MARTELA OYJ ACCOUNT STATEMENT 1 JANUARY – 31 DECEMBER 2004

The long decline in demand for office furniture seems to have ended. Turnover declined by 1.4 per cent and was EUR 100.7 million (102.1).The result before extraordinary items and taxes improved significantly, but was still negative at EUR -3.0 million (-11.3). The second half of the year was profitable. The number of personnel fell by 13.7 per centand was 613 (715) at the end of the year. The equity ratio was 33.8 per cent (36.8). A positive result is expected for 2005.

Market situation

The sustained decline in demand for office furniture seem to have come to a halt in 2004. The overall demand for office furniture in Finland and Scandinavia has fallen from its peak in 2000 by about 40 per cent. The sector is post-cyclical. Despite the slight recovery in invoicing in the year’s second half, there is much uncertainty as to the permanency of the improvement in demand.

Group structure and organisation

Martela Oyj’s Kitee furniture plant was incorporated at the beginning of 2004. The company operates as a contract manufacturer of wood-based furniture components for customers both inside and outside Martela Group.

The sales organisations of P.O. Korhonen Oy and Martela Oyj were combined at the beginning of 2004. Korhonen’s sales team joined Martela Oyj, as a result of which Korhonen products are now mainly sold through Martela Oyj’s domestic and export sales organisations.

The screen business of Martela AB’s Bodafors production facilities was sold in August 2004 to Svenska Möbel AB, already a long-time tenant in Martela AB’s facilities in Bodafors. The invoicing of the screen business was EUR 2.5 million in 2003, and EUR 1.0 million for January-July 2004. As a result of the divestment, the 15-person screen business organisation was transferred to Svenska Möbel AB’s payroll. The company leases the facilities needed for the business from Martela AB, in addition to their already leased facilities.

The business and real estate of Aski Inredningscenter AB, located in Malmö in southern Sweden, were sold in August to Input Interiör AB. Input Interiör AB is the largest office furniture dealer for Martela AB and also for the whole of Sweden. Aski Inredningscenter AB’s turnover was EUR 4.2 million in 2003, and EUR 1.6 million in January–July 2004. The company employed 14 people when it was sold. 68.0 per cent of the company’s invoicing was derived from products sold outside the Group.

Turnover

The Group’s turnover declined by 1.4 per cent on the previous year and totalled EUR 100.7 million (102.1). The Group’s invoicing has fallen by 42 per cent from the year 2000 as a result of the poor market situation and a number of structural changes. Invoicing increased on the Finnish market by 2.1 per cent, and fell in Scandinavia by 17.7 per cent, which was influenced by the divestments made in August. Excluding the structural changes, the decrease in invoicing on the Scandinavian market was approximately 6 per cent. The other markets grew in total by 9.3 per cent, largely thanks to an increase in invoicing in Poland, Eastern Central Europe, Russia and Japan.

Invoicing in principal market areas

	2004	%	2003	%	Change %
Finland	70.7	69.5	69.3	67.0	+ 2.1%
Scandinavia	19.4	19.1	23.6	22.8	-17.7%
Other regions	11.6	11.4	10.5	10.2	+ 9.3%
Total	101.7	100.0	103.4	100.0	- 1.7%

Invoicing in Finland accounted for 69.5 per cent of the Group's total invoicing. The English and German subsidiaries were divested in May 2003.

Turnover by quarter

	1/2003	2/2003	3/2003	4/2003	1/2004	2/2004	3/2004	4/2004
Turnover	24.9	24.1	23.6	29.5	23.1	23.7	24.3	29.7

Results and profitability

In 2004, the result before extraordinary items and taxes was negative at EUR -3.0 million (-11.3). Non-recurring items caused by structural changes and revaluations of assets effect the result by EUR -0.4 million.

Measures to rationalise the cost structure have continually reduced the losses, and the Group's result before extraordinary items and taxes was a profit for the year's second half.

Quarter-annual results before extraordinary items and taxes

	1/2003	2/2003	3/2003	4/2003	1/2004	2/2004	3/2004	4/2004
Result	-4.1	-2.3	-2.1	-2.7	-1.9	-1.7	+0.5	+0.1

The non-recurring items are mostly incurred during the second half of the year.

The combined result of companies operating in Finland turned profitable again in 2004, thanks to higher invoicing and a better cost structure.

The invoicing of Scandinavian companies declined, partly as a result of the above-mentioned structural changes. Further personnel cuts and the accompanying structural changes caused significant non-recurring income and expenses in a total of EUR -0,2 million. The operations of the Scandinavian companies have been streamlined for many years already, but a significant loss was made nevertheless.

Thanks to strong growth in invoicing by the Polish company, there was a clear improvement in profitability, although the result for the whole of 2004 was a loss.

Capital expenditure

The Group's gross capital expenditure of EUR 0.9 million came almost to the same level as the previous year (1.0). Investments were further restricted to ensure cash flow, and investments were clearly lower than depreciation. The investments were mainly IT and production replacement investments.

Personnel

The number of personnel at work fell by 102 during the year. The Group employed an average of 662 (767) persons, down by 13.7 per cent on the previous year. There were 613 employees at the end of the year. The personnel decreased by 27 employees due to divestments.

Average personnel

	2004	2003	Change %
Finland	514	564	- 8.9
Scandinavia	98	150	- 34.7
Poland	50	53	- 5.7
Group, total	662	767	- 13.7

Personnel

	2004	2003	Change %
Average personnel	662	767	- 13.7
Personnel at end of year	613	715	- 14.3
Turnover/employee (1,000 EUR)	152	133	+ 14.3

Personnel quarter-annually

	1/2003	2/2003	3/2003	4/2003	1/2004	2/2004	3/2004	4/2004
Average personnel	850	805	748	723	696	688	648	612
Turnover/employee (EUR 1000)	29.2	30.0	31.6	40.9	33.2	34.4	37.5	48.5

By the end of 2004, the number of personnel had decreased by 41 per cent from 2000, when it was at its highest. Net sales have decreased by 42 per cent from 2000. Invoicing per employee is rising. In 2005, the number of personnel is estimated to remain at the level of early 2005, which means a 7 per cent reduction from the average level of 2004.

Martela AB’s Managing Director changed at the beginning of December 2004. The new Managing Director is Hans Biéth, who was previously in charge of the Iittala Group’s Swedish operations.

Product development

Product development employed 22 people (24) during the year, with product development expenses accounting for 2.7 per cent (2.5) of the turnover.

The biggest news during the year was the Combo line of cabinets that was launched in the early part of the year. Combo will unify the Group’s collections further, as manufacturing of the same product will be expanded from Nummela to other of the Group’s logistics centres.

Other collections have also been developed, in particular electrically adjustable desks.

The Group’s extensive service concept has been developed into more new products. We can offer a number of services to cater for the changing needs of office environments, including removals, inventory and recycling of old furniture in connection with sales, maintenance of all furniture, and finance.

Financing

Cash flow from business turned positive thanks to the better result, and stood at EUR 2.5 million (-5.6). The net cash flow from investments was EUR -0.3 million (1.0) as a result of sales of fixed assets and businesses. Interest bearing liabilities fell by EUR 1.6 million and totalled EUR 20.9 million (22.5) at the end of the year. Liquid assets grew and amounted to EUR 7.8 million (7.4) at the end of the year. The equity ratio was 33.8 per cent (36.8) at year’s end and the gearing ratio 71.1 per cent (69.4)

Annual General Meeting

The Annual General Meeting, held on 16 March 2004, elected Heikki Ala-Ilkka, Tapio Hakakari, Matti T. Martela, Heikki Martela, Pekka Martela, Jori Keckman and Jaakko Palsanen as members of the Board of Directors for the next term. Hannu Kosonen was elected as the personnel representative and Matti Lindström as his deputy. The Board chose Heikki Ala-Ilkka as Chairman and Pekka Martela as Deputy Chairman.

The Annual General Meeting re-authorised the Board of Directors to decide, for the following year, on raising the share capital, issuing convertible bonds and acquiring and/or disposing of the company’s shares in deviation from the pre-emptive rights of shareholders.

Extraordinary General Meeting

An Extraordinary General Meeting on 7 December 2004 approved the Board’s decision to increase the company’s share capital from EUR 3,500,000 to EUR 7,000,000 through a bonus issue by transferring EUR 3,500,000 from the share premium account to the share capital. The bonus issue consisted of 1,775,400 new A shares and 302,400 new K shares, all with a counter book value of EUR 1.68. One (1) new A share was given for each one (1) old A share, and one (1) new K share for each one (1) old K share. The bonus issue was entered in the trade register on 10 December 2004.

Own shares

Martela did not purchase any of its own shares in 2004. As a result of the bonus issue, the number of Martela’s shares owned by Martela doubled. On 31 December 2004, Martela owned 67,700 of its own shares, which had been purchased at an average price of EUR 10.65. Martela’s holding of its own shares amounts to 1.6 per cent of all shares and 0.4 per cent of all votes.

IFRS

From the beginning of 2005, Martela Oyj will publish its consolidated financial statements and interim reports and comparison figures in accordance with the International Financial Reporting Standards (IFRS). Conformance with the new standards requires that the comparison figures for 2004 must be presented in a corresponding way. This change will increase, among other things, the balance sheet total, the equity ratio and depreciation. The company will publish a separate stock exchange release on the IFRS-compliant beginning balance sheet for 2004 and on the effect of the change on balance sheet items.

Corporate governance

The Corporate Governance Recommendation for Listed Companies issued by HEX Plc, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers in 2003 came into force on 1 July 2004. Martela Oyj's corporate governance system has been updated to correspond with these recommendations.

Outlook for the future and development decisions

The key target for 2005 is to achieve a positive result. No significant change is expected in 2005 in the overall demand for office furniture.
The Group's cost structure has improved as a consequence of actions made. The Group is seeking growth primarily in its current main market areas in Finland, Scandinavia and Poland. In Finland, growth is founded on actively selling comprehensive office furnishing services, new products and on raising the share of new customers for Kidex Oy, Martela's contract manufacturer.

In Scandinavia, growth is founded on more competitive collections, and expanding the dealer network and the processes that support it.

In Poland, a new logistics centre was launched in February 2005. The purpose is to expand local assembly and subcontracting even more, and to strengthen the company's sales network.

The Group's invoicing is usually at its highest in the last quarter, followed by a clearly poorer quarter. This will probably be the case also in 2005, which is why the result for the beginning of the year is expected to be at a slight loss. However, the forecast for the entire year is expected to be clearly profitable.

Members of the Board and Auditor

Shareholders representing a majority of the voting power have announced their intention to suggest as members of the board the following present board members: Heikki Ala-Ilkka, Tapio Hakakari, Jori Keckman, Heikki Martela, Pekka Martela and Jaakko Palsanen.

Further a Personnel Representative and its deputy are suggested to be elected when the outcome of the personnel election in the near future is clear. The above shareholders have also announced, that they will suggest as auditor the Authorized Public Accountant Reino Tikkanen with the firm of Authorized Public Accountants, Oy KPMG AB as a reserve till the end of the next Annual Meeting.

Board of Directors' dividend proposal

The Board of Directors proposes to the Annual General meeting of 16.3.2005 that a dividend of EUR 0.15 per share, totalling EUR 613,185, be distributed. Only shareholders registered in the shareholders maintained at the Finnish Central Securities Depository Ltd on the record date for dividend distribution, Monday

21.3.2005 will be entitled to the dividend declared by the Company. Dividend payments will be made on Wednesday 30 March, 2005.

Group financial indicators (EUR 1000)

Income Statement	2004	2003
Turnover	100.747	102.130
Operating profit (loss)	-2.218	-10.691
As a percentage of turnover	-2,2	-10,5
Profit (loss) before extraordinary items	-2.976	-11.275
Extraordinary items	-	-1.372
Profit(loss) before appropriations and taxes	-2.976	-12.646
As a percentage of turnover	-3,0	-12,4
Profit (loss) for the financial year	-2.671	-12.274

Balance Sheet	31.12.2004	31.12.2003
Assets		
Fixed assets and other non-current investments		
Intangible assets	1.001	1.333
Tangible assets	16.653	20.517
Long-term investments	2.653	2.904
Total	20.307	24.753
Current assets		
Inventories	9.956	10.126
Receivables	17.118	17.447
Financial assets	7.812	7.421
Total	34.886	34.994
Assets total	55.193	59.748
Liabilities and shareholder’s equity		
Share capital	7.000	3.500
Other shareholder’s equity	12.110	18.958
Deferred tax liability	0.378	0.742
Long-term liabilities	13.273	16.241
Current liabilities	22.432	20.307
Liabilities total	36.083	37.290
Liabilities and shareholder’s equity, total	55.193	59.748

Statement of Source and Application of Funds (EUR 1000)

	2004 1.1.-31.12	2003 1.1.-31.12
Funds generated from operations		
Cashflow from sales	101.567	102.427
Cashflow from other income from operations	1.268	0.421
Payments on operational costs	-100.067	-107.887
Cashflow from operations before financial items and taxes	2.768	-5.039
Interests paid and other financial payments	-0.131	-0.953
Taxes paid	-0.137	0.570
Cashflow from operations before extraordinary items	2.500	-5.422
Cashflow from extraordinary items	-	-0.140
Cashflow from operations (A)	2.500	-5.561
Capital expenditure		
Capital expenditure on intangible and tangible assets	-0.928	-0.819
Cashflow from assignments of intangible and tangible assets	0.715	2.083
Loans granted	-0.142	-0.217
Repayments on loans	0.007	-
Cashflow from capital expenditure (B)	-0.348	1.047
Financing		
New short-term loans	-	1.267
Repayments on short-term loans	-0.108	-
New long-term loans	2.001	5.952
Repayments on long-term loans	-3.143	-5.671
Dividends	-0.511	-0.511
Cashflow from financing (C)	-1.761	1.037
Change in liquid funds (A+B+C) (+ increase, - decrease)	0.391	-3.477
Liquid funds at the beginning of financial year	7.421	10.897
Liquid funds at the end of financial year	7.812	7.421

Contingent liabilities		
Mortgages and shares pledged	20.768	20.484
Guarantees	0.131	0.067
Other own commitments	1.876	1.677
Rental liabilities	12.061	12.088

Scope of operations	2004	2003
Turnover EUR million	100,7	102,1
Change in turnover, %	-1,4	-15,7
Exports and international operations, EUR million	31,0	34,2
As a percentage of turnover, %	30,8	33,5
Gross capital expenditure on fixed assets, EUR million	0,9	1,0
As a percentage of turnover, %	0,9	1,0
Research and development expenses, EUR million	2,7	2,6
As a percentage of turnover, %	2,7	2,5
Average personnel	662	767
Change in personnel, %	-13,7	-17,5
Personnel at year end	613	715
Turnover / employee, EUR thousand	152,2	133,2
Return on equity, %	-13,3	-38,6
Return on investment, %	-4,7	-20,9
Equity ratio, %	33,8	36,8
Interest-bearing net debt, EUR million	13,1	15,1
Gearing ratio, %	71,1	69,4
Earnings / share, EUR	-0,7	-2,7
Price / earnings multiple, P/E	-9,8	-2,7
Equity / share, EUR	4,5	5,3
Dividend / share, EUR	0,15*	0,13
Dividend / earnings, %	-23,1	-4,7
Effective dividend yield, %	2,4	1,7

*) Proposal of the Board of Directors

Annual Reports in Finnish and English will be published during the week 9. The first Interim Report for the period January 1 -March 31, 2005 will be published on April 28, 2005.

Helsinki, February 17, 2005

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