (129.1) and declined 15.2% on the comparison period. Compared to the previous year, revenue declined in all market areas with the exception of Norway. Revenue declined in Finland by 8.4%, in Sweden by 42.4% and in the group Other countries by 34.5%. Revenue in Norway grew by 10.8%.

Challenges in implementing the new IT system had an impact on the entire year's revenue, profitability and cash flow. The impact of the challenges of implementing the new IT system on revenue was greatest in Finland and resulted in a temporary decline in ability to meet customers' needs, cancellation of orders and the need to use sales resources in the implementation of the IT system's functions.

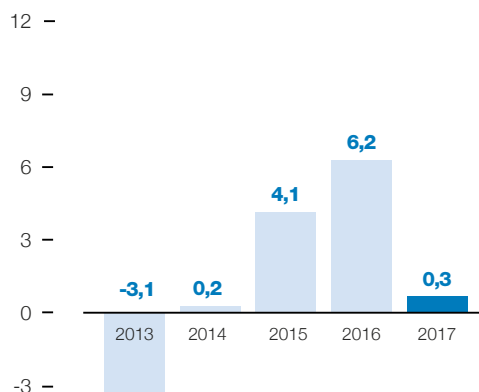
In Sweden, the revenue decline was the result of a lack of major projects and the transformation of the sales channel to match the Martela Lifecycle strategy format, in addition to the IT system issues. In Norway, the revenue increased in line with the strategy. In Other countries, the discontinuation of own sales operations in Poland and Russia resulted in a decline in revenue, as was expected.

The Group's operating result for the January–December was EUR 0.3 million (6.2). In addition to a decline in revenue, the 2017 operating result was influenced by increased IT costs, complaint costs and other operating inefficiencies. These amounted to total non-recurring costs of approximately EUR 2 million. The implementation of the new IT system also required more investments than anticipated.

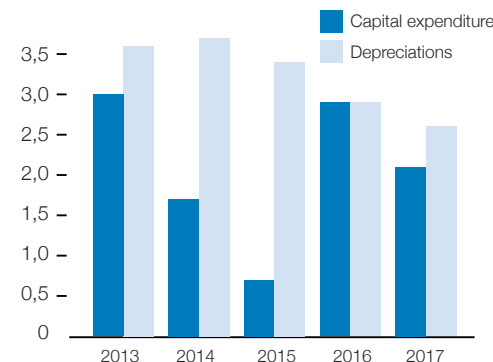
REVENUE



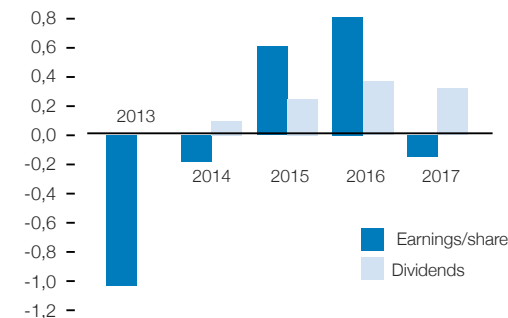
OPERATING PROFIT



CAPITAL EXPENDITURE AND DEPRECIATIONS



EARNINGS/SHARE AND DIVIDENDS



Previous cost-cutting measures reduced costs arising from personnel and facilities, for example. Bonus costs based on operating result were less than in 2016 and, to cut costs further, marketing targeting was improved.

The January–December result before taxes was EUR 0.0 million (5.6). Exchange rate differences had a positive impact on financial income and expenses. The January–December result was EUR -0.6 million (3.3). The taxes for the period mainly arise from the parent company's result before taxes EUR 4.6 million (7.4).

Financial position

The cash flow from operating activities in January–December was EUR -7.6 million (11.7). After the new IT system was implemented, customer and invoicing information was incomplete, which continued to cause delays in invoicing and resulted in a slowdown of cash flow from payments from sales compared to the previous year.

The cash flow from operating activities improved towards the end of year 2017 and has improved further in the beginning of year 2018.

At the end of the period, interest-bearing liabilities stood at EUR 13.8 million (8.7) and net liabilities were EUR 6.6 million (-4.8). At the end of the period, short-term limits of EUR 6.8 million were in use (0.0) and available limits stood at EUR 2.7 million.

The gearing ratio at the end of the period was 29.0% (-18.9) and the equity ratio was 40.8% (45.3). Financial income and expenses were EUR -0.2 million (-0.5).

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 fulfilled the covenant clauses.

The balance sheet total stood at EUR 56.4 million (56.2) at the end of the period.

Capital expenditure

The Group's gross capital expenditure for January–December came to EUR 2.1 million (2.9). The majority of the investments concerned the IT system reforms (New Business Platform).

The Group Management team

M.Sc. (Tech) Petri Boman has been appointed, in addition to his earlier role (VP Customer Supply Management), Martela's Deputy CEO as of April 28, 2017. He has been employed by Martela since 2013.

M.Sc. (Tech) Mikko Mäkelä has been appointed VP, Innovation to Market and member of Management team. He started in his role on August 1, 2017.

M.Sc. (Econ) Johan Westerlund has been appointed VP, Customer and Workplace Services and member of Management team. He started in his role on December 19, 2017. The organization was changed into Sales and Marketing starting on February 1, 2018.

In addition CEO Matti Rantaniemi, CFO Riitta Järnstedt and VP People & Sustainability Maija Kaski belong to the Group Management team.

Personnel

The Group employed an average of 508 people (550), which represents a decrease of 42 persons or -7.6%. Personnel on average employed in Finland was 435 (428), in Sweden 27 (37), in Norway 10 (8) and in Group other countries 36 (77).

The change in number of personnel in Sweden is related to the closure of the Bodafors assembly and logistics unit and in group Other countries to the discontinuation of Martela's own sales operations in Poland and Russia. The personnel in sales was increased in all sales units in the period.

The number of employees in the Group was 507 (506) at the end of the review period. Personnel costs in January–December totalled EUR 27.1 million (29.7).

Non financial information

MANAGEMENT OF CORPORATE RESPONSIBILITY

Responsibility forms an integral part of Martela's strategy and operations. The VP, People & Sustainability is responsible for the corporate responsibility and quality and environmental management system of the Group.

Corporate responsibility activities are supervised by a Responsibility Steering Group 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 Responsibility Report published annually. The 2017 Responsibility 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 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 under Responsibility are reviewed and, when necessary, updated annually under the coordination of the Responsibility 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 responsibility of its client companies by offering sustainable workplace solutions throughout their entire life cycle 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 Kidek Oy, Martela's subsidiary located in Kitee, Finland.

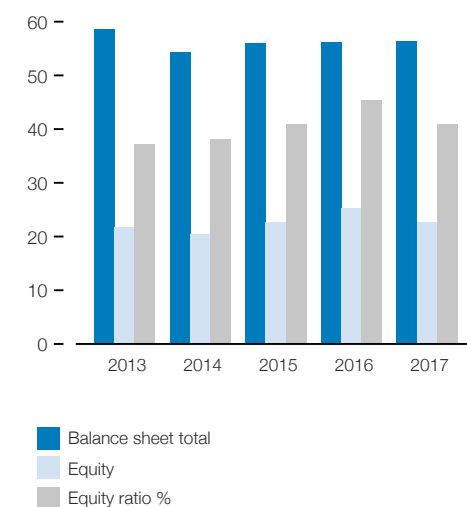
The Martela headquarters in Pitäjänmäki, Helsinki, houses sales and support functions in addition to the Group administration. Martela has several sales offices across Finland, Sweden and Norway. In other countries, the sale of Martela's products takes place mostly through a dealer network.

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

GEARING



EQUITY RATIO %



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.

Almost 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 Responsibility Report.

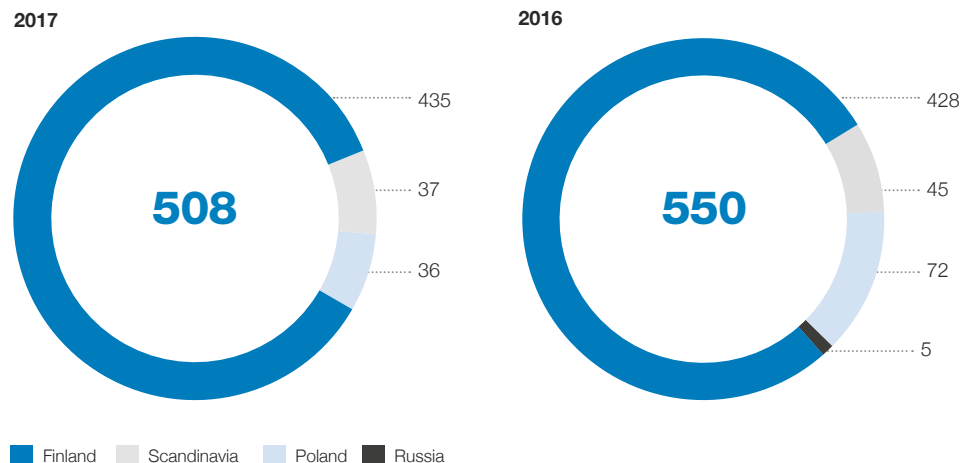
ENVIRONMENTAL MATTERS

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.

In Martela's operations, according to the materiality assessment found in the Responsibility Report, the most essential environmental matters are cost savings through efficient use of space and the resulting opportunities to reduce greenhouse emissions and energy consumption. In Martela's operations, the energy saving benefits through more efficient use of space are rather small, but the indirect impact on the whole customer base is large. The most important environmental target is offering its customers the Martela Lifecycle model that supports efficient use of space.

Martela has no exhaustive access to its customers' measurements of efficient use of space and energy consumption. In Martela's own operations, the parameters of energy and material consumption are being mon-

PERSONNEL BY AREAS, ON AVERAGE



itored. 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. 6 GWh), electricity (approx. 6 GWh), and combustion of own transportation of materials (approx. 5 GWh).

Martela acquired approximately 10 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 less than 2 million kg of waste, almost all of which can be reused as energy or recycled material, while the proportion comprising hazardous waste remains around one per cent.

There are no significant environmental risks involved in Martela's own operations, but global changes in, for example, energy prices and preferences concerning various raw materials or 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 Responsibility Report.

SOCIAL MATTERS AND HUMAN RESOURCES

The People Policy includes the principles of responsible human resources management, clarifies and unifies the management of human resources and promotes maintenance and development of the corporate and employer image.

According to the materiality assessment in the Responsibility 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 smaller in Martela's own operations than the indirect benefit for its entire customer base. Approximately half of the personnel are knowledge workers.

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 Responsibility Programme, where the target has been set at the AAA level.

In 2017, the emphasis was on developing people's expertise, improvement of occupational wellbeing and strengthening internal dialogue within the organisation. A personnel survey was conducted in the organisation in the spring, 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. A weekly occupational wellbeing Pulse questionnaire was launched at the end of the year as a feedback mechanism for the personnel. In addition, the implementation of the Martela Talent Programme piloted in 2016 was started. The 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.

As the year turned out to be challenging for the business, the importance of focusing on occupational wellbeing was emphasised. The risks of consequences of absence due to sickness and more burdening work increase in such circumstances. More focus was put on, for example, the significance of early support in the prevention of absence due to sickness and on the observation of occupational safety in any work.

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

RESPECTING HUMAN RIGHTS

Matters related to respecting human rights are discussed in, for example, the company's People Policy, Purchasing Principles and Social Requirements for the Suppliers. The main principle is to offer equal opportunities to all 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.

The most important suppliers of materials that are used in their products replied to Martela's web survey by February 2015. Through the survey, we received a commitment to Martela's Purchasing Principles from 36 suppliers, who represented slightly more than half of the subcontracting volume. Occupational safety, employee's employment matters and equal treatment were considered the most important issues of social responsibility. The aim is to renew the survey and to achieve a better coverage on the material supply chain.

Responsibility training has been held for Martela's personnel in various forms on an annual basis since 2011. In the training in 2017, the participants were asked whether they were aware of the changes in the Corporate Code of Conduct and People Policy. Almost 70% of the personnel replied to the survey. A third of the respondents had noticed the addition of the new whistleblowing system, and more than 70% of them had noticed the recorded commitment to working without accidents.

PREVENTION OF CORRUPTION AND BRIBERY

Matters related to prevention of corruption and bribery are discussed in, for example, the Corporate Code of Conduct and Purchasing Principles. 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 Martela's Purchasing Principles received through the subcontractor survey conducted in 2014–2015 also contained a commitment to unconditional honesty as a basis for business operations. Corruption and bribery are not acceptable in any form.

In the 2017 responsibility training, nearly a quarter of the respondents knew whom to contact if illegal conduct was observed. Most people would contact their superior who, again, could direct the issue to the right person.

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 1 950 776 (2 067 817) of the company's series A shares were traded on the NASDAQ OMX Helsinki exchange, corresponding to 54.9% (58.2) of the total number of series A shares.

The value of trading turnover was EUR 19.9 million (14.0), and the share price was EUR 7.47 at the end of the period (12.84). During January–December, the share price was EUR 14.00 at its highest and EUR 7.08 at its lowest. At the end of December, equity per share was EUR 5.46 (6.13).

There were no disclosure notifications in 2017. 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. After the transfer of treasury shares based on the share-based incentive scheme as reported on 19 April 2017, Martela owned a total of 12 036 Martela A shares and its holding of treasury shares amounted to 0.3% of all shares and 0.1% of all votes.

Own shares were purchased at an average price of EUR 10.65

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 earning period 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). Fees to be paid for the 2017–2018 earning period correspond to a maximum of approximately 100 000 Martela Corporation series A shares in total and also include the cash portion. Management of the share-based incentive scheme has been outsourced to an external service provider.

Related to the last earning period of the earlier share-based incentive programme, 35 110 shares were distributed on 19 April 2017. A total of 94 311 shares have been distributed based on the programme.

2017 Annual general meeting

Martela Corporation's Annual General Meeting was held on 14 March 2017. The AGM approved the financial statements for 2016 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 0.37 per share. The dividend was paid on 23 March 2017.

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

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 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 2017 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.

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 based on component subcontracting and own assembly carried out by Martela.

Risks of damage are covered with appropriate insurance and this provides comprehensive coverage for property, business interruption, supplier interruption loss 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 company operations have normalised, and it estimates that the main challenges related to the IT system project have been overcome and that, by the end of the first quarter of 2018, the IT system will fully support its new strategy. The IT system is expected to still cause some non-recurring expenditure.

Events after the end of the financial year

On 19 January 2018, Martela released preliminary information on the 2017 revenue and operating profit. There are no other matters requiring disclosure after the financial year and the operations have continued according to plans.

Outlook for 2018

The Martela Group anticipates that its revenue and operating result in 2018 will improve compared to the previous year. Due to normal seasonal variations, the Group's operating result accumulates during the second half of the year.

The delivery reliability, improved offering, IT system and procedures, as well as better sales resourcing, boost growth in all market areas of the company.

Proposal of the board of directors for distribution of profit

The Board of Directors will propose to the AGM that a dividend of EUR 0.32 per share be distributed for 2017.

Annual general meeting

Martela Corporation's AGM will be held on 13 March 2018 at 3 p.m. in Martela House, Helsinki. The notice of the Annual General Meeting will be published in a separate release on 5th February, 2018.

Consolidated comprehensive income statement

(EUR 1000)	Note	1.1–31.12.2017	1.1–31.12.2016
Revenue	1	109 537	129 127
Other operating income	2	752	464
Changes of inventories of finished goods and work in progress		1275	-129
Raw material and consumables used		-64 189	-72 469
Production for own use		0	23
Employee benefits expenses	3	-27 091	-29 672
Other operating expenses	4	-17 385	-18 278
Depreciation and impairment	5	-2 638	-2 908
Operating profit (-loss)		260	6 158
Financial income	7	304	29
Financial expenses	7	-537	-570
Profit (-loss) before taxes		28	5 618
Income taxes	8	-664	-2 302
Profit (-loss) for the financial year		-636	3 316
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		-271	43
Taxes from items that will not later be recognised through profit or loss		9	-41
Items that may later be recognised through profit or loss			
Other changes		0	-35
Translation differences		-230	161
Total comprehensive income		-1 128	3 444
Allocation of profit (-loss) for the financial year			
Equity holders of the parent		-636	3 316
Allocation of total comprehensive income			
Equity holders of the parent		-1 128	3 444
Earnings per share of the profit attributable to the equity holders of the parent			
Basic earnings/share, EUR	9	-0,15	0,81
Diluted earnings/share, EUR	9	-0,15	0,81

Consolidated cash flow statement

(EUR 1000)	1.1–31.12.2017	1.1–31.12.2016
Cash flows from operating activities		
Cash flow from sales	104 970	129 899
Cash flow from other operating income	515	317
Payments on operating costs	-109 660	-116 265
Net cash from operating activities before financial items and taxes	-4 176	13 951
Interest paid	-294	-375
Interest received	5	5
Other financial items	46	-193
Dividends received	7	18
Taxes paid	-3 209	-1 743
Net cash from operating activities (A)	-7 622	11 662
Cash flows from investing activities		
Capital expenditure on tangible and intangible assets	-2 165	-2 580
Proceeds from sale of tangible and intangible assets	237	147
Net cash used in investing activities (B)	-1 928	-2 433
Cash flows from financing activities		
Proceeds from short-term loans	8 723	0
Repayments of short-term loans	-3 740	-2 410
Repayments of long-term loans	0	-206
Dividends paid and other profit distribution	-1 520	-1 023
Net cash used in financing activities (C)	3 463	-3 639
Change in cash and cash equivalents (A+B+C), increase +, decrease -	-6 087	5 590
Cash and cash equivalents at the beginning of year	13 425	7 724
Translation differences	-55	110
Cash and cash equivalents at the end of year	7 283	13 425

Consolidated balance sheet

(EUR 1000)	Note	31.12.2017	31.12.2016
ASSETS			
Non-current assets			
Intangible assets	10	7 297	6 321
Tangible assets	11	5 186	6 632
Available-for-sale financial assets		53	55
Investment properties	12	600	600
Deferred tax assets	14	142	144
Non-current assets, total		13 278	13 752
Current assets			
Inventories	15	8 863	7 709
Trade receivables	13,16	23 682	20 296
Loan receivables	13,16	32	1
Accrued income and prepaid expenses	13,16	3 301	1 054
Cash and cash equivalents		7 283	13 425
Current assets, total		43 161	42 485
ASSETS, TOTAL		56 439	56 238

(EUR 1000)	Note	31.12.2017	31.12.2016
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	17	7 000	7 000
Share premium account		1 116	1 116
Other reserves		-9	-9
Treasury shares*		-128	-502
Translation differences		-810	-579
Retained earnings		15 457	18 148
Equity, total		22 625	25 174
Non-current liabilities			
Deferred tax liabilities	14	491	577
Pension obligations	20	565	371
Financial liabilities	13,19	6 206	6 283
Non-current liabilities, total		7 262	7 231
Current liabilities			
Financial liabilities	13,19	7 065	2 005
Interest-bearing current liabilities, total		7 065	2 005
Non-interest-bearing current liabilities, total			
Advances received	13,21	997	611
Trade payables	13,21	8 503	8 238
Accrued liabilities and prepaid income	13,21	6 719	8 851
Other current liabilities	13,21	3 266	4 128
Non-interest-bearing current liabilities, total		19 486	21 828
LIABILITIES, TOTAL		33 814	31 064
EQUITY AND LIABILITIES, TOTAL		56 439	56 238

*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 1000)

Equity attributable to equity holders of the parent	Share capital	Share premium account	Other reserves	Tresury shares	Translation diff.	Retained earnings	Equity total
Equity 1.1.2016	7 000	1 116	-9	-673	-740	15 968	22 662
Other comprehensive income							
Profit (-loss) for the financial year						3 316	3 316
Other items of comprehensive income adjusted by tax effects							
Translation differences					161		161
Items resulting from remeasurement of the net debt related to defined benefit plans (incl. Deferred taxes)						2	2
Other change						-35	-35
Total comprehensive income					161	3 283	3 444
Share-based incentives				171		-79	92
Business transactions with owners							
Dividends						-884	-884
Withholding tax on dividends						-139	-139
Business transactions with owners, total						-1 023	-1 023
Equity 31.12.2016	7 000	1 116	-9	-502	-579	18 149	25 174
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
Other change						0	0
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

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 1st February 2018. 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 31st 2017. 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 2017 the following new and amended standards that have come into effect.

Amendments to IAS 7 Disclosure Initiative (effective for financial years beginning on or after 1 January 2017). The changes were made to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments

have an impact on the disclosures in Martela's consolidated financial statements. Other amended standards did not have an effect on Martela's financial reporting.

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 and 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 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. Similar 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

Revenue from sales of goods is recognised when the significant risks and rewards of ownership of the sold goods have been transferred to the buyer. In general, revenue is recognised at the time of delivery of the goods in compliance with contract terms. Revenue from the services rendered is recognised when the service has been performed and it is probable that the economic benefits associated with the transaction will flow to the seller. 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.

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. 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. 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 capitalization 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, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose of acquiring the financial assets, and they are classified at the time of initial acquisition. All purchases and sales of financial assets are recognised 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 2017 or 2016.

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market or are not held by the Group for trading purposes. They are originally recognised at fair value and subsequently measured at amortised cost. 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). In addition to loan receivables, the category includes trade and other receivables.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They include various unlisted shares that are measured at cost, when their fair value cannot be reliably determined. They are included in non-current assets.

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.

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

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 to 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 is assumed to be 1,5%.

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 stand-

ard 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 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 classification 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 does not have significant impact on the disclosure or valuation of financial assets and liabilities and the changes in determination of credit losses is not expected to 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. Martela has assessed the impacts of the implementation of the standard for different revenue streams and has come to the solution that the impact will not be significant. The assessment was made by analysing customer contracts, offers and order confirmations as well as the related deliverables. 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 is not going to 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 that additional expenses for gaining of customer agreements and fulfilling the agreements to be activated into the balance sheet. The Group has not recognised any such additional expenses. The disclosure requirements of the standard will increase the disclosed information of revenue from customer agreements in the notes of the annual report. Martela will use the cumulative effect method in the implementation of the new standard.
- 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. The standard has an impact on Martela's consolidated balance sheet and key figures. The lease liabilities are presented in note 23.

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

1. Segment reporting

As reported earlier, 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 1000)	1.1.–31.12.2017	1.1.–31.12.2016
Revenue by area		
Finland	87 269	95 233
Sweden	11 730	20 377
Norway	4 131	3 728
Other countries	6 407	9 789
Total	109 537	129 127
Income from the sale of goods	95 373	113 988
Income from the sale of services	14 164	15 140
Total	109 537	129 127

Information about geographical regions	Intangible assets 31.12.2017	Tangible assets 31.12.2017
Non-current assets		
Finland	7 297	4 773
Sweden	0	108
Other regions	0	305
Total	7 297	5 186

	Intangible assets 31.12.2016	Tangible assets 31.12.2016
Non-current assets		
Finland	6 320	6 282
Sweden	0	23
Other regions	0	327
Total	6 320	6 632

2. Other operating income

(EUR 1000)	1.1.–31.12.2017	1.1.–31.12.2016
Gains on sale of tangible assets	10	147
Rental income	185	56
Public subsidies	0	154
Other income from operations	557	108
Total	752	464

3. Employee benefits expenses

(EUR 1 000)	1.1.–31.12.2017	1.1.–31.12.2016
Salaries and wages	-21 124	-23 261
Pension expenses, defined contribution plans	-3 525	-3 552
Pension expenses, defined benefit plans	-217	-261
Part paid as share-based incentives	-824	-508
Other salary-related expenses	-1 402	-2 091
Personnel expenses in the income statement	-27 091	-29 672
Other fringe benefits	-802	-381
Total	-27 892	-30 053

A total of EUR -1 343 thousand for 2017 and EUR -2 191 thousand from 2016 were recognised in the result from the incentives and salary-related expenses associated with the incentive scheme. Salaries and 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	2017	2016
Personnel on average, workers	273	285
Personnel on average, officials	235	266
Personnel on average, total	508	550
Personnel at year end	507	506
Personnel on average in Finland	435	428
Personnel on average in Sweden	27	37
Personnel on average in Norway	10	8
Personnel on average in Poland	36	72
Personnel on average in Russia		5
Total	508	550

4. Other operating expenses

Other operating expenses are reported by type of expense.

(EUR 1 000)	1.1.–31.12.2017	1.1.–31.12.2016
Freight	-1 228	-1 859
Travel	-1 198	-1 211
Administration	-2 277	-2 036
IT	-3 111	-2 557
Marketing	-1 238	-1 764
Vehicles	-680	-667
Real estate	-3 664	-4 412
Other	-3 990	-3 772
Total	-17 385	-18 278
Auditors' fees		
Auditing	-85	-85
Other services	-5	-16
Total	-90	-101

Auditors' fees are included in administration expenses.

5. Depreciation and impairment

(EUR 1 000)	1.1.–31.12.2017	1.1.–31.12.2016
Depreciation		
Intangible assets	-850	-675
Tangible assets		
Buildings and structures	-634	-769
Machinery and equipment	-1 154	-1 464
Depreciation, total	-2 638	-2 908

6. Research and development expenses

The income statement includes research and development expenses of EUR -2 015 thousand (EUR -1 855 thousand in 2016).

7. Financial income and expenses

(EUR 1 000)	1.1.–31.12.2017	1.1.–31.12.2016
Financial income		
Interest income on loans and other receivables	6	5
Foreign exchange gain on loans and other receivables	292	6
Other financial income	7	19
Total	304	29
Financial expenses		
Interest expenses from financial liabilities measured at amortised cost	-291	-370
Foreign exchange losses on loans and other receivables	-146	-51
Other financial expenses	-99	-149
Total	-537	-570
Financial income and expenses, total	-232	-541
Total exchange rate differences affecting profit and loss are as follows:		
Exchange rate differences, sales (included in revenue)	-296	-71
Exchange rate differences, purchases (included in adj. of purchases)	-121	-222
Exchange rate differences, financial items	146	-45
Exchange rate differences, total	-272	-337

8. Income taxes

(EUR 1 000)	1.1.–31.12.2017	1.1.–31.12.2016
Income taxes, year 2016	-789	-2 289
Taxes for previous years	50	0
Change in deferred tax liabilities and assets	75	-13
Total	-664	-2 302

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

(EUR 1 000)	1.1.–31.12.2017	1.1.–31.12.2016
Profit before taxes	28	5 618
Taxes calculated using the domestic corporation tax rate	6	1 124
Different tax rates of subsidiaries abroad	96	-9
Taxes for previous years	50	0
Recognition of unused tax losses not booked earlier	-1 152	-17
Elimination of the internal profit of which no deferred tax accounted for	1 738	0
Tax-exempt income	-94	0
Non-deductible expenses	70	496
Unbooked deferred tax assets on losses in taxation	29	708
Other items	-79	0
Income taxes for the year in the P/L (+ = expense, - = profit)	664	2 302

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.–31.12.2017	1.1.–31.12.2016
Profit attributable to equity holders of the parent	-636	3 316
Weighted average number of shares (1 000)	4 144	4 108
Basic earnings per share (EUR/share)	-0,15	0,81

The company has no diluting instruments 31 December 2017 or 31 December 2016.

10. Intangible assets

(EUR 1 000)	1.1.–31.12.2017				1.1.–31.12.2016			
	Intangible assets	Goodwill	Work in progress	Total	Intangible assets	Goodwill	Work in progress	Total
Acquisition cost 1.1.	9 292	883	2 204	12 378	9 268	883	0	10 151
Increases	3 868	0	1 819	5 687	37	0	2 204	2 241
Decreases	-25	0	-3 868	-3 893	-14	0	0	-14
Acquisition cost 31.12.	13 135	883	154	14 172	9 292	883	2 204	12 378
Accumulated depreciation 1.1.	-6 057	0	0	-6 057	-5 418	0	0	-5 418
Accumulated depreciation, decreases	24	0	0	24	13	0	0	13
Depreciation for the year 1.1.–31.12.	-843	0	0	-843	-652	0	0	-652
Exchange rate differences	0	0	0	0	0	0	0	0
Accumulated depreciation 31.12.	-6 876	0	0	-6 876	-6 057	0	0	-6 057
Carrying amount 1.1.	3 235	883	2 204	6 321	3 850	883	0	4 733
Carrying amount 31.12.	6 259	883	154	7 297	3 235	883	2 204	6 321

Goodwill

The Group's Goodwill EUR 883 thousand (EUR 883 thousand in 2016) 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 1,0%. 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 10,4% (12,4%) 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 0.8 million higher than the book value according to the performed impairment test. The rise in discount rate by 12% or the actual operating profit (EBIT) level on the terminal year to be 1% unit lower than estimated would cause that the recoverable amount of the cash generating units would be the same as the book value.

11. Tangible assets

(EUR 1 000)						
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	2 165	0	0	2 165
Depreciation for the year 1.1.–31.12.	0	-640	-1 154	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
1.1.2016–31.12.2016	Land areas	Buildings	Machinery and equipment	Other tangible assets	Work in progress	Total
Acquisition cost 1.1.	66	24 268	33 423	34	9	57 800
Increases	0	126	510	0	4	641
Decreases	0	-197	-578	0	-11	-785
Exchange rate differences	0	-19	-103	0	0	-121
Acquisition cost 31.12.	66	24 178	33 253	34	3	57 534
Accumulated depreciation 1.1.	0	-20 255	-29 020	0	0	-49 275
Accumulated depreciation, decreases	0	143	411	0	0	554
Depreciation for the year 1.1.–31.12.	0	-785	-1 469	0	0	-2 255
Exchange rate differences	0	-12	86	0	0	74
Accumulated depreciation 31.12.	0	-20 909	-29 993	0	0	-50 901
Carrying amount 1.1.	66	4 013	4 403	34	9	8 525
Carrying amount 31.12.	66	3 269	3 260	34	3	6 632
					31.12.2017	31.12.2016
Carrying amount of machinery and equipment of production					1 050	1 650

Tangible assets, finance leases.

Tangible assets include assets acquired through finance leases as follows:

	1.1.–31.12.2017			1.1.–31.12.2016		
	Machinery and equipment	Buildings	Total	Machinery and equipment	Buildings	Total
Acquisition cost 1.1.	4 059	654	4 713	3 881	680	4 561
Increases	142	0	142	183	0	183
Decreases	0	0	0	-5	0	-5
Exchange rate differences	0	0	0	0	-26	-26
Acquisition cost 31.12.	4 202	654	4 856	4 059	654	4 713
Accumulated depreciation 1.1.	-3 864	-654	-4 518	-3 717	-594	-4 311
Depreciation for the year 1.1.–31.12.	-150	0	-150	-146	-82	-228
Exchange rate differences	0	0	0	-1	22	21
Accumulated depreciation 31.12.	-4 014	-654	-4 668	-3 864	-654	-4 518
Carrying amount 1.1.	195	0	195	164	86	250
Carrying amount 31.12.	188	0	188	195	0	195

The plant in 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 31 March 2017.

12. Investment properties

The land belonging to Kiinteistö Oy Ylähanka has been classified as investment property. The fair value of the land belonging to Kiinteistö Oy Ylähanka was EUR 600 thousand (600 thousand) at the end of the financial year 2017.

The Group has determined that the fair value of all its investment properties represent level 3 in the hierarchy, due observable market information for the determination of fair values is not comprehensively available.

There is change ongoing related to the zoning plan of Kiinteistö Oy Ylähanka (YK0045) due to which it is forbidden to build on the property until 29 October 2020.

13. Book values of financial assets and liabilities by group

(EUR 1 000)	Non-current financial assets	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		
2016 balance sheet items							
Non-current financial assets							
Other financial assets		55		55	55	2	
Current financial assets							
Trade and other receivables	20 297			20 297	20 297	2	16
Book value by group	20 297	55		20 352	20 352		
Non-current financial liabilities							
Interest-bearing liabilities			6 283	6 283	6 283	2	19
Current financial liabilities							
Interest-bearing liabilities			2 005	2 005	2 005	2	19
Trade payables and other liabilities			12 383	12 383	12 383	2	21
Book value by group			20 671	20 671	20 671		

Available-for-sale 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 is widely based on management's judgement and the use of that in commonly approved valuation models.

14. Deferred tax assets and liabilities

(EUR 1 000)

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

Changes in deferred taxes during 2016	1.1.2016	Recognised in the income statement	Recognised in the other comprehensive	Exchange rate differences	31.12.2016
Deferred tax assets					
Pension obligations	116	0	-41	0	75
Other temporary differences	265	-194	0	-2	69
Total	381	-194	-41	-2	144
Deferred tax liabilities					
On buildings measured at the fair value of the transition date	528	-66	0	0	462
Other temporary differences	230	-115	0	0	115
Total	758	-181	0	0	577
Deferred tax assets and liabilities, total	-377	-13	-41	-2	-433

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 2017 results, total about EUR 15,2 million (21,9 million). These losses have no expiry date according to knowledge available today.

15. Inventories

(EUR 1 000)	1.1.–31.12.2017	1.1.–31.12.2016
Raw materials and consumables	6 782	5 415
Work in progress	960	847
Finished goods	1 122	1 447
Total	8 863	7 709

The value of inventories has been written down by -392 thousand (-1 457 thousand 2016) 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.–31.12.2017	1.1.–31.12.2016
Trade receivables	23 682	20 296
Loan receivables	32	1
Accrued income and prepaid expenses of		
Personnel expenses	218	533
Advances	3 083	522
Accrued income and prepaid expenses total	3 301	1 054
Total	27 015	21 351

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 EUR 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
1.1.2016	4 092 453	7 000	1 116	-673	0	7 443
Acq. of shares for share-based incentive system*						
Shares given*	16 001			171		171
Shares returned						
Share issue						
31.12.2016	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

Martela Oyj owns 12 036 A-shares purchased at an average price of EUR 10.65. The number of treasury shares is equivalent to 0.3% of all shares and 0.1% 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 provider.

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 consists of reserve funds.

The share premium account is a fund established in accordance with the previous Finnish Companies Act. According to the present Limited 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 EUR 29 589 thousand on 31 December 2017.

18. Share-based payments

Share-based incentive programme 2014–2016

Related to the last earning period of the earlier share-based incentive programme, 35 110 shares were distributed on 19 April 2017. A total of 94 311 shares have been distributed based on the programme.

SHARE-BASED INCENTIVE PROGRAMME 1.1.2017–31.12.2017

Program	Share-based incentive programme 2014–2016			Total
Type	Share			
Instrument	Earning period 2014	Earning period 2014–2015	Earning period 2014–2016	Total
Issuing date	03.02.2014	03.02.2014	03.02.2014	
Maximum amount, pcs	47 998	56 001	56 001	160 000
Dividend adjustment	No	No	No	
Grant date	3.2.2014	3.2.2014	3.2.2014	
Beginning of earning period	1.1.2014	1.1.2014	1.1.2014	
End of earning period	31.12.2014	31.12.2015	31.12.2016	
End of restriction period	15.04.2015	15.04.2016	19.04.2017	
Vesting conditions	Group operating profit	Group operating profit	Group operating profit	
Maximum contractual life, yrs	1,3	2,3	3,3	2,3
Remaining contractual life, yrs	0,0	0,0	0,0	
Number of persons at the end of reporting year	7	6	4	
Payment method	Cash & Equity	Cash & Equity	Cash & Equity	
Changes during the period 2017	Earning period 2014	Earning period 2014–2015	Earning period 2014–2016	Total
01.01.2017				
Outstanding at the beginning of the reporting period, pcs	43 200	50 400	50 400	144 000
Changes during the period				
Granted	0	0	20 445	20 445
Forfeited	0	0	63 467	63 467
Shares given	43 200	16 001	35 110	94 311
Outstanding at the end of the period	0	34 399	7 378	6 667

Effect of share-based incentive schme 2014–2016 on the result and financial position during the period:

The expenses related to the share-based incentive programme 2014–2016 were EUR 197 thousand on the financial year 2017.

Share-based incentive schemes 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 earning period is the Group's Management Team. The potential reward of the plan from the earning period 2017–2018 is based on the Group's Earnings before Interest and Taxes (EBIT). Fees to be paid of the 2017–2018 earning period correspond to a maximum of approximately 100 000 Martela Corporation series A shares in total and also include the cash portion. The potential reward from the performance period 2017–2018 will be paid partly in Martela shares and partly in cash in two instalments in 2018 and 2019. The one-year restriction period following the performance period has been deleted and thus the shares paid as reward will be freely transferable after the reward payment.

Program	Share-based incentive scheme 2017–2018, 2019–2020		
Type	Share		
Instrument	Earning period 2017	Earning period 2017–2018	Earning period 2019–2020
Issuing date	15.12.2016	15.12.2016	
Maximum amount, pcs	100 000	100 000	
Dividend adjustment	No	No	
Grant date	15.12.2016	15.12.2016	
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	
Vesting conditions	Group operating profit	Group operating profit	
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	
Payment method	Cash & Equity	Cash & Equity	Cash & Equity
Effect on the 2017	Earning period 2017	Earning period 2017–2018	Earning period 2019–2020
01.01.2017			
Outstanding at the beginning of the reporting period, pcs	76 000	76 000	76 000
Changes during the period:			
Granted	28 000	28 000	28 000
Forfeited	16 000	16 000	16 000
Shares given		0	0
Outstanding at the end of the period	88 000	88 000	88 000

Effect of share-based incentive schme 2017–2018 on the result and financial position during the period	Total
Expenses for the financial year, share-based payments	64 617
Expenses for the financial year, share-based payments, equity settled	100 580
Liabilities arising from share-based payments on 31.12.2017	165 197

IFRS 2 requires an entity to measure the award at its fair value and recognised over the vesting period. If the award will be settled both in equity and in cash, the amount entered in the balance sheet will be divided into equity and liability. The fair value of the share-based scheme when granted was the value of a company's share. The fair value of the liability incurred in respect of a cash-settled transaction is remeasured at each reporting date until the date of settlement.

19. Financial liabilities

(EUR 1 000)	1.1.–31.12.2017	1.1.–31.12.2016
Non-current		
Bank loans	6 127	6 203
Finance leases	79	81
Total	6 206	6 283
Current		
Bank loans	6 952	886
Pension loans	0	1 000
Finance leases	113	119
Total	7 065	2 005

The Group's bank loans have either variable or fixed interest rates. The Group's average interest rate is 2.0% (2.6%/2016). 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 4.0 at maximum and the equity ratio 30% at minimum.

When calculating these figures, the net debt is the average of the net debt from four preceding quarters, 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 12.1 million on 31 December 2017. The covenants were met on 31 December 2017.

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.–31.12.2017	1.1.–31.12.2016
Finance leases–total amount of minimum lease payments		
No later than one year	120	127
Later than one year and no later than five years	82	84
Later than five years	0	0
Total	202	210
Finance leases–present value of minimum lease payments		
No later than one year	113	119
Later than one year and no later than five years	79	81
Later than five years	0	0
Total	192	200
Unearned finance expense	10	11

The average interest of financial leases was 3.8% in 2017 and 3.5% in 2016.

Changes not affecting financial cash flow	31.12.2016	Cash flows	From changes in currency flows	31.12.2017
Long-term loans total	6 283	0	0	6 283
Short-term loans total	2 005	4 983	0	6 988
Loans total from the financing activities	8 288	4 983	0	13 271

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

(EUR 1 000)						
Changes in defined benefit liability						
	Present value of the defined benefit liability		Fair value of the funds included in the plan		Net debt of the defined benefit liability	
	2017	2016	2017	2016	2017	2016
1.1.	4 037	3 781	-3 667	-3 207	371	574
Recognised in profit or loss						
Service cost in the period	170	175			170	175
Past service cost	-1 400		1 400			
Interest expense or income	72	87	-67	-79	5	8
	-1 158	262	1 333	-79	175	183
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	186	403			186	403
Experience based profits (-) or losses (+)	216	-260			216	-260
Return on the funds included in the plan, excluding items in interest expenses or income (+/-)			-130	-171	-130	-171
	401	143	-130	-171	272	-27
Other items						
Employer's payments (+)	-279	-149	124	-210	-402	-359
	-279	-149	124	-210	-402	-359
31.12.	3 002	4 037	-2 588	-3 667	415	371

The Group anticipates that it will pay a total of EUR 167 thousand to defined benefit pension plans in the financial period of 2018.

Sensitivity analysis

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

	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)	-9,4%	-8,6%
Increase in salaries (0.5% change)	N/A	N/A
Mortality rate (a change of 5% points)	-1,1%	-1,0%

The weighted average of the duration of the plans is 20,4 years.

21. Current liabilities

(EUR 1 000)	1.1.–31.12.2017	1.1.–31.12.2016
Advances received	997	611
Trade payables	8 503	8 238
Total	9 501	8 849
Accrued liabilities and prepaid income of		
Personnel expenses	3 756	3 995
Interests	14	18
Royalties	190	123
Residual expenses	2 753	4 698
Other	5	18
Total	6 719	8 851
Other current liabilities	3 266	4 128
Other	3 266	4 128
Current liabilities	19 486	21 828

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 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 the EUR, SEK, NOK and PLN. The SEK, NOK and PLN currency positions are reviewed mainly on a half-yearly basis. The Group's policy is to hedge the net positions remaining after reconciliation if seen necessary. The Group has not hedged against transaction risks during the financial periods of 2016 and 2017.

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. The company hedges if needed 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 31.12.2017 (EUR thousand)

	EUR	SEK	PLN	NOK
Trade receivables	-548	8 707	1 360	2161
Trade payables	-1 307	-215	-18	-1
Total	-1 855	8 491	1 342	2 160

Transaction risks per instrument and currency 31.12.2016 (EUR thousand)

	EUR	SEK	PLN	NOK
Trade receivables	2	4 364	1 171	1 083
Trade payables	-357	-512	-146	-401
Total	-356	3 852	1 024	682

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 2017 (2016). The estimates are based on the assumption that no other variables change.

Analysis of sensitivity to transaction risk (EUR 1 000)	Impact on share-holders' equity	Impact on result
31.12.2017		
EUR	0	+/- 186
SEK	0	+/- 849
PLN	0	+/- 134
NOK	0	+/- 216
31.12.2016		
EUR	0	+/- 36
SEK	0	+/- 385
PLN	0	+/- 102
NOK	0	+/- 68

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)	31.12.2017	31.12.2016
Fixed rate		
Financial liabilities	192	200
Variable rate		
Financial liabilities	13 079	8 089
Total	13 271	8 288

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 share-holders' equity	Impact on result
31.12.2017		
Financial liabilities		
Variable rate financial instruments	0	-131
31.12.2016		
Financial liabilities		
Variable rate financial instruments	0	-81

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 any receivables arising from an order by withholding the right of ownership with Martela 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)	2017	2016
Available-for-sale financial assets	53	55
Cash and cash equivalents at fair value through profit or loss	0	0
Loans and other receivables	23 714	20 297
Cash and cash equivalents	7 283	13 425
Total	31 050	33 777

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)	2017	2016
Unmatured	15 433	17 574
Matured 1–30 days	3 374	1 611
Matured 31–60 days	792	495
Matured over 60 days	4 082	616
Total	23 682	20 296

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

Region (EUR 1 000)	2017	2016
Finland	11 324	14 681
Scandinavia	11 225	4 444
Other European countries	810	817
Other regions	323	354
Total	23 682	20 296

Credit risks from trade receivables are not concentrated.

In 2017 EUR -394 thousand (EUR -148 thousand in 2016) 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 2017 end were EUR 7 283 thousand and unused credit limits EUR 2 700 thousand. The Martela corporation foresees that the worsened financial standing is temporary and is due to new IT system implementation that was followed by having incomplete customer and invoicing information in the system resulting in delays in invoicing and in a slowdown of cashflow from payments from sales compared to the previous year.

Contractual cash flows mature as follows (EUR 1 000):	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 gurantee 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. Cash and cash equivalent at the year 2016 end were EUR 13 425 thousand and unused credit limits EUR 9 522 thousand.

Contractual cash flows mature as follows (EUR 1 000):	2017	2018	2019	2020	2021	Later	Total	Balance sheet value
Bank loans	886	1 231	1 143	743	3 086	0	7 088	7 089
Pension loans	1 000	0	0	0	0	0	1 000	1 000
Financial leases	119	81	0	0	0	0	200	200
Trade payables	8 238	0	0	0	0	0	8 238	8 238
Bank overdrafts, used	0	0	0	0	0	0	0	0
Loan interest and gurantee fees	197	142	104	66	14	0	523	
Total	10 440	1 454	1 247	809	3 099	0	17 049	
Guarantees given*	103	0	14	0	0	0	117	
Total	10 543	1 454	1 261	809	3 099	0	17 165	

*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	31.12.2017	31.12.2016
Shareholders' equity	22 625	25 174
Balance sheet total – advance payments	55 442	55 627
Equity to assets ratio %	40,8	45,3

23. Operating leases

(EUR 1 000)	31.12.2017	31.12.2016
Minimum lease payments under non-cancellable operating leases are as follows:		
No later than one year	2 851	3 112
Later than one year and not later than five years	5 740	4 816
Later than five years	0	0
Total	8 591	7 929

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

The income statement for 2017 includes rents paid on the basis of operating leases totalling EUR -3 929 thousand (-3 719 thousand in 2016).

24. Pledges granted and contingent liabilities

(EUR 1 000)	31.12.2017	31.12.2016
Debts secured by mortgages		
Bank and pension loans	13 079	8 089
Property mortgages	7 565	11 768
Corporate mortgages	14 916	15 009
Shares pledged	4	4
Total mortgages	22 485	26 781
Other pledges		
Guarantees as security for rents	243	281
Guarantees on behalf of others	0	48

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 31 December 2017.

Group structure	Domicile	Holding (%) 31.12.2017	Of votes (%) 31.12.2017	Sales company	Production company
Parent company					
Martela Oyj	Finland			x	x
Subsidiaries					
Kidex Oy	Finland	100	100	x	x
Grundell Muuttopalvelut	Finland	100	100	x	
Kiinteistö Oy Ylähanka	Finland	100	100		
Martela AB, Bodafors	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's 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)	2017	2016
Management employee benefits		
Salaries and other short-term employee benefits	-1 245	-1 425
Share-based benefits	-1 123	-184
Total	-2 368	-1 609
Salaries and fees		
Board members	-166	-132
CEO	-705	-232
Management team members (excl. CEO)	-1 497	-1 245
Yhteensä	-2 368	-1 609

Fees paid to Board members:	2017	2016
Andersson Minna***	-15,3	0
Ala-Ilkka Heikki **	0	-4,5
Komi Kirsi	-21	-18
Leskinen Eero	-21	-18
Martela Eero ****	-21	-18
Martela Heikki	-40,8	-24
Metsäranta Pinja*	-4,5	-18
Närhinen Yrjö	-21	-18
Vepsäläinen Anni ****	-21	-13,5
Yhteensä	-165,6	-132,0

* in Board until Q1 2017 ** in Board until Q1 2016

*** new member from Q1 2017 **** new member from Q1 2016

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

Salaries, fees and pension commitment to CEO	2017	2016
Salaries and fees	-705	-232
Statutory earnings-related pension payment (TyEL) on salaries	-162	-58

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. 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. Based on 2017 result no share-based incentive is paid.

More information in Note 18 Sharebased payments.

26. Key financial indicators for the Group

Martela Group 2013–2017		2017	2016	2015	2014	2013
Revenue	EUR million	109,5	129,1	132,8	135,9	132,3
Change in revenue	%	-15,2	-2,8	-2,3	2,7	-7,3
Export and operations outside Finland	EUR million	22,3	33,1	35,9	47,8	39,9
In relation to revenue	%	20,4	25,6	27,0	35,1	30,1
Exports from Finland	EUR million	18,4	16,5	11,1	14,3	10,2
Gross capital expenditure	EUR million	2,2	2,9	0,7	1,7	3,0
In relation to revenue	%	2,1	2,2	0,5	1,3	2,3
Depreciation	EUR million	2,6	2,9	3,4	3,7	3,6
Research and development	EUR million	2,0	1,9	2,1	2,8	2,4
In relation to revenue	%	1,8	1,5	1,6	2,1	1,8
Personnel on average		508	550	622	742	770
Change in personnel	%	-7,6	-11,6	-16,2	-3,6	-4,5
Personnel at the end of year		507	506	575	670	767
of which in Finland		435	435	430	505	618

Profitability		2017	2016	2015	2014	2013
Operating profit	EUR million	0,3	6,2	4,1	0,2	-3,1
In relation to revenue	%	0,2	4,8	3,1	0,1	-2,4
Profit before taxes	EUR million	0,0	5,6	3,4	-0,6	-4,6
In relation to revenue	%	0,0	4,4	2,5	-0,4	-3,5
Profit for the year *	EUR million	-0,6	3,3	2,5	-0,7	-4,2
In relation to revenue	%	-0,5	2,6	1,9	-0,5	-3,2
Revenue/employee	EUR thousand	215,6	234,8	213,5	183,2	171,8
Return on equity	%	-2,7	13,9	11,6	-3,4	-17,4
Return on investment	%	1,6	18,2	12,1	0,5	-8,4

Finance and financial position		2017	2016	2015	2014	2013
Balance sheet total	EUR million	56,4	56,2	56,0	54,2	58,6
Equity	EUR million	22,6	25,2	22,7	20,3	21,6
Interest-bearing net liabilities	EUR million	-6,6	-4,8	3,8	6,8	11,2
In relation to revenue	%	-6,0	-3,7	2,8	5,0	8,4
Equity ratio	%	40,8	45,3	40,9	38,1	37,2
Gearing	%	29,0	-18,9	16,6	33,4	51,7
Net cash flow from operations	EUR million	-7,6	11,7	3,9	6,2	-0,1
Dividends paid	EUR million	1,5	1,0	0,4	0,0	0,8

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

27. Key share-related figures

		2017	2016	2015	2014	2013
Earnings per share	EUR	-0,15	0,81	0,61	-0,18	-1,03
Earnings per share (diluted)	EUR	-0,15	0,81	0,61	-0,18	-1,03
Share par value	EUR	1,68	1,68	1,68	1,68	1,68
Dividend *)	EUR	0,32*)	0,37	0,25	0,10	0,00
Dividend/earnings per share	%	-208,4	45,80	41,20	-55,60	-
Effective dividend yield	%	4,3	2,90	7,10	3,40	-
Equity per share	EUR	5,47	6,13	5,54	5,02	5,33
Price of A-share 31.12.	EUR	7,47	12,84	3,53	2,91	3,35
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		-48,64	15,90	5,80	-16,20	-3,30
Market value of shares **	EUR million	30,95	52,75	14,40	11,90	13,56

*) 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-%	=	$\frac{\text{Profit/loss for the financial year} \times 100}{\text{Equity (on average)}}$
Return on investment-%	=	$\frac{(\text{Pre-tax profit/loss} + \text{interest expenses} + \text{other financial items}) \times 100}{\text{Balance sheet total} - \text{non-interest-bearing liabilities (on average)}}$
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 December 2017 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 February 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 31.12.2017	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 31.12.2017	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	116 000	116 000	2,8	116 000	0,7
Meissa-Capital Oy	0	86 487	86 487	2,1	86 487	0,6
Lindholm Tuija	43 122	28 221	71 343	1,7	890 661	5,7
Martela Pekka	69 274	8	69 282	1,7	1 385 488	8,9
Andersson Minna	49 200	0	49 200	1,2	984 000	6,3
Nordea Bank Ab, Finland branch, nominee reg.	0	47 811	47 811	1,2	47 811	0,3
Sijoitusrahasto Nordea Nordic Small Cap	0	40 044	40 044	1,0	40 044	0,3
Other shareholders	92 996	2 270 025	2 363 021	56,9	4 129 945	26,4
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 12 036 pcs A-shares purchased at the average price of EUR 10.65. The number of treasury shares is equivalent to 0.3% of all shares and 0.1% of all votes.

The Annual General Meeting has in 2017 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 31.12.2017.

Shares, pcs	Number of share- holders	% of total share- holders	Number of shares	%	Number of votes	% of Votes
1–500	3 470	80,9	514 405	12,4	514 405	3,3
501–1000	421	9,8	322 381	7,8	326 181	2,1
1001–5000	314	7,3	632 037	15,2	749 457	4,8
Over 5000	84	2,0	2 669 812	64,2	13 737 331	87,8
Total	4 289	100,0	4 138 635	99,6	15 327 374	98,0
of which nominee-registered	7		81 208	2,0	81 208	
In the waiting list and collective account	3		16 965	0,4	319 426	2,0
Total			4 155 600	100,0	15 646 800	100,0

Breakdown of shareholding by sector 31.12.2017

Shares, pcs	Number of share- holders	% of total share- holders	Number of shares	%	Number of votes	% of Votes
Private companies	178	4,2	961 029	23,1	6 509 029	41,6
Financial and insurance institutions	15	0,3	140 099	3,4	200 324	1,3
Public corporations	1	0,0	335 400	8,1	335 400	2,1
Non-profit entities	10	0,2	34 752	0,8	34 752	0,2
Households	4 076	95,0	2 574 866	62,0	8 215 605	52,5
Foreign investors	9	0,2	11 281	0,3	32 264	0,2
Total	4 289	100,0	4 057 427	97,6	15 327 374	98,0
of which nominee-registered	7		81 208	2,0	81 208	
In the waiting list and collective account			16 965	0,4	319 426	2,0
Total			4 155 600	100,0	15 646 800	100,0

Parent Company Income Statement

(EUR 1 000)	Note	1.1.–31.12.2017	1.1.–31.12.2016
Revenue	1	95 819	99 234
Change in inventories of finished goods and work in progress		63	-1 005
Production for own use		0	24
Other operating income	2	783	736
Materials and services	3	-63 230	-60 432
Personnel expenses	4	-15 917	-16 824
Other operating expenses		-11 323	-10 424
Depreciation and impairment	5	-1 383	-3 922
Operating profit (-loss)		4 812	7 386
Financial income and expenses	6	-238	42
Profit (-loss) before appropriations and taxes		4 574	7 429
Depreciation difference	7	12	148
Group contributions	7	-230	0
Total depreciation difference and Group contributions	7	-218	148
Income taxes	8	-695	-2 138
Profit (-loss) for the financial year		3 661	5 438

Parent Company Balance Sheet

(EUR 1 000)	Note	31.12.2017	31.12.2016
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	9		
Intangible rights		9 321	154
Other long-term expenditure		6 211	3 250
Advance payments		154	2 203
		15 686	5 607
Tangible assets	10		
Land and water areas		80	80
Buildings and structures		2 002	2 083
Machinery and equipment		573	870
Other tangible assets		23	23
		2 678	3 056
Investments	11		
Share of subsidiaries		7 498	7 677
Receivables from subsidiaries		6 960	6 940
Other shares and participations		13	15
		14 470	14 632
CURRENT ASSETS			
Inventories			
Materials and supplies		5 411	4 305
Work in progress		875	733
Finished goods		1 353	1 432
Advances paid to suppliers		760	793
		8 399	7 262
Current receivables	12		
Trade receivables		27 288	20 955
Loan receivables		1 048	602
Accrued income and prepaid expenses		3 031	935
		31 368	22 493
Cash and cash equivalents		6 012	7 640
		78 613	60 689

(EUR 1 000)	Note	31.12.2017	31.12.2016
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		25 927	22 009
Profit for the year		3 661	5 438
Total		37 715	35 574
Appropriations			
Accumulated depreciation difference	14	0	12
LIABILITIES			
Non-current	15		
Loans from financial institutions		6 114	6 114
Accrued liabilities and prepaid income		150	0
		6 264	6 114
Current	16		
Loans from financial institutions		6 000	886
Pension loans		0	1 000
		6 000	1 886
Advances received		854	242
Trade payables		9 315	6 514
Accrued liabilities and prepaid income		15 614	7 126
Other current liabilities		2 850	3 221
		28 633	17 104
Liabilities, total		40 898	25 104
EQUITY AND LIABILITIES TOTAL		78 613	60 689

Parent Company's Cash Flow Statement

(EUR 1 000)	1.1.–31.12.2017	1.1.–31.12.2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows from sales	91 151	94 893
Cash flow from other operating income	552	740
Payments on operating costs	-90 441	-86 491
Net cash from operating activities before financial items and taxes	1 262	9 143
Interests paid and other financial payments	-244	-297
Dividends received	-1	316
Taxes paid	-3 305	-1 716
Net cash from operating activities (A)	-2 287	7 445
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure on tangible and intangible assets	-1 703	-2 396
Proceeds from sale of tangible and intangible assets	234	14
Loans granted	-721	-16
Repayments of loan receivables	255	1 940
Net Cash used in investing activities (B)	-1 936	-458
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from current loans	7 700	0
Repayments of current loans	-3 586	-1 800
Dividends and other profit distribution	-1 520	-1 023
Net cash used in investing activities (B)	2 594	-2 823
CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C) (+ increase, - decrease)	-1 629	4 164
Cash and cash equivalent at the beginning of financial year 1)	7 640	3 476
Cash and cash equivalent at the end of financial year 1)	6 012	7 640

1) 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.

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 2017 or 31 December 2016.

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

	2017	2016
Finland	78	84
Scandinavia	17	11
Other	5	5
Total	100	100

2. Other operating income

(EUR 1 000)	2017	2016
Gains on sale of fixed assets	7	14
Rental income	144	61
Public subsidies	0	154
Other operating income	633	27
Other operating income, from group	0	480
Total	783	736

3. Materials and services

(EUR 1 000)	2017	2016
Purchasing during the financial year	-54 248	-52 779
Change in inventories of materials and suppliers	1 106	412
External services	-10 088	-8 064
Materials and supplies, total	-63 230	-60 432
Auditor's fees		
Auditing	-44	-44
Tax services	0	0
Other services	0	-8
Auditor's fees, total	-44	-52

4. Personnel expenses and number of personnel

(EUR 1 000)	2017	2016
Salaries, CEO	-705	-232
Salaries of Board	-166	-132
Salaries of Board and managing director, total	-871	-364
Other salaries	-11 667	-13 062
Pension expenses	-2 782	-2 576
Other salary-related expenses	-596	-822
Personnel expenses in the income statement	-15 917	-16 824
Fringe benefits	-701	-322
Total	-16 618	-17 146
Personnel		
Personnel on average, workers	93	92
Personnel on average, officials	181	168
Personnel on average, total	274	260
Personnel at the year end	278	264

5. Depreciation and write-down

(EUR 1 000)	2017	2016
Depreciation according to plan		
Intangible assets	-940	-768
Tangible assets		
Buildings and structures	-81	-84
Machinery and equipment	-362	-440
Depreciation according to plan, total	-1 383	-1 291
Impairments	0	-2 631
Depreciations and impairments, total	-1 383	-3 922

Impairments 2016 include Martela SP z.o.o. and Martela Ab shareholder loan write offs based on impairment tests doe.

6. Financial income and expenses

(EUR 1 000)	2017	2016
Financial income and expenses		
Dividend income from Group companies	0	316
Interest income from short-term investments	5	20
Interest income from short-term investments from Group companies	55	76
Foreign exchange gains	92	6
Interest expenses	-258	-250
Losses on foreign exchange	-46	-2
Other financial expenses	-86	-124
Total	-238	42

7. Depreciations and Group contributions

(EUR 1 000)	2017	2016
Appropriations		
Depreciation difference	12	148
Group contributions, given	-230	0
Group contributions, total	-230	0
Appropriations, total	-218	148

8. Income Taxes

(EUR 1 000)	2017	2016
Income taxes from operations	-745	-2 138
Taxes from previous years	50	0
Total	-695	-2 138

Deferred tax liabilities and assets have not been included into income statement nor balance sheet. There were no deferred tax asset related to periodizing differences nor losses in 2016 and 2017.

9. Intangible assets

(EUR 1 000) 1.1.2017–31.12.2017	Intangible rights	Other long-term expenses	Work in progress	Intangible assets total
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

1.1.2016–31.12.2016	Intangible rights	Other long-term expenses	Work in progress	Intangible assets total
Acquisition cost 1.1.	3 179	8 183	0	11 362
Increases	37	90	2 203	2 330
Acquisition cost 31.12.	3 215	8 273	2 203	13 692
Accumulated depreciation 1.1.	-2 955	-4 370	0	-7 325
Depreciation for the year 1.1.–31.12.	-107	-653	0	-760
Accumulated depreciation 31.12.	-3 062	-5 023	0	-8 085
Carrying amount 1.1.	224	3 812	0	4 037
Carrying amount 31.12.	154	3 250	2 203	5 607

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

Based on this a booking of EUR 9.2 million into goodwill has been done and it will be depreciated in 10 years and impairment tests performed yearly.

10. Tangible assets

(EUR 1 000)

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

1.1.2016–31.12.2016

	Land areas	Buildings	Machinery and equipment	Other tangible assets	Total
Acquisition cost 1.1.	80	10 617	11 362	23	22 082
Increases	0	0	90	0	90
Acquisition cost 31.12.	80	10 617	11 452	23	22 172
Accumulated depreciation 1.1.	0	-8 450	-10 134	0	-18 584
Depreciation for the year 1.1.–31.12.	0	-84	-448	0	-532
Accumulated depreciation 31.12.	0	-8 534	-10 582	0	-19 116
Carrying amount 1.1.	80	2 167	1 228	23	3 498
Carrying amount 31.12.	80	2 083	870	23	3 056

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

Carrying amount of production machinery and equipment in 2017 was EUR 324 thousand (562).

11. Investments

(EUR 1 000)

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

1.1.2016–31.12.2016

	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	9 571	17 263
Increases	0	0	0	-2 631	-2 631
Balance sheet value at end of year	7 677	0	15	6 940	14 632

Subsidiary shares:		Parent company's holding %	Of total votes %	Number of shares	Par value	Book value
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, Bodafors	Sweden	100	100	50 000	SEK 5 000	550
Aski 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						15

The Russian subsidiary Martela LLC was closed down during 2017.

12. Receivables

(EUR 1 000)	2017	2016
Current receivables		
Receivables from Group companies		
Trade receivables	7 049	7 704
Loan receivables	1 048	602
Accured income and prepaid expenses	35	81
Trade receivables	20 239	13 252
Accured income and prepaid expenses	2 996	854
Current receivables, total	31 368	22 493
Accured income and prepaid expenses, main items;	2017	2016
Related to personnel expenses	201	383
Related to income taxes	1 332	0
Related to payments in advance	385	365
Related to other accured income and prepaid expenses	1 078	106
Accured income and prepaid expenses, total	2 996	855

13. Changes in shareholders' equity

Distribution of shares 31.12.2017	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	12 036				
Number of shares outstanding	4 143 564				
Shareholders' equity	2017	2016			
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.	27 447	23 032			
Dividends	-1 520	-1 023			
Profit (-loss) for the year	3 661	5 438			
Retained earnings 31.12.	29 589	27 447			
Shareholders' equity, total	37 715	35 575			

The distributable equity of the parent company is EUR 29 589 thousand in 2017 (27 447 thousand in 2016).

Treasury shares held by Martela Oyj are reported as a deduction from retained earnings. Martela Oyj owns 12 036 A shares (47 146 in 2016) and those were purchased at an average price of EUR 10.65. Market value of treasury shares on 31 December 2017 was EUR 7,47 per share (12,84), total EUR 89,9 thousand (605,4 thousand in 2016).

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)	2017	2016
Appropriations		
Accumulated depreciation difference	0	12
Total	0	12

15. Non-current liabilities

(EUR 1 000)	2017	2016
Loans from financial institutions	6 114	6 114
Accrued expenses	150	0
Total	6 264	6 114

Changes and repayments of non-current liabilities	2017	2016
Loans from financial institutions		
Loans 1.1.	6 114	7 000
Repayments	0	-886
Loans 31.12.	6 114	6 114

Pension loans		
Loans 1.1.	0	1 000
Repayments	0	-1 000
Loans 31.12.	0	0

Accrued liabilities		
Related to the personnel expenses	150	0

Repayments	2017	2018	2019	2020	2021
Loans from financial institutions	1 143	1 143	743	3 086	3 086
Total	1 143	1 143	743	3 086	3 086

16. Current liabilities

(EUR 1 000)	2017	2016
Current liabilities		
Liabilities to Group companies		
Trade payables to Group companies	1 747	804
Accrued liabilities to Group companies	11 612	1 622
Total	13 359	2 425
Other current liabilities		
Loans from financial institutions	6 000	886
Pension loans	0	1 000
Advances received	854	242
Trade payables	7 569	5 710
Other current liabilities	2 850	3 221
Accrued liabilities	4 002	5 504
Total	21 275	16 564
Current liabilities, total	34 633	18 989

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

Essential items of accrued liabilities	2017	2016
Personnel expenses	2 308	2 282
Interest and financing accruals	14	18
Royalties	116	123
Taxes from accounting period	0	1 278
Residual expenses	1 564	1 804
Accrued liabilities, total	4 002	5 504

17. Pledges granted and contingent liabilities

(EUR 1 000)	2017	2016
Debts secured by mortgages		
Bank loans	12 114	7 000
Property mortgages	7 565	7 565
Corporate mortgages	11 368	11 368
Shares pledged	4	4
Pension loans	0	1 000
Property mortgages	0	4 204
Total mortgages	18 933	23 137
Other pledges		
Guarantees as security for rents	243	281
Guarantees given on behalf of Group companies	322	362
Total	565	643
Leasing commitments		
Falling due within 12 months	505	441
Falling due after 12 months	708	853
Total	1 213	1 294
Rent commitments	6 234	4 911

Auditor's Report

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, 2017. 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 EUR 110 million

THE KEY AUDIT MATTER

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

- Martela Lifecycle business model includes selling of products as well as rendering of services.
- The amount and timing of revenue recognition is dependent on the contents of various projects and specific customer contract terms.
- Revenue recognition includes the risk of revenue being recognised incorrectly or in incorrect accounting period.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

- We have evaluated the appropriateness of the company's revenue recognition policies with relation to the principles of revenue recognition determined in IFRS.
- Our audit procedures included evaluating the sales process related to the business model and testing the internal controls over revenue recognition.
- As part of our substantive procedures we considered the appropriateness of revenue recognition by testing, on a sample basis, that deliveries and related invoices were recorded in accordance with the contract terms to the appropriate accounting period.
- In addition, we conducted a data-analysis for sales invoicing, where we assessed, among others, classification of sales by customer, sales in different periods, sales invoicing continuousness and credit invoices as well as sales margins per customer in order to detect deviations.

Accuracy of inventories EUR 8,9 million

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

THE KEY AUDIT MATTER

- Inventories represent approximately 16% of the consolidated total assets as at 31 December 2017.
- Inventory measurement as well as the inventory tracking system can be subject to the risk of inherent misstatement.
- Application of the inventory measurement principles involves management judgements as the assessment of the inventory obsolescence is based on the circulating stocktaking 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 have evaluated the basis for the valuation of the valuation of inventories as well as the consistency of applying accounting policies and practices related to inventories.
- Our audit procedures included testing the internal controls over the inventories as well as substantive testing of quantity and price components affecting the inventory value.
- We assessed the company's stocktaking processes and performed recalculations on inventory accounts/items at the central warehouse during the financial year as well as at the year end. In addition, we performed a recalculation of the major inventory balances at the year end. We also inspected the company's inventory count rate reports relating to inventory coverage and analysed inventory differences in order to detect possible deviations.
- We analysed, among others, negative balances and slow-moving items using data analyses.
- In addition, we considered the principles for accounting the inventory write-downs and adequacy of the write-downs recognised in the financial statements.

Impairment of subsidiary shares and receivables from subsidiaries EUR 7,7 million

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

THE KEY AUDIT MATTER

- The equity of the parent company is EUR 37.7 million as at 31 December 2017, of which the distributable equity amounts to EUR 29.5 million.
- The significant portion of the parent company's assets consist of investments in the subsidiaries. After the business model change, the direct investments amounted to EUR 7.7 million and goodwill EUR 9.2 million as at 31 December 2017. The measurement of these investments has a material impact on the calculation of the parent company's distributable equity.
- Management prepares annually impairment tests for above-mentioned subsidiary investments. The calculations involve management estimates.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

- We assessed the cash flow forecasts and the appropriateness of the used discount rates. We critically analysed the considerations underlying the impairment calculations as well as management's assumptions that form the basis on which the future cash flows 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 information.

Implementation of new ERP and control environment in financial reporting

THE KEY AUDIT MATTER

- Martela Group's operations and reporting are highly dependent on IT systems. Martela has implemented new group wide IT system during the financial year 2017. Implementation of new ERP system has caused problems for example to customer deliveries, invoicing, debt collection and financial reporting processes.
- Because implementation of new IT system contains a risk of reliability of financial information, we have defined implementation of new ERP system and control environment in financial reporting as key audit matter.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

- As part of evaluation of ERP implementation and control environment in financial reporting, we have evaluated the appropriateness of general IT controls as well as completeness of financial information.
- We have evaluated the conversion of new ERP and the continuance of financial reporting.
- In addition we have performed extended analytical as well as test of detail procedures (amongst other data-analysis) on reporting of sales invoicing, sales receivables and inventories as at 31 December 2017.

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 deter-

mine 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 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 Financial Statements

Our objectives are to obtain reasonable assurance on 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 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 judgement 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 have been appointed as auditors by the Annual General Meeting since 1989 and our appointment represents a total period of uninterrupted engagement of 28 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.

Helsingissä 16. helmikuuta 2018
KPMG Oy Ab, **Ari Eskelinen**, KHT

Corporate governance statement 2017

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 2017 The Group was organised in units as:

- Customers and Workplace Services unit (CWS), which is responsible for customer relationships, sales and workplace services.
- The Innovation to Market (ITM), which is responsible for the company's brand and marketing, 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, IT, 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 and IR, which is responsible for the Group's financial planning and reporting, and investor relations 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 make 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 ten 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, Yrjö Närhinen and Anni Vepsäläinen are independent of the company. Of the company's largest shareholders, Kirsi Komi, Eero Leskinen, Yrjö Närhinen and Anni Vepsäläinen are independent members of the Board.

The Board has formed from among its members a Compensation Committee and a Audit Committee, which both have written Charters.

According to the Charter, the key duties of the Compensation 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 Compensation Committee comprises Heikki Martela, Kirsi Komi and Anni Vepsäläinen.

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, Yrjö Närhinen and Eero Martela.

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 rela-

tionship, 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 and 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 2017, the

internal control focused on sales, the processes concerning the management of inventories and 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 loss 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 Group's 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 2017 there were no material related party transactions.



Board

From left: Yrjö Närhinen, Kirsi Komi, Anni Vepsäläinen, Heikki Martela, Eero Leskinen, Eero Martela, Minna Andersson

Members of the Board

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
- Vice Chairman of the Board of Meritaito Oy
- Member of the Board of Lappset Group Oy and
Filosofian Akatemia Oy

*Owns 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

Owns 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
- Owns 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

Owns 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, Columbia Road
- Owns 6 710 Martela Oyj A shares and 400 Martela
Oyj K shares.*

Närhinen Yrjö

Born in 1969, BBA
Member of the Board of Martela Oyj since 2012.

Other key duties:

- CEO of Terveystalo Oy
- Chairman of Lääkäripalveluyritykset ry (Medical
Service Companies Association)
- Vice Chairman of Hyvinvointialan liitto ry (Welfare
Association)
- Board member of Lääkäripalveluyritykset ry and
Peurunka Foundation

Owns 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

Owns no Martela Oyj shares.



Management team

*From left: Petri Boman, Riitta Järnstedt, Mikko Mäkelä,
Matti Rantaniemi, Majja Kaski, Johan Westerlund*

Members of group management team

Chief Executive Officer (CEO)

Rantaniemi Matti

Born in 1973, Engineer, MBA

At Martela and member of the management team since 2015.

Working 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

Owens 6 667 Martela Oyj A shares.

Deputy CEO, Vice President, Customer Supply Management

Boman Petri

Born in 1966, M.Sc. (Tech.)

Area of responsibility: Deputy CEO, Group Sourcing, Product Development, Testing Laboratory, Production, Logistics, Removal Service and IT
At Martela and member of the management team since 2013

Working experience:

- Content Group Oy, Partner, Management consulting, 2011–2013
- Kemira Oy, Executive Vice President, Supply Chain Management, 2007–2010

- Tikkurila Oy, Group Vice President, Supply Chain, 2005–2006
 - Nokia Oy, Senior Supply Line Manager, 1997–2005
 - Vaisala Oy, Mechanical Designer, 1993–1996
- Owens 22 833 Martela Oyj A shares.*

Chief Financial Officer (CFO)

Järnstedt Riitta

Born in 1968, M.Sc. (Econ)

Area of responsibility: Group Finance, Investor Relations and Legal Affairs.

At Martela and member of the management team since 2016.

Working experience:

- Efore Oy, CFO, 2014–2016
- Norpe Oy, CFO, 2010–2014
- Tecnotree Oy, CFO and other management positions in Finland and abroad, 1995–2010

Owens no Martela Oyj shares.

Vice President, People And Sustainability

Kaski Maija

Born in 1967, MA (ed.)

Area of responsibility: Group Human Resources, Communication, Sustainability, Environmental and

starting 01/2018 Quality Management
At Martela and member of the management team since 2015.

Working experience:

- Talvivaara Mining Plc, Chief HR Officer, 2012–2015
- Nokia Oy, Senior Manager, HR, 2006–2012
- Elcoteq SE, HR Director, various HR positions, 1995–2006

Owens 7 111 Martela Oyj A shares.

Vice President, Innovation To Market

Mäkelä Mikko

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
At Martela and member of the management team since 08/2017

Working 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

Owens no Martela Oyj shares.

Vice President, Sales & Marketing

Westerlund Johan

Born in 1975, M.Sc. (Econ)

Area of responsibility: Group Customers, Marketing starting 02/2018 and Sales in Finland, Sweden, Norway and International Dealer Network
At Martela and member of the management team since 12/2017

Working 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

Owens no Martela Oyj shares.

Information for shareholders

Annual General Meeting

The Annual General Meeting of Martela Oyj will be held on Tuesday 13 March 2018 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 2018 and the shareholder should register at the Company's head office tel. +358(0)10 345 5337 (on wd between 10 am to 3 pm), or by email IR@martela.com, or by post to Martela Oyj, Investor Relations, PL 44, 00371 Helsinki, no later than 8 March 2018 at 10 a.m.

Payment of dividends

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.32 per share be paid for the financial year 1 January 2017 – 31 December 2017. 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 15 March 2018. The Board of Directors proposes that the dividend would be paid on 12 April 2018.

Publication of financial information

Martela will publish two business reports and one half year report in 2018:

- January–March (Q1) on Monday 30 April 2018
- January–June (H1) on Wednesday 8 August 2018
- January–September (Q3) on Friday 2 November 2018

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. After published, stock exchange releases are available on the company's website, where you can find all stock exchange releases in chronological order.

Inspiring
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Martela

Contact

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