2019
Annual Report

Martela

Martela in brief

MARTELA IS A NORDIC LEADER SPECIALISING in user centric working and learning environments. We offer our customers a single point of contact throughout the workplace lifecycle, from specifying needs to maintenance and optimisation of the workplace.

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

In 2019, the Martela Group's revenue was EUR 106.2 million and it employed an average of 494 employees.

Content

Martela 2019

Revenue (EUR million)

106.2

Operating profit (EUR million)

-2.0

Personnel (on average)

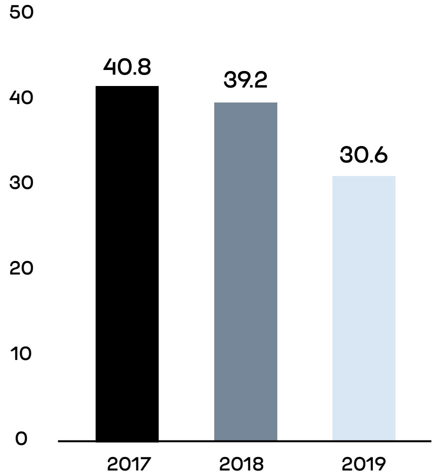
494

REVENUE IN 2019 slightly increased as demand in the private sector improved, especially in Sweden and Norway. In Finland, the market situation in the public sector remained challenging and price competition was intense. The operating result remained negative, but many actions were taken to improve profitability, the effect of which will be visible in the future.

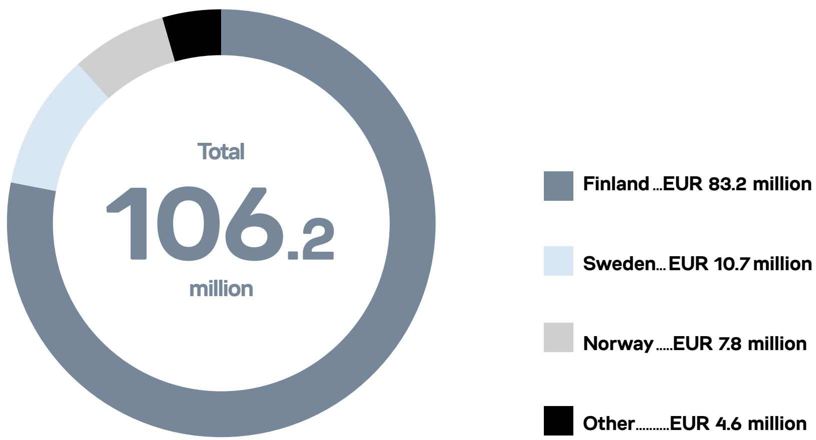
Implementation of Martela Lifecycle® strategy among customers progressed well and the strategically important product range expanded during the year. Alongside the Workplace as a Service model launched in 2018, the Learning environment as a Service model was developed together with customers.

Market conditions are not expected to change significantly in the near future, but the basis for Martela's strategy remains. Transformation in working and learning environments will continue, get stronger and expand in the Nordic countries.

Equity ratio (%)



Revenue by country



A mixed year

MARTELA EXPERIENCED an up-and-down year in 2019. We succeeded and improved in many sectors, but also faced numerous challenges. The market trend was also mixed. In our main market, Finland, overall demand remained at the low level of the previous year, with private-sector demand growing while public-sector demand declined. In Norway and Sweden, we saw very positive developments as demand grew. Although tighter competition continued to eat into margins, we succeeded in boosting the efficiency of our operations and adapting them to the market conditions, leading to an improvement in our profitability in the latter half of the year.

Our new product, PodBooth, which was launched early in the year, was a resounding success as it was received very positively. PodBooth is a soundproofed movable module resembling a phone booth that guarantees its users a disturbance-free workspace. We were also very pleased with the feedback we received in our customer experience survey. Our net promoter score (NPS) rose to an excellent level of 48. Achieving this sort of high customer satisfaction has required excellent customer service and collaboration from our entire team. It proves that the development measures we have implemented in recent years have been the right ones. We also successfully executed many large customer projects, of which design, project management and results received positive feedback from our customers.

Adapting to the market

Decreased demand in Finland in recent years has largely been due to a delay in reaching a solution in the public sector's competitive tenders. But now the selections have been made, and we fared rather well in them. In municipal procurements, we were chosen as the primary supplier, and in central government procurements we are one of a number of selected suppliers. In the corporate sector, demand remained at the previous year's level, although we grew our revenue through more active sales and marketing than before. Customer interest in procuring a Workplace as a Service increased. Our revenue in Sweden and Norway increased significantly. During the year, we strengthened our foothold in Sweden, the largest market in the Nordic countries.

According to market data, there is a continuously growing need among customers for user-centric workplaces and learning environments. Employers are continuing to increase the efficiency of their premises and adapt them to modern ways of working, albeit at a slower pace than we expected. Because the phase of subdued overall demand which we assumed to be temporary appears to be persisting longer than expected and the entry of new competitors to the market will only intensify price competition, we decided to take adaptive measures to improve our profitability. In June, we launched a cost-saving programme with the aim of achieving annual savings of four million euros. The adaptive measures resulted in personnel reductions in our operations in Finland. In addition, we outsourced some of our logistics services.

Martela's revenue grew by 3.0% to EUR 106.2 million (2018: 103.1). Our operating result improved slightly but remained negative at EUR -2.0 million (2018: -2.1). The profitability trend particularly reflected the drop in sales margins caused by stiff competition and the non-recurring expenses arising from our adaptive measures.

Responsibility is increasingly important

Accounting for responsibility at every stage of the workplace development lifecycle is at the core of Martela's operations, starting from the specification of needs in the workplace and extending all the way to the recycling of discarded furniture. We develop our offering and operations with a comprehensive approach that aims to promote sustainability. In fact, Martela has been an undisputed pioneer in its industry in improving corporate responsibility and reporting on responsibility. Therefore we were pleased when our latest responsibility report won the Company with the Best Value Creation award in the 2019 Responsibility Reporting Competition held by Finland's Sustainable Investment Forum (Finsif). Clear reporting is one of our key success factors, as the requirement for responsibility is continuously becoming more pronounced in our customers' criteria.

Feeling confident about 2020

As we embark on a new decade, we look to what lies ahead with confidence, as our momentum is strong. The transformation in how people work and learn will accelerate, and the importance of the right working and learning environments will be emphasised. Martela has a ready offering of products and services to meet its customers' new needs. A customer-oriented approach is now at the core of our operations, and the results of customer satisfaction surveys indicate that we are moving in the right direction. We have boosted the efficiency of our operations and adapted our resources to the market situation. We believe that this year will be brighter for us than the last one.

I would like to thank all Martela employees for their good common spirit and strong commitment, even in the face of adversity. I would also like to thank our customers, shareholders and partners for their invaluable support during the year.

Matti Rantaniemi
CEO

Highlights in 2019

PodBooth brings peace to the workplace

According to Martela Insights data, more than half of knowledge workers in the Nordic countries say that their work is interrupted at least quite often. Phone calls, online meetings and discussions held at workstations particularly cause disturbance. PodBooth, a sound-proofed space for tasks requiring privacy and focus, was designed by the Stockholm-based o4i Design Studio for Martela. The exterior of PodBooth works as an acoustic surface, and the entire booth is easy to move from one place to another. The Pod product family includes several products, and they can be combined to create a workplace with areas for quiet and focused working as well as for relaxation and spontaneous meetings.

Providing modern activity-based offices for NCC

Martela is one of the main suppliers of office furniture for NCC, one of the largest construction companies in the Nordic countries. The aim of the cooperation is to develop the way workplaces are used. When an NCC office moves or is refurbished, Martela participates in creating the new activity-based office. In February 2019, NCC opened a new type of office in Uppsala in Sweden, and the facilities were designed based on previous utilisation rate measurements and by actively involving the personnel. The result was a new kind of activity-based office where employees can always work in a way that suits their task best. The outcome of the successful process strongly reflects NCC's corporate identity.

2019 saw the emergence of Workplace as a Service

In a rapidly changing world it is almost impossible to know how your own organisation, the size of its personnel and its ways of working will change in the near future. Workplace as a Service has been designed to meet the challenges posed by change, as companies can give Martela full responsibility for workplace optimisation. As a result the workplace is always optimal. Customers using WaaS only pay for what they really need here and now. The designs are drawn up together, after which the Martela team will be responsible for the implementation of the workplace and its continuous optimisation. The service includes real-time monitoring of the various components of the office. Discarded furniture in good condition is sold through Martela Outlet or the online store, while furniture at the end of its useful life is utilised in energy generation or as secondary raw material.

Rewarded responsibility

The requirement for responsibility is continuously becoming more pronounced in customers' criteria. Martela has been working systematically on raising the sustainability aspects of working and learning environments. Martela has been an undisputed pioneer in its industry in improving corporate responsibility and reporting on responsibility. Offering and operations are comprehensively developed to promote sustainable development, and responsibility is taken into account at every stage of the lifecycle of working and learning environments. Clear communication and reporting also play an important role in promoting corporate responsibility. Martela's latest Sustainability Report won the Value Creation category in the 2019 Responsibility Reporting Competition held by Finland's Sustainable Investment Forum (Finsif).

Transformation of workplaces continues

A modern workplace boosts productivity

> Optimal workplaces are created using the latest technology, analytics and IoT services.

DIFFERENT TRENDS HAVE a strong influence on how the way we work changes. Digitalisation has enabled us to work no matter where we are and at any time. Urbanisation is increasing the cost of office space, especially in growth centres, and measures taken to curb climate change mean that we have to consume less energy. As a result, companies want to avoid wasting floor space and increase the efficiency of their premises.

Progress has advanced from individual offices to open-plan spaces and now to activity-based offices. Various open-plan and shared spaces have become more common and these days very few have a personal office. Telecommuting means that fewer workstations are needed in relation to the number of employees. There is less need for storage furniture as paperless methods of working have increased, which has also enabled shared workstations. The way we use meeting rooms has also changed thanks to the increase in telecommuting and video conferencing. Meetings are shorter, involve fewer people and are often spontaneous. Nowadays they usually include a group of two or three people, whereas traditional meeting rooms are built to accommodate large groups.

Workplaces undergoing a continuous transformation

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

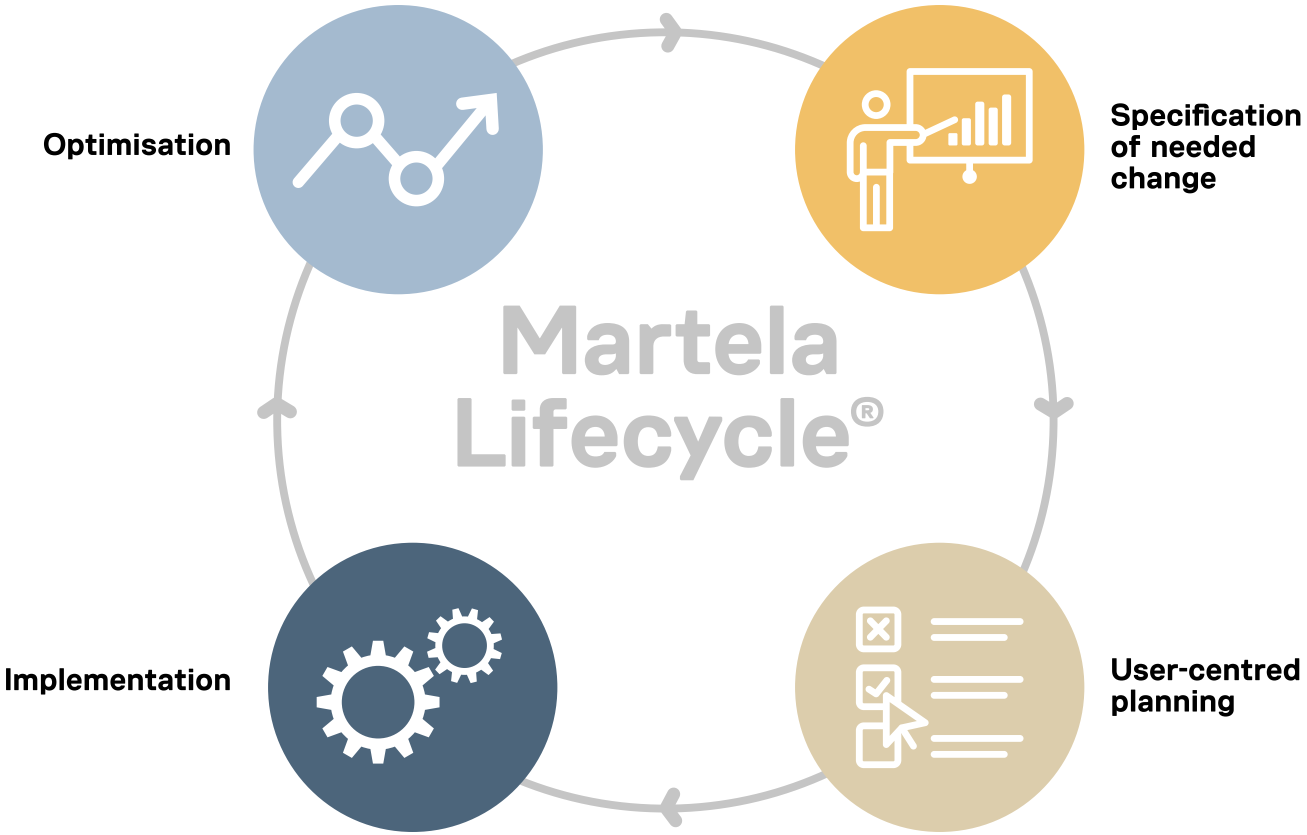
Methods of working, the roles and duties related to work and management methods are all changing, so workplaces must also change. These changes require comfortable workplaces that consider individual needs. User-centric workplaces have areas for collaboration, concentration, communication and chilling out. The workplace is a strong tool for managers with which they can profoundly impact an organisation's working methods, job satisfaction and productivity. A comfortable workplace is also a factor that can help employers stand out when competing for new talents. As future needs are impossible to predict, acquiring a Workplace as a Service will become more common. This will allow companies to implement continuous changes flexibly and in a way that saves money.

Smart solutions

An optimal workplace boosts efficiency in the company's operations. Workplace planning is based on the company's goals, the nature of the work carried out in the work community and various work roles. By understanding the requirements of the workplace as a whole and taking all the needs of the work community into consideration, we can create comfortable workplaces that improve productivity and renew the work culture and management culture, and that are also ecological and cost-efficient. Optimal workplaces are created using the latest technology, analytics and IoT services. Smart solutions are employed to collect real-time information on the usage and functionality of premises, and this data is used to further adjust the premises to suit the organisation's needs better.

Learning environments are changing

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



Service models

Workplace as a Service

Workplaces have traditionally been designed to last five to seven years. However, today's rapidly changing work environment makes it impossible to tell when and how your organisation, the size of its personnel and the way work is done will change. Martela's Workplace as a Service ensures that a company's workplace is always optimal. Under this service model, the customer will switch from individual furniture orders to a comprehensive solution for the entire lifecycle of the office that focuses on the premises, the furniture – and the people.

An essential aspect of the service is the continuous optimisation of the workplace in accordance with the changing needs of the users. The service model enables the organisation to pay only for what it genuinely needs, doing away with the problems related to owning furniture and thereby ensuring that the workplace always meets current needs and goals.

Learning environment as a Service

The operating culture at educational institutes is radically changing and teaching and learning methods are increasingly varied. New practices and methods call for new learning environments. Developed in 2018 through service design and together with customers, Martela's Learning environment as a Service responds to this challenge. The new service model means that schools and educational institutes no longer need to own a single piece of furniture, as the whole package can be leased as a service instead. The greatest benefit of the Learning environment as a Service model is that it creates the framework for redesigning learning environments in a practical way and introduces the circular economy to schools in a concrete manner.

Value for customer


Ability to respond quickly to changing needs


Improved user-experience and increased wellbeing

Increase in productivity and ability to innovate


Renewal of operational and management culture


Decreased and predicted total costs

Board of Directors' Report and Financial Statements

Board of Directors' report

Key Figures

The Group's revenue for the financial year was EUR 106 million (103.1). The operating result for the year was EUR -2.0 million (-2.1). Earnings per share were EUR -0.61 (-0.57). Cash flow from operating activities totalled EUR 6.3 (7.4) million. The equity-to-assets ratio was 30.6 per cent (39.2) and gearing was 31.5 per cent (0.7). The return on investment for the year was -6.4 per cent (-4.9).

Description of the business

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

Martela's offering and product development

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

To add to the traditional way of purchasing Martela has introduced two new service models, Workplace as a Service and Learning environment as a Service. The monthly service fees can include everything from one to all of the lifecycle phases.

During 2019 Martela expanded the Pod product family by introducing the PodBooth and new PodMeeting products. Also a new version of the popular Grip series was launced and the Bit series has been expanded with new products.

The Group profit and loss statement includes EUR -2.2 (-1.9) million reasearch and development expenses.

Market situation

There has not been any major changes in the private sector market conditions. However market conditions in the Finnish public sector has been toughened and prices have decreased. 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 stregthen the utilisation of their spaces and make their workplaces more effective as management tools.

Group structure

In last quarter 2019 Martela established a new subsidiary Tehokaluste Oy. Tehokaluste Oy did not have any business activities during 2019.

Revenue and operating result

The January–December 2019 revenue was EUR 106.2 million (103.1), an increase of 3.0% from previous year. Compared to the previous year, revenue increased 51.4% in Sweden and 49.5% in Norway. Revenue in Finland decreased 3.5% and in Other countries 0,8%.

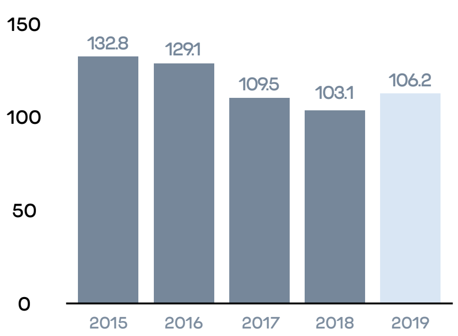
The Group's operating result for the January–December was EUR -2.0 million (-2.1). Operating result was negatively impacted by credit loss of EUR 0.4 million from a bankruptcy of one dealer.

The January–December result before taxes was EUR -2.7 million (-2.5). The January–December result was EUR -2.5 million (-2.4).

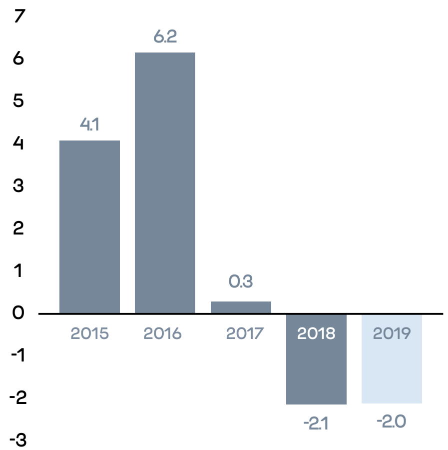
Financial position

The cash flow from operating activities in January–December was EUR 6.3 million (7.4). The reclassification of rental expenses to repayments of lease liabilities in cash flow from financing

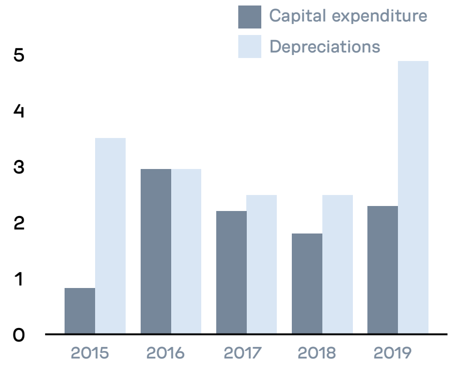
REVENUE (EUR MILLION)



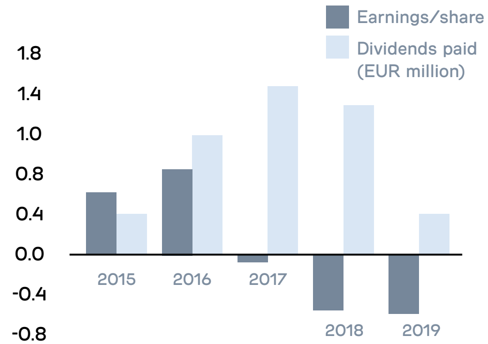
OPERATING PROFIT (EUR MILLION)



CAPITAL EXPENDITURE AND DEPRECIATIONS (EUR MILLION)



EARNINGS/SHARE AND DIVIDENDS



activities under IFRS 16 had a positive effect on operative cash flow of EUR 2.6 million.

At the end of the period, interest-bearing liabilities stood at EUR 14.6 million including EUR 5.3 million lease liabilities according to IFRS 16. At the end of comparison period the interest-bearing liabilities stood at EUR 10.7 million. Net liabilities were EUR 5.0 million (0.1). At the end of the period, short-term limits of EUR 5.0 million were in use (5.0) and available limits stood at EUR 2.0 million.

The gearing ratio at the end of the period was 31.5% (0.7) and the equity ratio was 30.6% (39.2). The key ratios were negatively impacted by the lease liabilities according to IFRS 16 (EUR 5.3 million). Financial income and expenses were EUR -0.7 million (-0.4).

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

The balance sheet total stood at EUR 55.2 million (50.0) at the end of the period.

Capital expenditure

The Group's gross capital expenditure for January–December came to EUR 2.3 million (1.7).

The Group management team

VP People and Sustainability Ms. Maija Kaski resigned to work for another company. Resignation became effective on January 8, 2019. For this moment onwards Group Management Team has consisted of CEO Matti Rantaniemi, CFO Kalle Lehtonen, VP Sales and Marketing Johan Westerlund, VP Innovation To Market Mikko Mäkelä and VP Customer Supply Management Ville Taipale.

Personnel

The Group employed an average of 494 people (510), which represents a decrease of 16 persons or 3.1%. Personnel on average employed in Finland was 423 (432), in Sweden 22 (28), in Norway 10 (11) and in Group other countries 39 (39).

The number of employees in the Group was 464 (501) at the end of the review period. Personnel costs in January–December totalled EUR 26.7 million (26.7).

Non financial information

MANAGEMENT OF CORPORATE RESPONSIBILITY

Responsibility forms an integral part of Martela's strategy and operations. The VP, Customer Supply Management is responsible for the corporate responsibility and quality and environmental management system and building of occupational health and safety management system of the Group. Sustainability Steering Group supervises corporate responsibility with members from the Management Group and the Sustainability Manager as the secretary.

More detailed information on the Group's corporate responsibility principles, goals and achievements can be found in a separate Sustainability Report published annually. The 2019 Sustainability Report will be published after the Annual Report.

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

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

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

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

DESCRIPTION OF THE BUSINESS OPERATING MODEL

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

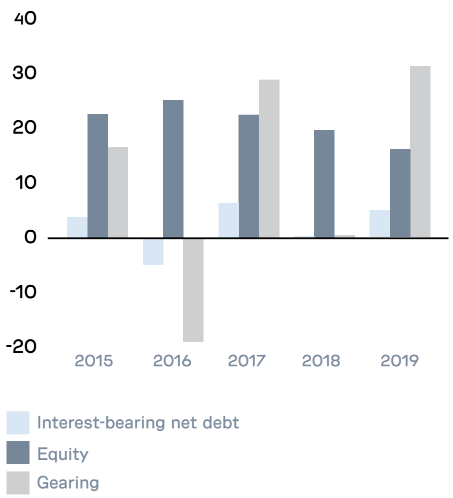
The Group has had, since the 1990s, the ISO 9001 quality and ISO 14001 environmental management system certifications, granted by an independent party, as proof of continuous improvement of its operations, meeting customer expectations and taking environmental matters into account. Occupational health and safety management system according to ISO 45001 was built during the year, and the aim is to obtain certification during 2020.

In the manufacturing process, there is an emphasis on a strong supplier chain. Martela's own manufacturing is focused on final assembly and remanufacturing production at its logistics centre in Nummela, Finland, which also houses most of the company's R&D and purchasing. The assembly of upholstery components takes place at Martela's own plant in Poland. The manufacture of table top and storage components takes place mainly at Kidex Oy, Martela's subsidiary located in Kitee, Finland.

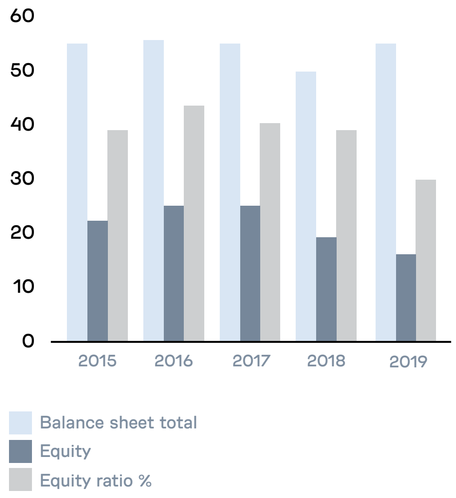
The Martela headquarters in Pitäjänmäki, Helsinki, houses sales and support functions in addition to the Group administration. Martela has several sales offices across Finland, Sweden and Norway. In other countries, the sale of Martela's products takes place mostly through a dealer network.

The purchasing of products and services from service providers accounts for more than 70% of Martela Group's revenue, while Martela itself concentrates on final assembly and service business. In 2019 Martela had about 150 suppliers of materials and components for standard products. Of the material purchases, more than 70% came from Finland, Sweden or Poland, and less than 5% from outside Europe.

GEARING (%)



EQUITY RATIO (%)



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

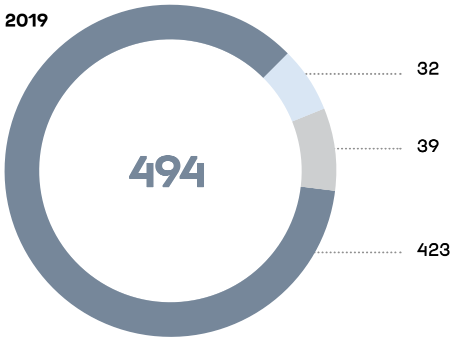
ENVIRONMENTAL MATTERS

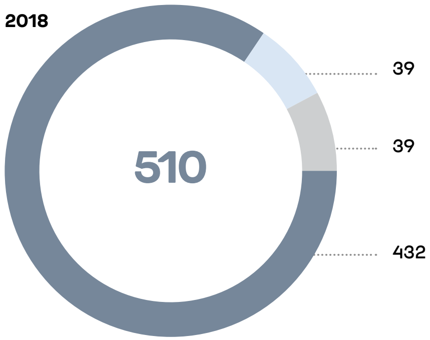
Martela's Environmental Policy, approved by the Group Management Team, aims to decrease the company's environmental impacts and promote recycling. The policy gives instructions on taking environmental matters into account in the development of its offering, through which the company will also have an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

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

In Martela's own operations, the parametres of energy and material consumption are being monitored. Martela's purchased energy consists mainly of district heating and electricity. Most of the Group's own energy consumption is based on district heating (approx. 4.5 GWh), electricity (approx. 5.1 GWh), and combustion of its transportation of materials (approx. 3.5 GWh).

PERSONNEL BY AREAS, ON AVERAGE





Finland Scandinavia Other

Martela acquired approximately 9 million kg of materials, 60% of which were wood-based and 30% metal-based. Through the recycling business, Martela processes a few million kg of recycled material coming from customers, most of which is reusable. In its own operations, Martela produces approximately 1.6 million kg of waste, of which almost all can be reused as energy or recycled material, while the proportion comprising hazardous waste remains less than one per cent coming mainly from property and machinery maintenance.

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

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

SOCIAL MATTERS AND HUMAN RESOURCES

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

According to the materiality assessment in the Sustainability Report, improvement of occupational wellbeing is the most important social and human resources issue in Martela's operations. The biggest improvement potential is found in the indirect benefit for occupational wellbeing in its entire customer base through implementation of Martela Lifecycle® model.

In Martela's own operations, follow-up of occupational wellbeing with the People Spirit questionnaire has been included in the Sustainability Programme, where the target has been set at the AAA level.

During 2019, the focus was on developing managerial and leadership skills to support daily guidance of working, motivation and wellbeing. In addition, internal practices were revised to improve efficiency and profitability. An annual People Spirit personnel survey was conducted in the organisation in the spring resulting level A average. Based on the results, an action plan was drawn up in every part of the organisation to develop things that needed improvement and to maintain what they felt was good. The relevance of one's own work combined with high product and service quality was considered to be in high level.

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

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

Based on the annual supplier base social risk assessment, a third-party accountability assessment was carried out for the year 2019. Several areas for improvement were identified during the assessment in the spring, and the progress of actions was evaluated in a review in the autumn. In-house supplier audits also included a more in-depth review of corporate social responsibility issues and supplier commitments involved with the Möbelfakta labeling.

The 2019 Sustainability training was conducted in the autumn and was attended by almost 80% of the personnel. The training was used to investigate the status of implementation of the ban for inappropriate behaviour set in the Corporate Code of Conduct. Almost 17% of the staff reported having detected improper behaviour. Most of the examples highlighted were demeaning speech by either supervisors or colleagues. Some feedback also referred to redundancies made during the year. Only about 30% of employees participated in the more detailed equality survey conducted in early 2019. Almost 40% of respondents said they had detected improper behaviour before the start of year 2019. Equal treatment was one of the subject areas of supervisor training during the year.

PREVENTION OF CORRUPTION AND BRIBERY

Matters related to prevention of corruption and bribery are discussed in, for example, the Corporate Code of Conduct and Sustainability Policy for Supply Chain. Martela does not accept bribery in any form in its business in any of its market areas. Giving or receiving bribes is not permitted under any circumstances.

All financial 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.

Sustainability education conducted in 2019 also studied whether Martela employees had noticed any signs of corruption or bribery. Less than 3% of the respondents reported to have noticed behavior that was interpreted as such. The practical examples presented referred to corporate gifts and fairness of performance criteria of internal rewarding. However, Corporate Code of Conduct accepts gifts within conventional limits of hospitality. There is a need for greater transparency regarding both gifts and rewarding.

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 822,862 (1,357,890) of the company's series A shares were traded on the NASDAQ OMX Helsinki exchange, corresponding to 23.2% (38.2) of the total number of series A shares.

The value of trading revenue was EUR 2.6 million (7.0), and the share price was EUR 3.36 at the end of the period (2.96). During January–December the share price was EUR 3.56 at its highest and EUR 2.55 at its lowest. At the end of December, equity per share was EUR 3.82 (4.54).

There were no disclosure notifications in 2019. More information on the Martela Corporation shares and shareholders can be found under note 27 of the Notes to the financial statements.

TREASURY SHARES

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

SHARE-BASED INCENTIVE PROGRAMME

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

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

No shares have been distributed based on the programme.

2019 Annual General Meeting

Martela Corporation's Annual General Meeting was held on Thursday, March 14, 2019. The Meeting approved the Financial Statements and discharged the members of the Board of Directors and CEO from liability for the year of 2018. The Board of Directors proposal for a dividend of EUR 0.10 per share was approved. The record date for dividend payments was March 18, 2019 and the dividend was paid on April 17, 2019.

The Annual General Meeting confirmed that the Board of Directors will consist of seven members and Ms. Minna Andersson, Mr. Eero Leskinen, Mr. Eero Martela, Mr. Heikki Martela, Ms. Katarina Mellström and Ms. Anni Vepsäläinen be re-elected as members of the Board of Directors and Mr. Jan Mattsson elected as a new member of the Board of Directors.

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

The Annual General Meeting authorised the Board in accordance with the proposal of the Board of Directors to decide on the repurchase of own shares, issuance of own shares and/or to dispose of the own shares held by the Company.

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

Administration

Martela Corporation is a Finnish limited liability company that is governed in its decision-making and management by Finnish legislation, especially the Finnish Limited Liability Companies Act, by other regulations concerning public listed companies, and by its Articles of Association. The company complies with the NASDAQ OMX Guidelines for Insiders and the Corporate Governance Code 2015 for Finnish listed companies published by the Securities Market Association. More information on Martela's governance can be found on the company's website.

Martela Sustainability Report includes extensively the non-financial information (NFI) required by the accounting law reforms. The Sustainability Report of 2019 will be published after the Annual 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 automated and based on component subcontracting and on assembly carried out by Martela.

Risks of damage are covered with appropriate insurance and this provides comprehensive coverage for property, business interruption, supplier interruption 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 21 of the notes to the financial statements.

SHORT-TERM RISKS

The principal risk regarding profit performance relates to the general economic uncertainty and the consequent effects on the overall demand in Martela's operating environment. Due to the project-based nature of the sector, forecasting short-term developments is challenging.

Events after the end of the financial year

Martela Group lowered its revenue and operating result guidance for 2019 with the stock exchange release on the 15th of January 2020.

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

Outlook for 2020

The Martela Group anticipates that its revenue and operating result in 2020 will improve sligthly compared to the previous year. Due to normal seasonal variations, the Group's operating result accumulates during the second half of the year.

Proposal of the Board of Directors for distribution of profit

The Board of Directors will propose to the AGM that no dividend will be distributed for 2019. The Board of Directors will assess the possibility to propose dividend payment to an extraordinary general meeting later this year.

Annual general meeting

Martela Corporation's AGM will be held on 12 March 2020 at 3 p.m. in Martela House, Helsinki. The notice of the Annual General Meeting will be published in a separate release on February 7, 2020.

Consolidated comprehensive income statement

(EUR 1,000)	Note	1.1.–31.12.2019	1.1–31.12.2018
Revenue	1	**106,207**	**103,100**
Other operating income	2	356	1,094
Changes of inventories of finished goods and work in progress		116	-126
Raw material and consumables used		-63,977	-61,460
Production for own use		172	475
Employee benefits expenses	3	-26,651	-26,703
Other operating expenses	4	-13,304	-15,873
Depreciation and impairment	5	-4,949	-2,576
Operating profit (-loss)		**-2,031**	**-2,070**
Financial income	7	103	441
Financial expenses	7	-772	-821
Profit (-loss) before taxes		**-2,701**	**-2,451**
Income taxes	8	159	84
Profit (-loss) for the financial year		**-2,541**	**-2,367**
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		-37	113
Taxes from items that will not later be recognised through profit or loss		6	-25
Items that may later be recognised through profit or loss			
Other changes		-38	
Translation differences		-98	-130
Total comprehensive income		**-2,708**	**-2,408**
Allocation of profit (-loss) for the financial year			
Equity holders of the parent		-2,541	-2,367
Allocation of total comprehensive income			
Equity holders of the parent		-2,708	-2,408
Earnings per share of the profit attributable to the equity holders of the parent			
Basic earnings/share, EUR	9	-0.61	-0.57
Diluted earnings/share, EUR	9	-0.61	-0.57

Consolidated cash flow statement

(EUR 1,000)	1.1.–31.12.2019	1.1–31.12.2018
Cash flows from operating activities		
Cash flow from sales	107,633	110,436
Cash flow from other operating income	325	397
Payments on operating costs	-101,324	-104,114
Net cash from operating activities before financial items and taxes	6,634	6,718
Interest paid	-360	-242
Interest received	5	3
Other financial items	-208	-142
Dividends received	0	4
Taxes paid	203	1,056
Net cash from operating activities (A)	**6,274**	**7,397**
Cash flows from investing activities		
Capital expenditure on tangible and intangible assets	-3,040	-975
Proceeds from sale of tangible and intangible assets	5	1,213
Net cash used in investing activities (B)	**-3,034**	**238**
Cash flows from financing activities		
Proceeds from short-term loans	0	6,000
Repayments of short-term loans	-1,152	-8,984
Repayments of lease liabilities	-2,631	0
Dividends paid and other profit distribution	-414	-1,326
Net cash used in financing activities (C)	**-4,197**	**-4,309**
Change in cash and cash equivalents (A+B+C), increase +, decrease -	**-957**	**3,326**
Cash and cash equivalents at the beginning of year	**10,594**	**7,283**
Translation differences	-16	-16
Cash and cash equivalents at the end of year	**9,621**	**10,594**

Consolidated balance sheet

(EUR 1,000)	Note	31.12.2019	31.12.2018
ASSETS			
Non-current assets			
Intangible assets	10	7,605	6,776
Tangible assets	11	9,582	4,581
Available-for-sale financial assets		7	8
Investment properties		0	45
Deferred tax assets	13	217	122
Non-current assets, total		**17,410**	**11,531**
Current assets			
Inventories	14	7,966	8,544
Trade receivables	12, 15	16,847	17,153
Accrued income and prepaid expenses	12, 15	3,332	2,173
Cash and cash equivalents		9,621	10,594
Current assets, total		**37,766**	**38,464**
ASSETS, TOTAL		**55,176**	**49,995**

(EUR 1,000)	Note	31.12.2019	31.12.2018
EQUITY AND LIABILITIES			
Equity attributable to holders of the parent	16		
Share capital		7,000	7,000
Share premium account		1,116	1,116
Other reserves		-9	-9
Treasury shares*		-128	-128
Translation differences		-1,038	-940
Retained earnings		8,798	11,751
Equity, total		**15,740**	**18,790**
Non-current liabilities			
Deferred tax liabilities	13	283	383
Pension obligations	19	472	442
Financial liabilities	12, 18	5,924	3,956
Non-current liabilities, total		**6,679**	**4,781**
Current liabilities			
Financial liabilities	12, 18	8,188	6,319
Interest-bearing current liabilities, total		**8,188**	**6,319**
Advances received	20	3,728	2,036
Trade payables	12, 20	9,839	8,612
Accrued liabilities and prepaid income	12, 20	8,176	6,723
Other current liabilities	12, 20	2,826	2,733
Non-interest-bearing current liabilities, total		**24,569**	**20,105**
LIABILITIES, TOTAL		**39,436**	**31,204**
EQUITY AND LIABILITIES, TOTAL		**55,176**	**49,994**

*The shares acquired for and assigned to share-based incentive scheme are shown in accounting terms as treasury shares. See Note 16.

Statement of changes in equity

(EUR 1,000) **Equity attributable to equity holders of the parent**	**Share capital**	**Share premium account**	**Other reserves**	**Treasury shares**	**Translation diff.**	**Retained earnings**	**Equity total**
Equity 1.1.2018	**7,000**	**1,116**	**-9**	**-128**	**-810**	**15,457**	**22,625**
Other comprehensive income							
Profit (-loss) for the financial year						-2,367	-2,367
Other items of comprehensive income adjusted by tax effects							
Translation differences					-130		-130
Items resulting from remeasurement of the net debt related to defined benefit plans (incl. Deferred taxes)						88	88
Total comprehensive income					**-130**	**-2,279**	**-2,408**
Share-based incentives						-101	-101
Business transactions with owners							
Dividends						-1,125	-1,125
Withholding tax on dividends					,	-201	-201
Business transactions with owners, total						-1,326	-1,326
Equity 31.12.2018	**7,000**	**1,116**	**-9**	**-128**	**-940**	**11,751**	**18,791**
Equity 1.1.2019	**7,000**	**1,116**	**-9**	**-128**	**-940**	**11,751**	**18,790**
Other comprehensive income							
Profit (-loss) for the financial year						-2,541	-2,541
Other items of comprehensive income adjusted by tax effects							
Translation differences					-98		-98
Items resulting from remeasurement of the net debt related to defined benefit plans (incl. Deferred taxes)						-31	-31
Other change						-38	-38
Total comprehensive income					**-98**	**-2,610**	**-2,708**
Share-based incentives						72	72
Business transactions with owners							
Dividends						-355	-355
Withholding tax on dividends						-59	-59
Business transactions with owners, total						-414	-414
Equity 31.12.2019	**7,000**	**1,116**	**-9**	**-128**	**-1,038**	**8,798**	**15,740**

More information in Notes 16 Equity and 17 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 home pages www.martela.com.

These financial statements were authorised for issue by the Board of Directors of Martela Oyj on February 6th 2020. The Finnish Limited Liability Companies Act permits the shareholders to approve or reject the financial statements in the general meeting that is held after publishing the financial statements. As well, the general meeting has a possibility to amend the financial statements.

BASIS OF PREPARATION

Martela's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as on December 31 2019. 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 2019 the following new and amended standards that have come into effect.

- **IFRS 16 Leases** (effective for financial years beginning on or after 1 January 2019). The new standard replaces the former IAS 17 standard and related interpretations. IFRS 16 requires the lessees to recognise the lease agreements on the balance sheet as right-of-use assets and lease liabilities. The accounting model is similar to former finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short-term contacts 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 former IAS 17 accounting. The effect of implementation of IFRS 16 on Martela's financial statements is presented in the section Leases.
- **Plan amendment, Curtailment or Settlement** (Amendments to IAS 19) (effective for financial years beginning on or after 1 January 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity uses updated actuarial assumptions to determine its current service cost and net interest for the period and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

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 Group's ownership and it is presented in a separate line in the statement of comprehensive income. Unrealised profits between Group and associates are eliminated using the Group's ownership percentage. Investments in associates include also acquired goodwill.

Items denominated in foreign currency

Transactions in foreign currencies are translated at the exchange rate prevailing on the date of the transaction – in practice, for transactions taking place within any given month, a rate is used that approximates the rate of the transaction date. At the end of the reporting period, the monetary assets and liabilities are translated into functional currencies at the exchange rate at the end of the reporting period. Exchange rate gains and losses related to business operations are treated as adjustments to the purchases and sales. Exchange rate gains and losses in financing are treated as adjustments to financial income and expenses.

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

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

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

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

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

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

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

Employee benefits

PENSION LIABILITIES

The Group has arranged defined contribution plans and defined benefit plans for retirement. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Contributions made to defined contribution plans are recognised in profit or loss as an expense as incurred.

The obligations of defined benefit plans are calculated separately for each plan. The projected unit credit method is used in the calculation. Pension costs are recognised as an expense over the service period of personnel on the basis of calculations performed by qualified actuaries. In calculating the present value of a pension obligation, the market yield of corporate high-grade bonds or the interest rate of government bonds are used as the discount rate. Their maturity corresponds to a significant extent with the maturity of the computed pension liability.

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

SHARE-BASED PAYMENTS

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

Operating profit

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

Income taxes

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

Deferred tax assets and liabilities are recognised on temporary differences between the tax bases and IFRS carrying values of assets and liabilities in the financial statements. A deferred tax asset is recognised only to the extent that it is probable that taxable profit will be available against which it can be used. Deferred tax liabilities are most often recognised to the full extent in the balance sheet. Deferred taxes are measured by using the tax rates enacted or substantively enacted by the end of the reporting period.

Intangible assets

GOODWILL

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

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

RESEARCH AND DEVELOPMENT

Research and development is active and continuous in the Group and if individual development projects are of such a scope in relation to operations and if the capitalisation criteria are fulfilled these projects are capitalised. Research expenditure is recognised as 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

Martela's lease contracts consist mainly of office spaces, cars and IT equipment. The lease contracts of cars and IT equipment are time limited whereas the contracts for office spaces are mainly open ended. The lease contracts do not include variable lease payments and Martela does not have any sale and leaseback transactions.

Lease agreements, for which the lease period is beyond 12 months, are according to IFRS 16 recognised on the balance sheet as a right-of-use assets and lease liabilities. The right-of-use assets decreased with the accumulated depreciations are recognised as tangible assets. The right-of-use assets are depreciated over the lease period or an estimated period if longer. Estimated rental periods are used for open ended agreements. The estimated rental periods are 2 years for rented offices and sales facilities and 1 year for warehouses. Martela does not apply IFRS 16 to leases for which the lease term ends within 12 months and are not offices or warehouses in use by Martela.

Short term lease contracts are disclosed as other rental agreements from which the payments are recognised as equal instalments over the rental period in the consolidated statement of comprehensive income.

Through the implementation of the IFRS 16 Martela recognised EUR 6,115 thousand of right-of-use-assets and EUR 6,174 thousand of Lease liabilities to the opening balance sheet of 1 January 2019. Martela implemented the standard using the modified retrospective method without recalculation of comparative figures. Martela used retrospective approach in calculating the right of use assets book values for some office space leases using the borrowing rate of 1 January 2019, for other leases the calculations were made from 1 January 2019 onwards

Reconciliation between operating lease obligations in the financial statements and lease liabilities

1,000 €	
Operating lease obligations per 31.12.2018	7,785
Value added tax included in operating lease obligations 31.12.2018	-1,149
Expenses related to short term leases	-221
Effect of estimated lease durations	446
Nominal value of lease liabilities 1.1.2019	6,861
Present value of lease liabilities	**6,174**

The lease liabilities have been discounted at the borrowing rate as at 1 January 2019. The weighted average discount rate is 2,6%

Martela has one lease agreement concerning a real estate in which Martela acts as a lessor. This contact is disclosed as other rental agreements and the rental income is recognised as equal instalments over the rental period in the consolidated statement of comprehensive income.

Prior to the implementation of IFRS 16 the leases were classified either as operative lease agreements of financial lease agreements. Leases in which the Group had substantially all the risks and rewards incidental to ownership were classified as finance leases. The discounted value of the liabilities from finance leases were recognised as a lease liability and the corresponding amount as tangible assets. The lease payments were split to financing costs and loan repayments. Leases in which substantially all the risks and rewards incidental to ownership of an asset remained with the lessor were classified as operating leases and payments made thereunder were recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term and the undiscounted lease liabilities were disclosed in the notes to the financial statements.

Inventories

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

Financial assets

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

Derivatives and investments in mutual fund units are classified as financial assets at fair value through profit or loss. Investments in mutual fund units are measured at fair value on the basis of published price quotations in an active market, and changes in the fair value are recognised in profit or loss in the year in which they arise. Derivatives to which hedge accounting is not applied are classified as being held for trading purposes. The fair values of derivatives are based on share market prices at the end of the reporting period and the changes in the fair values are recognised in profit or loss for the period in which they arise. Martela Group has not applied hedge accounting in the financial years 2019 or 2018. The category also includes shares of non-listed companies that are classified as held for sale.

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

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

IMPAIRMENT OF FINANCIAL ASSETS

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

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

FINANCIAL LIABILITIES

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

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

Share capital

Outstanding ordinary shares are shown as share capital. The share capital consists of K and A series shares. The shares of both series have identical dividend rights but K series shares confer 20 votes and A series shares 1 vote at general meetings of shareholders.

Expenses related to the issuance and acquisition of own equity instruments are presented as deductions from equity. If Martela Oyj buys back its own equity instruments, their cost is deducted from equity.

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

Provisions
In preparing the financial statements it is necessary to make forward-looking estimates and assumptions which may not, in fact, turn out to be true. In addition, it is necessary to use judgement in applying accounting policies to the financial statements. The estimates mainly relate on the utilisation of deferred tax assets against future taxable income, and on the measurement of assets. Estimates and assumptions are based on management's current best knowledge at the end of the reporting period, reflecting historical experience and other reasonable assumptions.

Accounting policies requiring management's judgement and key sources of estimation uncertainty
In preparing the financial statements it is necessary to make forward-looking estimates and assumptions which may not, in fact, turn out to be true. In addition, it is necessary to use judgement in applying accounting policies to the financial statements. The estimates mainly relate on the utilisation of deferred tax assets against future taxable income, and on the measurement of assets. Estimates and assumptions are based on management's current best knowledge at the end of the reporting period, reflecting historical experience and other reasonable assumptions.

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

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

If there are indications that impairment losses no longer exist or that they have diminished, the recoverable amount is estimated. An impairment loss previously recognised in the statement of comprehensive income is reversed if the estimates used in measuring the recoverable income have changed. However, an impairment loss cannot be reversed to an extent more than what the carrying amount of the asset or cash-generating unit would be without recognition of an impairment loss.

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

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

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

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

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

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

- **Definition of a Business** (Amendments to IFRS 3) (effective for financial years beginning on or after 1 January 2020). The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set is a group of assets rather than a business. The change is estimated not to have a significant impact on Martela's financial statements.
- **Definition of Material** (Amendments to IAS 1 and IAS 8) (effective for financial years beginning on or after 1 January 2020). The amendments clarify the definition of material and include guidance to help improve consistency in the application of that concept across all IFRS Standards. In addition, the explanations accompanying the definition have been improved. The change is estimated not to have a significant impact on Martela's financial statements.

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

1. Segment reporting

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

(EUR 1,000)	1.1.–31.12.2019	1.1.–31.12.2018
Revenue by area		
Finland	83,170	86,228
Sweden	10,663	7,042
Norway	7,792	5,212
Other areas	4,582	4,618
Total	**106,207**	**103,100**
Income from the sale of goods	91,494	90,223
Income from the sale of services	14,713	12,877
Total	**106,207**	**103,100**

Revenue includes EUR 196 thousand (103) income from sold furniture that based on the customer agreement is classified as rental income.

(EUR 1,000)	1.1.–31.12.2019	1.1.–31.12.2018
Assets and liabilities from contracts with customers		
Trade receivables	16,847	17,153
Accrued income based on customer contracts	1,358	834
Prepayments based on customer contracts	3,728	2,036

Information about geographical regions Non-current assets	Intangible assets 31.12.2019	Tangible assets 31.12.2019
Finland	7,592	9,328
Sweden	0	88
Other regions	13	165
Total	**7,605**	**9,582**

Non-current assets	Intangible assets 31.12.2018	Tangible assets 31.12.2018
Finland	6,776	4,298
Sweden	0	84
Other regions	0	199
Total	**6,776**	**4,581**

2. Other operating income

(EUR 1,000)	1.1.–31.12.2019	1.1.–31.12.2018
Gains on sale of tangible assets	5	613
Rental income	261	278
Public subsidies	3	0
Other income from operations	88	202
Total	**356**	**1,094**

3. Employee benefits expenses

(EUR 1,000)	1.1.–31.12.2019	1.1.–31.12.2018
Salaries and wages	-21,674	-21,706
Pension expenses, defined contribution plans	-3,539	-3,511
Pension expenses, defined benefit plans	-171	-238
Part paid as share-based incentives	-72	165
Other salary-related expenses	-1,196	-1,414
Personnel expenses in the income statement	-26,651	-26,703
Other fringe benefits	-364	-374
Total	**-27,015**	**-27,078**

A total of EUR -750 thousand for 2019 and EUR -111 thousand from 2018 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 24 Related-party transactions.

More information about share-based incentive programme is in note 17.

Personnel	2019	2018
Personnel on average, workers	258	265
Personnel on average, officials	235	245
Personnel on average, total	**494**	**510**
Personnel at year end	**464**	**501**
Personnel on average in Finland	423	432
Personnel on average in Sweden	21	28
Personnel on average in Norway	10	11
Personnel on average in Poland	39	39
Total	**494**	**510**

4. Other operating expenses

Other operating expenses are reported by type of expense.

(EUR 1,000)	1.1.–31.12.2019	1.1.–31.12.2018
Freight	-1,376	-1,557
Travel	-1,021	-1,118
Administration	-2,010	-2,308
IT	-2,617	-2,910
Marketing	-1,264	-1,099
Vehicles	-254	-557
Real estate	-1,441	-3,733
Other	-3,319	-2,589
Total	**-13,304**	**-15,873**
Auditors' fees		
Auditing	-86	-86
Other services	-79	-6
Total	**-165**	**-92**

Auditors' fees are included in administration expenses.

5. Depreciation and impairment

(EUR 1,000)	1.1.–31.12.2019	1.1.–31.12.2018
Depreciation		
Intangible assets	-900	-902
Tangible assets		
Buildings and structures	-540	-599
Machinery and equipment	-790	-1,075
Depreciation, total	**-2,230**	**-2,576**
Depreciation of right-of-use assets according to IFRS 16		
Buildings and structures	-2,110	
Machinery and equipment	-609	
Depreciations total	**-2,719**	

6. Research and development expenses

The income statement includes research and development expenses of EUR -2,211 thousand (EUR -1,853 thousand in 2018).

7. Financial income and expenses

(EUR 1,000)	1.1.–31.12.2019	1.1.–31.12.2018
Financial income		
Interest income on loans and other receivables	5	3
Foreign exchange gain on loans and other receivables	96	433
Other financial income	2	5
Total	**103**	**441**
Financial expenses		
Interest expenses from financial liabilities measured at amortised cost	-285	-226
Foreign exchange losses on loans and other receivables	-176	-468
Interest expenses of lease liabilities according to IFRS 16	-165	0
Other financial expenses	-146	-127
Total	**-772**	**-821**
Financial income and expenses, total	**-670**	**-381**
Total exchange rate differences affecting profit and loss are as follows:		
Exchange rate differences, sales (included in revenue)	-43	-185
Exchange rate differences, purchases (included in adj. of purchases)	-68	-59
Exchange rate differences, financial items	-80	-35
Exchange rate differences, total	**-191**	**-279**

8. Income taxes

(EUR 1,000)	1.1.–31.12.2019	1.1.–31.12.2018
Income taxes, financial year	-20	-37
Taxes for previous years	3	8
Change in deferred tax liabilities and assets	176	113
Total	**159**	**84**

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

(EUR 1,000)	1.1.–31.12.2019	1.1.–31.12.2018
Profit before taxes	-2,701	-2,451
Taxes calculated using the domestic corporation tax rate	-540	-490
Different tax rates of subsidiaries abroad	-31	-60
Taxes for previous years	3	8
Recognition of unused tax losses not booked earlier	-116	-56
Tax-exempt income	-3	-13
Non-deductible expenses	36	35
Unbooked deferred tax assets on losses in taxation	731	698
Other items	-239	-207
Income taxes for the year in the p/l (+ = expense, - = profit)	**-159**	**-84**

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.–31.12.2019	1.1.–31.12.2018
Profit attributable to equity holders of the parent	-2,541	-2,367
Weighted average number of shares (1,000)	4,143	4,143
Basic earnings per share (eur/share)	**-0,61**	**-0,57**

The company has no diluting instruments 31.12.2019 or 31.12.2018.

10. Intangible assets

(EUR 1,000)	1.1.–31.12.2019 Intangible assets	Goodwill	Work in progress	Total	1.1.–31.12.2018 Intangible assets	Goodwill	Work in progress	Total
Acquisition cost 1.1.	13,135	883	478	14,496	13,135	883	154	14,172
Increases	164		2,159	2,323			529	529
Decreases	-31		-600	-631			-204	-204
Acquisition cost 31.12.	**13,267**	**883**	**2,038**	**16,188**	**13,135**	**883**	**478**	**14,496**
Accumulated depreciation 1.1.	-7,721	0	0	-7,721	-6,876	0	0	-6,876
Accumulated depreciation, decreases	31			31				0
Depreciation for the year 1.1.–31.12.	-892			-892	-847			-847
Exchange rate differences					2			2
Accumulated depreciation 31.12.	-8,582	0	0	-8,582	-7,721	0	0	-7,721
Carrying amount 1.1.	5,414	883	478	6,776	6,259	883	154	7,297
Carrying amount 31.12.	**4,685**	**883**	**2,038**	**7,605**	**5,414**	**883**	**478**	**6,776**

Goodwill

The Group's goodwill EUR 883 thousand (EUR 883 thousand in 2018) 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 2,2% and EBIT 2,4%. The use of testing model requires making estimates and assumptions concerning market growth and general interest rate level. The used pre-tax discount rate is 11,6% (11,0%) 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 3,7 million higher than the book value according to the performed impairment test. The rise in discount rate by 32%-units or the actual operating profit (EBIT) level on the terminal year to be 3%-units 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) 1.1.2019 – 31.12.2019	Land areas	Buildings	Machinery and equipment	Other tangible assets	Work in progress	Total
Acquisition cost 1.1.	66	31,076	32,956	34	0	64,132
Increases		1,542	1,674		119	3,335
Decreases		-622	-166			-788
Exchange rate differences		-34				-34
Acquisition cost 31.12.	**66**	**31,962**	**34,463**	**34**	**119**	**66,644**
Accumulated depreciation 1.1.	3	-23,508	-29,933	0	0	-53,439
Accumulated depreciation, decreases	0	292	136	0	0	428
Depreciation for the year 1.1.–31.12.	0	-2,655	-1,405	0	0	-4,062
Exchange rate differences	1	7		0	0	8
Accumulated depreciation 31.12.	**4**	**-25,864**	**-31,203**	**0**	**0**	**-57,065**
Carrying amount 1.1.	69	7,568	3,023	34	0	10,696
Carrying amount 31.12.	**70**	**6,098**	**3,260**	**34**	**119**	**9,582**

The implementation of IFRS 16 increased the 2019 opening balance book value by EUR 786 thousand for machinery and equipment and EUR 5,329 thousand for buildings.

1.1.2018 – 31.12.2018	Land areas	Buildings	Machinery and equipment	Other tangible assets	Work in progress	Total
Acquisition cost 1.1.	66	24,203	31,340	34	0	55,643
Increases		215	919			1,134
Decreases			-42			-42
Exchange rate differences		-8	-46			-54
Acquisition cost 31.12.	**66**	**24,410**	**32,170**	**34**	**0**	**56,681**
Accumulated depreciation 1.1.	0	-21,531	-28,928	0	0	-50,459
Accumulated depreciation, decreases	0	0	40	0	0	40
Depreciation for the year 1.1.–31.12.	0	-609	-1,081	0	0	-1,691
Exchange rate differences	3	-31	35	0	0	7
Accumulated depreciation 31.12.	**3**	**-22,171**	**-29,933**	**0**	**0**	**-52,102**
Carrying amount 1.1.	66	2,672	2,412	34	0	5,184
Carrying amount 31.12.	**69**	**2,239**	**2,237**	**34**	**0**	**4,581**

Tangible assets, leases

	Right-of-use assets according to IFRS 16			Finance leases according to IAS 17		
	1.1.–31.12.2019			1.1.–31.12.2018		
	Machinery and equipment	Buildings	Total	Machinery and equipment	Buildings	Total
Acquisition cost 1.1.	5,253	6,666	11,919	4,202	0	4,202
Increases	416	1,462	1,878	263	0	263
Decreases	-51	-606	-658	0	0	0
Exchange rate differences	-2	-22	-25	0	0	0
Acquisition cost 31.12.	**5,614**	**7,500**	**13,114**	**4,465**	**0**	**4,465**
Accumulated depreciation 1.1.	-4,166	-1,059	-5,225	-4,014	0	-4,014
Depreciation for the year 1.1.–31.12.	-609	-2,110	-2,719	-167	0	-167
Exchange rate differences	-0	7	6	0	0	0
Accumulated depreciation 31.12.	**-4,776**	**-3,162**	**-7,938**	**-4,181**	**0**	**-4,181**
Carrying amount 1.1.	1,070	5,329	6,399	188	0	188
Carrying amount 31.12.	**839**	**4,337**	**5,176**	**284**	**0**	**284**

The implementation of IFRS 16 increased the 2019 opening balance book value by EUR 786 thousand for machinery and equipment and EUR 5,329 thousand for buildings.

12. Book values of financial assets and liabilities by group

(EUR 1,000)	Financial assets measured at amortised costs	Financial assets measured at fair value through profit or loss	Financial liabilities measured at amortised cost	Book values of balance sheet items	Fair value	Hierarchy level	Note
2019 balance sheet items							
Non-current financial assets							
Other financial assets		52		52	52	2	
Current financial assets							
Trade and other receivables	16,847			16,847	16,847	2	15
Book value by group	16,847	52		16,899	16,899		
Non-current financial liabilities							
Interest-bearing liabilities			5,924	5,924	5,924	2	18
Current financial liabilities							
Interest-bearing liabilities			8,188	8,188	8,188	2	18
Trade payables and other liabilities			12,789	12,789	12,789	2	20
Book value by group			**26,901**	**26,901**	**26,901**		
2018 balance sheet items	**Financial assets measured at amortised costs**	**Financial assets measured at fair value through profit or loss**	**Financial liabilities measured at amortised cost**	**Book values of balance sheet items**	**Fair value**	**Hierarchy level**	**Note**
Non-current financial assets							
Other financial assets		8		8	8	2	
Current financial assets							
Trade and other receivables	17,153			17,153	17,153	2	15
Book value by group	17,153	8		17,161	17,161		
Non-current financial liabilities							
Interest-bearing liabilities			3,956	3,956	3,956	2	18
Current financial liabilities							
Interest-bearing liabilities			6,319	6,319	6,319	2	18
Trade payables and other liabilities			11,363	11,363	11,363	2	20
Book value by group			**21,638**	**21,638**	**21,638**		

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

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

Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly, e.g. discounted cash flows or valuation models.
Level 3. Inputs for the asset or liability that are not based on observable market data and the fair value determination is widely based on management's judgement and the use of that in commonly approved valuation models.

13. Deferred tax assets and liabilities

(EUR 1,000) Changes in deferred taxes during 2019	1.1.2019	Recognised in the income statement	Recognised in the other comprehensive income	31.12.2019
Deferred tax assets				
Pension obligations	58	0	6	64
Other temporary differences*	76	77	0	153
Total	**134**	**77**	**6**	**217**
Deferred tax liabilities				
On buildings measured at the fair value of the transition date	330	-66	0	264
Other temporary differences	53	-33	0	19
Total	**383**	**-99**	**0**	**283**
Deferred tax assets and liabilities, total	**-249**	**176**	**6**	**-66**

*The implementation of IFRS 16 caused and increase of EUR 12 thousand in the opening balance.

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

Deferred tax assets have not been recognised on unused tax losses that probably cannot be utilised in the future against taxable income. The amount of such losses is EUR 15.5 million (15.3 in 2018) including current year results.

These losses have no expiry date according to knowledge available today. The losses originate mainly from foreign subsidiaries.

14. Inventories

(EUR 1,000)	31.12.2019	31.12.2018
Raw materials and consumables	6,738	7,037
Work in progress	1,081	1,100
Finished goods	147	407
Total	**7,966**	**8,544**

The value of inventories has been written down by -263 thousand (-362 thousand 2018) 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.

15. Current trade receivables and other receivables

(EUR 1,000)	31.12.2019	31.12.2018
Trade receivables	**16,847**	**17,153**
Accrued income and prepaid expenses of		
Personnel expenses	151	150
Advances	3,182	2,023
Accrued income and prepaid expenses total	**3,332**	**2,173**
Total	**20,179**	**19,326**

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)	2019	Incl. credit loss provision	2018	Incl. credit loss provision
Undue	14,051	59	13,530	69
0–6 months overdue	2,399	310	3,080	46
6–12 months overdue	211	181	247	28
12–24 months overdue	111	82	277	258
Over 24 months overdue	75	608	19	443
Total	**16,847**	**1,240**	**17,153**	**844**

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

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

The credit loss provision includes also the total receivables of a reseller of Martela that went bankrupt in late 2019.

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

Region (EUR 1,000)	2019	2018
Finland	10,890	12,926
Scandinavia	4,744	2,889
Other European countries	746	846
Other regions	467	491
Total	**16,847**	**17,153**

Credit risks from trade receivables are not concentrated.

In 2019 EUR -398 thousand (EUR -1 thousand in 2018) credit losses have been recognised as expenses and presented in other operating expenses.

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

Changes in share capital	Number of shares	Share capital	Share premium account	Treasury shares	Total
1.1.2018	**4,143,564**	**7,000**	**1,116**	**-128**	**7,988**
Acg. of shares for share-based incentive system*					
Shares given*	-1,046				
Shares returned					
Share issue					
31.12.2018	**4,142,518**	**7,000**	**1,116**	**-128**	**7,988**
Acg. of shares for share-based incentive system*					
Shares given*	0			0	0
Shares returned					
Share issue					
31.12.2019	**4,142,518**	**7,000**	**1,116**	**-128**	**7,988**

Martela Oyj owns 13,082 A shares purchased at an average price of 10.65. The number of treasury shares is equivalent to 0.31% of all shares and 0.08% of all votes.

* Acquisition of shares for the share-based incentive scheme and the management of the scheme have been outsourced to an external service 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 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 24,140 thousand on 31.12.2019.

17. Share-based payments

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

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

Programme	Share-based incentive programme 2017–2018 and 2019–2020	
Type		**Share**
Instrument	**Earning period 2017–2018**	**Earning period 2019–2020**
Issuing date	15.12.2016	13.12.2018
Maximum amount, pcs	80,000	100,000
Dividend adjustment	Ei	Ei
Grant date	7.4.2017	13.12.2018
Beginning of earning period	1.1.2017	1.1.2019
End of earning period	31.12.2018	31.12.2020
End of restriction period	15.4.2019	30.4.2021
Vesting conditions	EBIT	Revenue and EBIT
Maximum contractual life, yrs	3,3	3,3
Remaining contractual life, yrs	0,0	2,3
Number of persons at the end of reporting year	0	5
Payment method	Cash & Equity	Cash & Equity

Changes during the period 2019	Earning period 2017–2018	Earning period 2019–2020	Total
1.1.2019			
Outstanding at the beginning of the reporting period, pcs	63,800	0	63,800
Changes during the period			
Granted	0	91,000	91,000
Forfeited	63,800		63,800
Shares given	0		0
31.1.2019 Outstanding at the end of the period	0	91,000	91,000

Effects from the share based incentive programme on the financial year 2019 (EUR 1,000)	Total
Expenses for the financial year, share-based payments, equity settled	-72
Liabilities arising from share-based payments on 31.12.2019	0

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

18. Financial liabilities

(EUR 1,000)	1.1.–31.12.2019	1.1.–31.12.2018
Non-current		
Bank loans	3,086	3,829
Finance lease liabilities, IAS 17	0	127
Lease liabilities, IFRS 16	2,838	
Total	**5,924**	**3,956**
Current		
Bank loans	5,748	6,156
Pension loans	0	0
Finance lease liabilities, IAS 17	0	162
Lease liabilities, IFRS 16	2,440	
Total	**8,188**	**6,319**

The Group's bank loans have either variable or fixed interest rates. The Group's average interest rate is 3.9% (1.9% 2018). The current portions of debt are presented more in detail under Note 21 Management of financial risks.

A covenant linked to net debt to EBITDA ratio and the Group's equity ratio was attached to a part of the Group's bank loans. The net debt to EBITDA ratio can be at maximum 4.0 and the equity ratio 30% at minimum. When calculating these figures, the net debt is the net debt of the review date and the EBITDA is the sum of the four preceding quarter EBITDA. The effect of IFRS 16 implementation has been reduced in the calculations. 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 9.1 million on 31.12.2019. The covenants were met on 31.12.2019. (Calculated figures: net debt/EBITDA -0,5 and equity ratio 33,9.)

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 23 Pledges granted and contingent liabilities.

Lease liabilities are payable as follows:	1.1.–31.12.2019 Lease liabilities, IFRS 16	1.1.–31.12.2018 Finance lease liabilities, IAS 17
Lease liabilities – total amount of minimum lease payments		
No later than one year	2,543	169
Later than one year and no later than five years	3,043	132
Later than five years	0	0
Total	**5,586**	**301**

(EUR 1,000)	1.1.–31.12.2019	1.1.–31.12.2018
Lease liabilities – present value of minimum lease payments		
No later than one year	2,440	162
Later than one year and no later than five years	2,838	127
Later than five years	0	0
Total	5,278	290
Unearned finance expense	**308**	**12**

The average interest of financial leases was 3.1% in 2019 and 3.5% in 2018.

Amounts recognised in profit or loss (EUR 1,000)	31.12.2019
Interest on lease liabilities	-165
Expenses related to short-term leases	-1,069

			Non cash changes		
Changes in net debt 2019	31.12.2018	Cash flows	Transfer between groups	IFRS 16 net increase	31.12.2019
Long-term liabilities total	3,956	0	-743	2,711	5,924
Short-term liabilities total	6,319	-1,152	743	2,278	8,188
Total liabilities from the financing activities	**10,275**	**-1,152**	**0**	**4,989**	**14,112**

			Non cash changes		
Changes in net debt 2018	31.12.2017	Cash flows	Transfer between groups	Other change	31.12.2018
Long-term liabilities total	6,206	0	-2,250		3,956
Short-term liabilities total	7,065	-2,984	2,250	-13	6,319
Total liabilities from the financing activities	**13,271**	**-2,984**	**0**	**-13**	**10,275**

19. 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.

(1,000 eur) 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	
	2019	2018	2019	2018	2019	2018
1.1.	**2,961**	**3,002**	**-2,669**	**-2,588**	**292**	**416**
Recognised in profit or loss						
Service cost in the period	141	167			141	167
Past service cost	0	0	0	0		
Interest expense or income	53	48	-49	-43	4	5
Settlements	-400		400			
	-206	**216**	**351**	**-43**	**145**	**173**
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	373	-114			373	-114
Experience based profits (-) or losses (+)	-55	-94			-55	-94
Return on the funds included in the plan, excluding items in interest expenses or income (+/-)			-281	95	-281	95
	318	**-208**	**-281**	**95**	**38**	**-112**
Other items						
Employer's payments (+)	-14	-49	-138	-133	-152	-182
	-14	**-49**	**-138**	**-133**	**-152**	**-182**
31.12.	**3,059**	**2,961**	**-2,737**	**-2,669**	**322**	**292**

The Group anticipates that it will pay a total of EUR 148 thousand to defined benefit pension plans in the financial period of 2020.

Sensitivity analysis

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

	Defined benefit liability	Fair value of the funds included in the plan
Effect of a change in the assumption employed	The assumption is growing	The assumption is growing
Discount rate (0.5% change)	-8,9%	-8,3%
Increase in salaries (0.5% change)	N/A	N/A
Morality rate (a change of 5% points)	-1,2%	-1,1%

The weighted average of the duration of the plans is 18.9 years.

20. Current liabilities

(EUR 1,000)	1.1.–31.12.2019	1.1.–31.12.2018
Advances received	3,728	2,036
Trade payables	9,839	8,612
Total	**13,567**	**10,649**
Accrued liabilities and prepaid income of		
Personnel expenses	4,874	3,917
Interests	124	18
Royalties	183	141
Residual expenses	2,984	2,636
Other	10	11
Total	**8,176**	**6,723**
Other current liabilities	2,826	2,733
Other	**2,826**	**2,733**
Current liabilities	**24,569**	**20,105**

21. 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 that 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 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 2018 and 2019.

Translation risks

The main translation risks derive from equity or subordinated loans provided by the parent company to its subsidiaries in Sweden and Poland. If needed, the company hedges against translation risks by using currency loans and options. Hedging decisions are based on the estimated effect of each currency on the Group's result, cash flow and equity and on the hedging cost.

The following table presents currency risks per instrument and currency.

Transaction risks per instrument and currency 31.12.2019 (EUR 1,000)

	EUR	SEK	NOK
Trade receivables	0	1,918	2002
Trade payables	44	390	38
Total	**44**	**2,308**	**2,040**

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

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

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 2019 (2018). The estimates are based on the assumption that no other variables change.

Analysis of sensitivity to transaction risk (EUR 1,000)	Impact on shareholders' equity	Impact on result
31.12.2019		
EUR	0	+/- 4
SEK	0	+/- 231
NOK	0	+/- 204
31.12.2018		
EUR	0	+/- 2
SEK	0	+/- 148
NOK	0	+/- 97

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 1000)	31.12.2019	31.12.2018
Fixed rate		
Financial liabilities	5,278	290
Variable rate		
Financial liabilities	8,833	9,985
Total	**14,112**	**10,275**

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 result
31.12.2019	
Financial liabilities	
Variable rate financial instruments	-88
31.12.2018	
Financial liabilities	
Variable rate financial instruments	-100

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 revenue 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 and receivables arising from an order by withholding the right of ownership with Martela Oyj until the customer has paid the sale price in full.

Supply agreements are only used in sales in Finland. A customer may also be required to make prepayment before sold products are delivered if it is considered necessary in light of the potential credit risk associated with the customer. Counterparties may also be granted to credit limits. The creditworthiness of customers is monitored regularly on the basis of payment history and credit rating.

Collateral may be required from certain customers based on their creditworthiness and in the case of exports, for example, Martela may use confirmed irrevocable Letters of Credit. The book value of financial assets correspond to the maximum amount of the credit risk.

The maximum financial asset credit risk amount on the balance sheet date 31 December is presented in the following table:

Maximum financial asset credit risk (EUR 1,000)	2019	2018
Financial assets measured at fair value through profit or loss	52	8
Loans and other receivables	16,847	17,153
Cash and cash equivalents	9,621	10,594
Total	**26,520**	**27,754**

See Note 15 for additional information on trade receivables and the related credit loss provisions

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. A covenant is linked to the banks loans in by the group. For more information on the bank loans and the covenants see note 18.

Cash and cash equivalent at the year end 2019 were EUR 9,621 thousand and unused credit limits EUR 1 950 thousand.

(EUR 1,000)

Contractual cash flows mature as follows (EUR 1,000):	2020	2021	2022	2023	2024	Later	Total	Balance sheet value
Bank loans	5,748	3,086					8,833	8,833
Pension loans	0	0	0	0	0	0	0	0
Finance leases	2,440	1,659	1,080	99	0	0	5,278	5,278
Trade payables	9,839	0	0	0	0	0	9,839	9,839
Bank overdrafts, used	0	0	0	0	0	0	0	0
Loan interest and guarantee fees	135	31	0	0	0	0	166	
Total	**18,162**	**4,776**	**1,080**	**99**	**0**	**0**	**24,117**	

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

(EUR 1,000)

Contractual cash flows mature as follows (EUR 1,000):	2019	2020	2021	2022	2023	Later	Total	Balance sheet value
Bank loans	6,156	743	86			3,000	9,985	9,985
Pension loans	0	0	0	0	0	0	0	0
Financial leases	162	127	0	0	0	0	290	290
Trade payables	8,612	0	0	0	0	0	8,612	8,612
Bank overdrafts, used	0	0	0	0	0	0	0	0
Loan interest and guarantee fees	97	57	13		0	0	167	
Total	**15,028**	**927**	**99**	**0**	**0**	**3,000**	**19,054**	
Guarantees given*	5	0	14	0	0	0	19	
Total	**15,033**	**927**	**113**	**0**	**0**	**3,000**	**19,073**	

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

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	31.12.2019	31.12.2018
Shareholders' equity	15,740	18,791
Balance sheet total – advance payments	51,448	47,959
Equity to assets ratio %	**30.6**	**39.2**

22. Operating leases

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

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.

After the implementation of IFRS 16 the disclosure for the main part of lease agreements was changed. Information about the lease agreements is presented in note 18.

A reconciliation between the operating lease liabilities of 2018 and the opening balance of 2019 is presented in the accounting principles.

23. Pledges granted and contingent liabilities

(EUR 1,000)	31.12.2019	31.12.2018
Debts secured by mortgages		
Bank and pension loans	8,833	9,985
Property mortgages	7,565	7,565
Corporate mortgages	14,240	14,294
Total mortgages	**21,805**	**21,859**
Other pledges		
Guarantees as security for rents	321	308

24. 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, 2019.

Group structure	Domicile	Holding (%) 31.12.2019	Of votes (%) 31.12.2019	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, Nässjö	Sweden	100	100	x	
Aski Avvecklingsbolag AB, Malmö	Sweden	100	100		
Martela AS, Oslo	Norway	100	100	x	
Martela Sp.z o.o., Warsaw	Poland	100	100	x	x
Tehokaluste Oy	Finland	100	100	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)	2019	2018
Management employee benefits		
Salaries and other short-term employee benefits	-1,038	-1,337
Share-based benefits	0	0
Total	**-1,038**	**-1,337**
Salaries and fees		
Board members	-173	-173
CEO	-261	-262
Management team members (excl. CEO)	-604	-902
	-1,038	**-1337**

Fees paid to Board members:	2019	2018
Andersson Minna	-20.4	-20.4
Komi Kirsi*	-5.5	-22
Leskinen Eero	-22	-22
Martela Eero	-22	-22
Martela Heikki	-42.4	-42.4
Mattson Jan**	-16.5	0
Mellström Katarina ***	-22	-16.5
Närhinen Yrjö ****	0	-5.5
Vepsäläinen Anni	-22	-22
Total	**-172.8**	**-172.8**

* In Board until Q1 2019 ** New member, in Board from Q2 2019
*** In Board from Q2 2018 **** In Board until Q1 2018

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

Salaries, fees and pension commitment to CEO	2019	2018
Salaries and fees	-261	-262
Statutory earnings-related pension payment (TyEL) on salaries	-66	-62

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

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

No share-based incentives are paid based on earning period 2017–2018.

The financial statements 2019 include as a reservation of EUR 72 thousand related to a potential share based incentive based on the earning period 2019–2020. The potential reward will be paid in 2021.

More information in Note 17 Share based payments.

25. Key financial indicators for the Group

Martela Group 2015–2019		2019	2018	2017	2016	2015
Revenue	meur	106.2	103.1	109.5	129.1	132.8
Change in revenue	%	3.0	-5.9	-15.2	-2.8	-2.3
Export and operations outside Finland	meur	23.1	17.0	22.3	33.1	35.9
In relation to revenue	%	21.7	16.5	20.4	25.6	27.0
Exports from Finland	meur	22.7	16.3	18.4	16.5	11.1
Gross capital expenditure	meur	2.3	1.7	2.2	2.9	0.7
In relation to revenue	%	2.1	1.6	2.1	2.2	0.5
Depreciation	meur	4.9	2.6	2.6	2.9	3.4
Research and development	meur	2.2	1.9	2.0	1.9	2.1
In relation to revenue	%	2.1	1.8	1.8	1.5	1.6
Personnel on average		494	510	508	550	622
Change in personnel	%	-3.1	0.4	-7.3	-11.6	-16.2
Personnel at the end of year		464	501	507	506	575
of which in Finland		385	425	435	435	430

Profitability		2019	2018	2017	2016	2015
Operating profit	meur	-2.0	-2.1	0.3	6.2	4.1
In relation to revenue	%	-1.9	-2.0	0.2	4.8	3.1
Profit before taxes	meur	-2.7	-2.5	0.0	5.6	3.4
In relation to revenue	%	-2.5	-2.4	0.0	4.4	2.5
Profit for the year*	meur	-2.5	-2.4	-0.6	3.3	2.5
In relation to revenue	%	-2.4	-2.3	-0.6	2.6	1.9
Revenue/employee	teur	215	202	216	235	214
Return on equity	%	-14.7	-11.4	-2.7	13.9	11.6
Return on investment	%	-6.4	-4.9	1.6	18.2	12.1

Finance and financial position		2019	2018	2017	2016	2015
Balance sheet total	meur	55.2	50.0	56.4	56.2	56.0
Equity	meur	15.7	18.8	22.6	25.2	22.7
Interest-bearing net liabilities	meur	5.0	0.1	6.6	-4.8	3.8
In relation to revenue	%	4.7	0.1	6.0	-3.7	2.8
Equity ratio	%	30.6	39.2	40.8	45.3	40.9
Gearing	%	31.5	0.7	28.9	-18.9	16.6
Net cash flow from operations	meur	6.3	7.4	-7.6	11.7	3.9
Dividends paid	meur	0.4	1.3	1.5	1.0	0.4

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

26. Key share-related figures

		2019	2018	2017	2016	2015
Earnings per share	EUR	-0,61	-0,57	-0,15	0,81	0,61
Earnings per share (diluted)	EUR	-0.61	-0.57	-0.15	0.81	0.61
Share par value	EUR	1.68	1.68	1.68	1.68	1.68
Dividend*	EUR	0.0 *)	0.1	0.32	0.37	0.25
Dividend/earnings per share	%	0.0	-17.5	-208.4	45.80	41.20
Effective dividend yield	%	0.00	3.38	4.30	2.90	7.10
Equity per share	EUR	3.80	4.54	5.47	6.13	5.54
Price of A share 31.12.	EUR	3.36	2.96	7.47	12.84	3.53
Share issue-adjusted number of shares	tpcs	4,155.60	4,155.60	4,155.60	4 155.60	4 155.60
Average share-issue adjusted number of shares	tpcs	4,155.60	4,155.60	4,155.60	4 155.60	4 155.60
Price/earnings ratio		-5.48	-5.18	-48.64	15.90	5.80
Market value of shares**	MEUR	13.92	12.26	30.95	52.75	14.40

* 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, %	=	$\frac{\text{Dividend / share x 100}}{\text{Earnings / share}}$
Effective dividend yield, %	=	$\frac{\text{Share issue-adjusted dividend / share x 100}}{\text{Share issue-adjusted share price at the year end}}$
Market value of shares, EUR	=	Total number of shares at year end x share price on the balance sheet date
Return on equity-%	=	$\frac{\text{Profit/loss for the financial year x 100}}{\text{Equity (average during the year)}}$
Return on investment-%	=	$\frac{\text{(Pre-tax profit/loss + interest expenses + other financial items) x 100}}{\text{Balance sheet total – Non-interest-bearing liabilities (average during the year)}}$
Equity ratio, %	=	$\frac{\text{Equity x 100}}{\text{Balance sheet total – advances received}}$
Gearing, %	=	$\frac{\text{Interest-bearing-liab. – cash, cash equiv. and liq. asset securities x 100}}{\text{Equity}}$
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

27. Shares and shareholders

Share capital

The number of registered Martela Oyj shares on 31.12.2019 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.

Martela Oyj's shares were entered in the book-entry register on 10.2.1995. The counter-book value of each share is EUR 1.68. The A shares are quoted on the Small Cap list of Nasdaq Helsinki.

Martela Oyj's shares were entered in the book-entry register on 10.2.1995. The counter-book value of each share is EUR 1.68. The A shares are quoted on the Small Cap list of Nasdaq Helsinki.

Distribution of shares 31.12.2019	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 31.12.2019	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
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	0	335,400	335,400	8.1	335,400	2.1
Martela Heikki Juhani	52,122	130,942	183,064	4.4	1,173,382	7.5
Palsanen Leena Maire Sinikka	4,486	131,148	135,634	3.3	220,868	1.4
Palsanen Jaakko Antero	1,600	132,140	133,740	3.2	164,140	1.0
AC Invest Oy	0	103,777	103,777	2.5	103,777	0.7
Meissa-Capital Oy	0	86,487	86,487	2.1	86,487	0.6
Etelä-Pohjanmaan Turve Oy	0	82,000	82,000	2.0	82,000	0.5
Sr Nordea Nordic Small Cap	0	76,286	76,286	1.8	76,286	0.5
Lindholm Tuija Elli Annikki	43,122	28,221	71,343	1.7	890,661	5.7
Martela Pekka Kalevi	69,274	8	69,282	1.7	1,385,488	8.9
Andersson Minna Sinikka	49,200	0	49,200	1.2	984,000	6.3
Martela Mari Kaarina	20,219	9,596	29,815	0.7	413,976	2.6
Other shareholders	72,777	2,202,221	2,274,998	54.7	3,657,761	23.4
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 13,082 pcs of A shares. Out of the shares 12,036 were purchased at an average price of EUR 10.65 and 1,046 were transferred from Martela Corporation's joint account to the treasury shares reserve based on the decision by AGM on March 13, 2018. The number of treasury shares is equivalent to 0.31% of all shares and 0.08% of all votes.

The Annual General Meeting has in 2019 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 31.12.2019.

Shares, pcs	Number of shareholders	% of total shareholders	Number of shares	%	Number of votes	% of Votes
1–500	2,593	78.3	372,466	9.0	372,466	2.4
501–1000	367	11.1	285,938	6.9	289,738	1.9
1001–5000	259	7.8	570,554	13.7	744,974	4.8
Over 5000	93	2.8	2,909,723	70.0	13,901,242	88.8
Total	3,312	100.0	4,138,681	99.6	15,308,420	97.8
of which nominee-registered	6		73,821	1.8	73,821	0.5
In the waiting list and collective account	4		16,919	0.4	338,380	2.2
Total			**4,155,600**	**100.0**	**15,646,800**	**100.0**

Breakdown of shareholding by sector 31.12.2019

Osakkeita kpl	Number of shareholders	% of total shareholders	Number of shares	%	Number of votes	% of votes
Private companies	138	4.2	1,068,835	25.7	6,616,835	42.3
Financial and insurance institutions	12	0.4	127,910	3.1	197,550	1.3
Public corporations	1	0.0	335,400	8.1	335,400	2.1
Non-profit entities	7	0.2	26,984	0.6	26,984	0.2
Households	3,144	94.9	2,492,708	60.0	8,114,447	51.9
Foreign investors	10	0.3	13,023	0.3	17,204	0.1
Total	3,312	100.0	4,064,860	97.8	15,308,420	97.8
of which nominee-registered	6		73,821	1.8	73,821	
In the waiting list and collective account	4		16,919	0.4	338,380	2.2
Total			**4,155,600**	**100.0**	**15,646,800**	**100.0**

Parent company income statement

(EUR 1,000)	Note	1.1.–31.12.2019	1.1.–31.12.2018
Revenue	1	**102,234**	**98,049**
Change in inventories of finished goods and work in progress		-195	-526
Production for own use		172	475
Other operating income	2	1,237	1,309
Materials and services	3	-76,371	-70,331
Personnel expenses	4	-16,073	-16,209
Other operating expenses		-11,281	-12,332
Depreciation and impairment	5	-2,216	-2,334
Operating profit (-loss)		**-2,493**	**-1,899**
Financial income and expenses	6	-1,953	-471
Profit (-loss) before appropriations and taxes		**-4,446**	**-2,370**
Group contributions	7	1,300	1,784
Depreciation difference and Group contributions	7	1,300	1,784
Income taxes	8	2	23
Profit (-loss) for the financial year		**-3,144**	**-563**

Parent company balance sheet

(EUR 1,000)	Note	31.12.2019	31.12.2018
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	9		
Intangible rights		**7,545**	8,388
Other long-term expenditure		4,547	5,429
Advance payments		2,038	478
		14,131	**14,295**
Tangible assets	10		,
Land and water areas		80	80
Buildings and structures		1,895	1,929
Machinery and equipment		878	713
Other tangible assets		23	23
		2,876	**2,745**
Investments	11		
Share is subsidiaries		7,498	7,498
Receivables from subsidiaries		5,425	6,960
Other shares and participations		7	8
		12,930	**14,466**
CURRENT ASSETS			
Inventories			
Materials and supplies		5,441	5,782
Work in progress		1,019	1,012
Finished goods		487	689
Advances paid to suppliers		429	286
		7,377	**7,770**
Non-current receivables	12		
Trade receivables		17,515	20,156
Loan receivables		5,059	1,460
Accrued income and prepaid expenses		2,759	2,879
		25,333	24,495
Cash and cash equivalents		8,918	9,185
		71,564	**72,956**

(EUR 1,000)	Note	31.12.2019	31.12.2018
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		27,284	28,262
Profit for the year		-3,144	-563
Total		**32,267**	**35,826**
LIABILITIES			
Non-current	14		
Loans from financial institutions		3,086	3,829
Accrued liabilities and prepaid income		150	150
		3,236	**3,979**
Current	15		
Loans from financial institutions		5,743	6,143
		5,743	**6,143**
Advances received		2,533	1,755
Trade payables		13,581	17,037
Accrued liabilities and prepaid income		12,025	5,248
Other current liabilities		2,180	2,968
		30,318	**27,009**
Liabilities, total		**39,297**	**37,130**
		71,564	**72,956**

Parent company cash flow statement

(EUR 1,000)	1.1.–31.12.2019	1.1.–31.12.2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows from sales	106,331	105,600
Cash flow from other operating income	1,237	1,369
Payments on operating costs	-102,847	-99,993
Net cash from operating activities before financial items and taxes	**4,721**	**6,976**
Interests paid and other financial payments	-346	-472
Dividends received	0	0
Taxes paid	184	1,173
Net cash from operating activities (A)	**4,558**	**7,677**
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure on tangible and intangible assets	-1,949	-535
Proceeds from sale of tangible and intangible assets	0	-57
Loans granted	-1,319	-1,026
Repayments of loan receivables	0	582
Net Cash used in investing activities (B)	**-3,267**	**-1,036**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from current loans		6,000
Repayments of current loans	-1,143	-8,143
Dividends and other profit distribution	-414	-1,326
Net cash used in financing activities (C)	**-1,557**	**-3,469**
CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C) (+ increase, - decrease)	**-266**	**3,173**
Cash and cash equivalent at the beginning of financial year*	**9,185**	**6,012**
Cash and cash equivalent at the end of financial year*	**8,918**	**9,185**

*Includes cash and bank receivables

Accounting policies for the 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 straightline method). Intangible assets are depreciated according to their estimated useful life in 3–10 years. Goodwill is depreciated by straight line method in 10 years.

Tangible assets:

Buildings, machinery, equipment and other tangible assets are reported in the balance sheet at cost. No depreciation is recognised on revaluations of buildings or on land areas. Otherwise, depreciation is calculated on a straight line basis according to the estimated useful life. The change in accumulated depreciation difference is presented as a separate item in the parent company's profit and loss statement and the accumulated depreciation difference as a separate item in the balance sheet.

Depreciation periods for tangible assets:

Buildings and structures	20–30 years
Machinery and equipment	4–8 years
Other tangible assets	3–5 years

Investments:

Stock exchange listed shares are recognised at market value and changes are entered in financial items. Other shares are recognised at cost. On the balance sheet date, Martela Oyj held no stock exchange listed shares. Investments in subsidiaries and associated undertakings are recognised at cost and permanent impairments are deducted.

Impairment testing of long term assets

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

Inventories:

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

Financial assets at fair value through profit and loss:

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

Derivatives:
The company held no derivatives on 31 December 2019 or 31 December 2018. 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

	2019	2018
Finland	76	84
Scandinavia	19	12
Other	5	4
Total	**100**	**100**

2. Other operating income

(EUR 1,000)	2019	2018
Rental income	245	1 242
Other operating income	22	57
Other operating income, Group	970	10
Total	**1,237**	**1,309**

3. Materials and services

(EUR 1,000)	2019	2018
Purchasing during the financial year	-57,570	-53,051
Change in inventories of materials and suppliers	-341	371
External services	-18,655	-17,651
Materials and supplies, total	**-76,566**	**-70,331**
Auditor's fees		
Auditing	-58	-58
Other services	-79	0
Auditor's fees, total	**-137**	**-58**

4. Personnel expenses and number of personnel

(EUR 1,000)	2019	2018
Salaries, CEO	-262	-262
Salaries of Board and directors	-173	-173
Salaries of Board and directors and managing director, total	-435	-435
Other salaries	-12,776	-12,825
Pension expenses	-2,443	-2,453
Other salary-related expenses	-418	-497
Personnel expenses in the income statement	-16,073	-16,209
Fringe benefits	-232	-256
Total	**-16,305**	**-16,465**
Personnel		
Personnel on average, workers	82	86
Personnel on average, officials	186	189
Personnel on average, total	**268**	**275**
Personnel at the year end	**238**	**269**

5. Depreciation and write-down

(EUR 1,000)	2019	2018
Depreciation according to plan		
Intangible assets	-1,907	-1,919
Tangible assets		
Buildings and structures	-34	-79
Machinery and equipment	-275	-336
Depreciation according to plan, total	**-2,216**	**-2,334**
Impairments	0	0
Depreciations and impairments, total	**-2,216**	**-2,334**

6. Financial income and expenses

(EUR 1,000)	2019	2018
Financial income and expenses		
Interest income from short-term investments	3	4
Interest income from short-term investments from Group companies	55	55
Foreign exchange gains	5	1
Interest expenses	-293	-216
Losses on foreign exchange	-105	-218
Other financial expenses	-83	-96
Impairment	-1,535	
Total	**-1,953**	**-471**

Impairments include a write-down of subordinated loans to Martela AB based on impairment tests.

7. Depreciations and Group contributions

(EUR 1,000)	2019	2018
Appropriations		
Group contributions, total	1,300	1,784
Appropriations, total	**1,300**	**1,784**

8. Income Taxes

(EUR 1,000)	2019	2018
Income taxes from operations	0	0
Taxes from previous years	2	23
Total	**2**	**23**

Deferred tax liabilities and assets have not been included into income statement nor balance sheet. There were no deferred tax asset related to periodisation differences nor losses in 2018 and 2019.

9. Intangible assets

(EUR 1,000) **31.12.2019**	Intangible rights	Other long-term expenses	Work in progress	Intangible assets total
Acquisition cost 1.1.	12,415	12,339	478	25,232
Increases	97	77	2,159	2,336
Acquisition cost 31.12.	**12,512**	**12,416**	**2,038**	**26,969**
Accumulated depreciation 1.1.	-4,028	-6,907	0	-10,936
Depreciation for the year 1.1.–31.12.	-940	-962	0	-1,901
Accumulated depreciation 31.12.	**-4,968**	**-7,868**	**0**	**-12,837**
Carrying amount 1.1.	8,387	5,430	478	14,295
Carrying amount 31.12.	**7,545**	**4,547**	**2,038**	**14,131**

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

10. Tangible assets

(EUR 1,000) **31.12.2019**	Land areas	Buildings	Machinery and equipment	Other tangible assets	Total
Acquisition cost 1.1.	80	10,623	11,999	23	22,725
Increases	0	0	446	0	446
Acquisition cost 31.12.	**80**	**10,623**	**12,445**	**23**	**23,170**
Accumulated depreciation 1.1.	0	-8,694	-11,286	0	-19,980
Depreciation for the year 1.1.–31.12.	0	-34	-281	0	-315
Accumulated depreciation 31.12.	**0**	**-8,728**	**-11,567**	**0**	**-20,295**
Carrying amount 1.1.	80	1,929	713	23	2,745
Carrying amount 31.12.	**80**	**1,895**	**878**	**23**	**2,876**

31.12.2018	Land areas	Buildings	Machinery and equipment	Other tangible assets	Total
Acquisition cost 1.1.	80	10,617	11,517	23	22,237
Increases	0	6	499	0	505
Acquisition cost 31.12.	**80**	**10,623**	**11,999**	**23**	**22,725**
Accumulated depreciation 1.1.	0	-8,615	-10,944	0	-19,559
Depreciation for the year 1.1.–31.12.	0	-79	-342	0	-422
Accumulated depreciation 31.12.	**0**	**-8,694**	**-11,286**	**0**	**-19,980**
Carrying amount 1.1.	80	2,002	573	23	2,678
Carrying amount 31.12.	**80**	**1,929**	**713**	**23**	**2,745**

Revaluations included in buildings 2019 total EUR 1,850 thousand (1,850).
Carrying amount of production machinery and equipment in 2019 was EUR 90 thousand (130 in 2018).

11. Investments

(EUR 1,000) **1.1.2019–31.12.2019**	Subsidiary shares	Other shares and participations	Shareholder loan receivables	Total
Balance sheet value at beginning of year	7,498	9	6,960	14,466
Increases	0	0		0
Decreases	0	-1	-1,535	-1,536
Balance sheet value at end of year	**7,498**	**7**	**5,425**	**12,930**

1.1.2018–31.12.2018	Subsidiary shares	Other shares and participations	Shareholder loan receivables	Total
Balance sheet value at beginning of year	7,498	13	6,960	14,471
Increases	0	0	0	0
Balance sheet value at end of year	**7,498**	**9**	**6,960**	**14,466**

Subsidiary shares:		Parent company's holding %	Of total votes %	Number of shares	Par value (1,000)	Book value (1,000 eur)
Kidex Oy	Finland	100	100	200	2.208 eur	2 208
Muuttopalvelu Grundell Oy	Finland	100	100	100	8 eur	4 440
Kiinteistö Oy Ylähanka	Finland	100	100	510	9 eur	8
Martela AB, Bodafors	Sweden	100	100	50 000	5.000 sek	550
Aski avvecklingsbolag AB, Malmö	Sweden	100	100	12 500	1.250 sek	132
Martela AS, Oslo	Norway	100	100	200	200 nok	24
Martela Sp.z o.o., Warzaw	Poland	100	100	3 483	3.483 pln	135
Tehokaluste Oy	Finland	100	100	0	0 eur	0
Total						**7 498**
Other shares and participations						**7**

12. Receivables

(EUR 1,000)	2019	2018
Current receivables		
Receivables from Group companies		
Trade receivables	1,502	3,852
Loan receivables	5,059	1,460
Accrued income and prepaid expenses	0	1,200
Receivables from others		
Trade receivables	16,013	16,303
Accrued income and prepaid expenses	2,759	1,679
Current receivables, total	**25,333**	**24,495**

Accrued income and prepaid expenses, main items:	2019	2018
Related to personnel expenses	164	169
Related to income taxes	0	182
Related to payments in advance	463	236
Other accrued income or prepaid expenses	774	345
Periodisation of revenue	1,358	748
Accrued income and prepaid expenses total	**2,759**	**1,679**

13. Changes in shareholders' equity

Distribution of shares 31.12.2019	Number of shares	Total EUR	% of share capital	Votes	% of votes
K shares (20 votes/share)	604,800	1,018,500	15	12,096,000	77
A shares (1 vote/share)	3,550,800	5,981,500	85	3,550,800	23
Total	**4,155,600**	**7,000,000**	**100**	**15,646,800**	**100**
Treasury shares	13,082				
Number of shares outstanding	**4,142,518**	,	,	,	,

Shareholders' equity (EUR 1,000)	2019		2018	
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.	**27,698**	,	**29,589**	,
Dividends	-414	,	-1,326	,
Profit (-loss) for the year	-3,144	,	-563	,
Retained earnings 31.12.	**24,140**	,	**27,698**	,
		,	,	,
Shareholders' equity total	**32,267**		**35,826**	

The distributable equity of the parent company is EUR 24,140 thousand in 2019 (27,698 thousand in 2018).

Treasury shares held by Martela Oyj are reported as a deduction from retained earnings. Martela Oyj owns 13,082 A shares (13,082 in 2018). Out of the shares 12 036 were purchased at an average price of EUR 10.65 and 1,046 were transferred from Martela Corporation's joint account to the treasury shares reserve based on the decision by AGM on March 13, 2018. Market value of treasury shares on 31.12.2019 was EUR 3.36 per share (2.96), total EUR 43.9 thousand (38.7 thousand in 2018)

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. Non-current liabilities

(EUR 1,000)	2019	2018
Loans from financial institutions	3,086	3,829
Accrued expenses	150	150
Total	**3,236**	**3,979**

Changes and repayments of non-current liabilities	2019	2018
Loans from financial institutions		
Loans 1.1.	4,971	6,114
Repayments	-1,143	-1,143
Loans 31.12.	**3,828**	**4,971**
Accrued liabilities		
Related to the personnel expenses	150	150

Repayments	2019	2020	2021	2022
Loans from financial institutions	1,143	743	342	2,742
Total	**1,143**	**743**	**342**	**2,742**

15. Current liabilities

(EUR 1,000)	2019	2018
Current liabilities		
Liabilities to Group companies		
Trade payables to Group companies	5,480	9,790
Accrued liabilities to Group companies	7,727	1,975
Total	**13,208**	**11,766**
Other current liabilities		
Loans from financial institutions	5,743	6,143
Advances received	2,533	1,755
Trade payables	8,101	7,247
Other current liabilities	2,180	2,968
Accrued liabilities	4,297	3,273
Total	**22,854**	**21,386**
	,	,
Current liabilities, total	**36,061**	**33,152**

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

Essential items of accrued liabilities	2019	2018
Personnel expenses	2,261	1,636
Interest and financing accruals	124	18
Royalties	159	105
Residual expenses	1,753	1,515
Accrued liabilities, total	**4,297**	**3,273**

16. Pledges granted and contingent liabilities

(EUR 1,000)	2019	2018
Debts secured by mortgages		
Bank loans	**8,829**	**9,971**
Property mortgages	7,565	7,565
Corporate mortgages	11,368	11,368
Shares pledged	**18,933**	**18,933**
Other pledges		
Guarantees as security for rents	321	308
Guarantees given on behalf of Group companies	1,834	1,706
Total	**2,155**	**2,014**
Leasing commitments		
Falling due within 12 months	365	385
Falling due after 12 months	214	364
Total	**579**	**749**
Rent commitments	**3,447**	**5,297**

Auditor's Report

To the Annual General Meeting of Martela Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Martela Corporation (business identity code 0114891-2) for the year ended 31 December 2019. The financial statements comprise the consolidated balance sheet, comprehensive income statement, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement 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 106.2 million

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

KEY AUDIT MATTER

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

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

- We evaluated the appropriateness of the company's revenue recognition policies as well as performed testing of related internal controls.
- In order to examine the accuracy of revenue recognition we tested, for example, the recording of deliveries and related invoices in the appropriate accounting period in accordance with the contract terms. In respect of trade receivables, we inspected payments received. Additionally, we matched sales invoices to supporting delivery and customer documentation.
- We examined completeness of invoicing, credit invoices and sales margins per customer and product groups to detect deviations.

Measurement of inventories EUR 8.0 million

(Basis of preparation and note 14 to the consolidated financial statements)

KEY AUDIT MATTER

- Inventories account for approximately 14% of the consolidated total assets.
- Application of the inventory measurement principles involves management judgement and reporting may also involve an element of risk owing to human error. The estimates of the inventory obsolescence are based on, among others, inventory cycle counts carried out during the year and turnover analyses on which management compiles the total estimation of the need for possible write downs.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

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

Impairment of subsidiary shares and receivables from subsidiaries, EUR 6.3 million, and goodwill EUR 7.4 million

(Accounting policies for parent company financial statements and notes 11, 12 and 15 to parent company financial statements, FAS)

KEY AUDIT MATTER

- The equity of the parent company totals EUR 32.3 million, of which the distributable funds amount to EUR 24.1 million.
- A significant proportion of the parent company's assets consist of investments in the subsidiaries. The direct net investments in the parent company's balance sheet amount to EUR 6.3 million and the related goodwill to EUR 7.4 million. The measurement of these investments has a material impact on the determination of the parent company's distributable funds.
- Management of the parent company prepares annually impairment tests for the above-mentioned subsidiary investments. The calculations involve a significant element of management judgment. Based on the calculation an impairment loss of EUR 1.5 million was recognised on the loan receivable from Martela AB.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Other Reporting Requirements

INFORMATION ON OUR AUDIT ENGAGEMENT

We were first appointed as auditors of Martela Corporation in 1989, and our appointment represents a total period of uninterrupted engagement of 31 years.

OTHER INFORMATION

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

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

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

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

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

Helsinki, 12 February 2020
KPMG OY AB

Jukka Rajala
Authorized Public Accountant, KHT

Corporate governance statement 2019

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 2019 The Group was organised in units as:

- Sales and Marketing (SM), which is responsible for customer relationships, sales, workplace services, company brand and marketing.
- The Innovation to Market (ITM), which is responsible for the company's development and management of the product portfolio.
- The Customer Supply Management (CSM), which is responsible for after-sales activities, including sourcing, production, removal services, product development, quality assurance, the research laboratory, planning of material flows and logistics as well as environmental management. 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 and responsibility management.
- The Group's Finance, IT and IR, which is responsible for the Group's financial planning and reporting, investor relations as well as IT and legal matters.

Annual general meeting

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

Shares

Martela has two share series ('K shares' and 'A shares'), with each K share entitling its holder to 20 votes at a General Meeting and each A share entitling its holder to one vote. The redeeming of K shares is referred to in the Articles of Association. Private owners of K shares have a valid shareholder agreement that restricts the sale of these shares to other than existing holders of K shares. The company's total share capital on 31 December 2019 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 nine 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 Eero Leskinen, Eero Martela, Jan Mattsson, Katarina Mellström and Anni Vepsäläinen are independent of the company. Of the company's largest shareholders Eero Leskinen, Jan Mattsson, Katarina Mellström and Anni Vepsäläinen are independent members of the Board.
The Board has formed from among its members a Human Resource and Rewarding Committee and an Audit Committee, which both have written Charters.

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

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

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

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

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

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

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

CEO

The Board appoints Martela Corporation's CEO and decides on the terms and conditions of his service relationship, which are defined in a written CEO's service contract. The CEO is responsible for the operational management and supervision of the parent company and the Group according to the guidelines set by the Board.

Group management team

The Board of Directors and the CEO appoints 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 Jukka Rajala, 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 2019, the internal control focused on sales, quote to cash processes and management of inventories.

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. He 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 it appropriate to form 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 2019 there were no material related party transactions.

Board of Directors

From the left: Jan Mattsson, Katarina Mellström, Minna Andersson, Eero Martela, Eero Leskinen and Heikki Martela. Anni Vepsäläinen is not in the picture.

Board of Directors

Chairman of the Board
Martela Heikki
Born in 1956, M.Sc. (Econ.), MBA
Member of the Board of Martela Oyj since 1986, Chairman of the Board of Martela Oyj 2000–2002 and again starting 2015.
Managing Director of Martela Oyj 2002–2015.
Other key duties:
- Chairman of the Board of Marfort Oy
- Member of the Board of Lappset Group Oy, Netcontrol 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 Finnos Oy
- Member of the Board of Nanso Group Oy, Treston Group Oy, Ursviken Group Oy, Northern Star Oy ja 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 Sales and Marketing, Canter Oy
- Member of the Board Canter Oy and Marfort Oy

Owns 49,200 Martela Oyj K shares.

Martela Eero
Born in 1984, M.Sc. (Tech)
Member of the Board of Martela Oyj since 2015.
Other key duties:
- General Manager, Finland, Columbia Road

Owns 6,710 Martela Oyj A shares and 400 Martela Oyj K shares.

Mattsson Jan
Born in 1966, M. Sc. Architecture, KHT Royal Institute of Technology
Member of the Board of Martela Oyj since 2019.
President of Sweco Architects AB since 2006.
Other key duties:
- Chairman of the Board of Tovatt Architects & planners AB
- Member of the Board Svenska Innovationsföretagen.

Owns no Martela Oyj shares.

Mellström Katarina
Born in 1962, M.sc. (Econ)
Member of the Board of Martela Oyj since 2018.
Other key duties:
- Owner, IMM Consulting AB
- Member of the Board, Vectura AB

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 Fair Corporation
- Chairman of the Board of Helsinki Region Chamber of Commerce
- Member of the Board of Finnish Chamber of Commerce

Owns no Martela Oyj share.

Group Management Team

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

Group Management Team

Chief Executive Officer (CEO)
Rantaniemi Matti
Born in 1973, Engineer, MBA
CEO and member of management team since 2015.
Key work experience:
- Otis Oy, Carrier Oy, Kidde Finland Oy, UTC Building & Industrial Systems Finland, Managing Director, 2011–2015
- Halton Putzair Oy, COO/CEO, 2010–2011
- Infosto Group, Various management positions, 2000–2010

Owns 6,667 Martela Oyj A shares.

Chief Financial Officer (CFO)
Lehtonen Kalle
Born in 1974, M.Sc. (Econ.)
Area of responsibility: Group Finance, Investor Relations, Legal Affairs, HR and IT.
CFO and member of management team since 2018.
Key work experience:
- Tantalus Rare Earths AG, CFO, 2013–2018
- Ruukki Group Oyj, CFO, 2012–2013
- Ruukki Group Oyj, Wood Processing Division, CFO, 2009–2012
- Aldata Solution Oyj, Group Controller, 2003–2008
- ABB Oy, managerial positions in financial administration, 1998–2003

Owns 5,000 Martela Oyj A shares.

Vice President, Innovation to Market
Mäkelä Mikko
s.1973, DI
Born in 1973, M.Sc. (Tech.)
Area of responsibility: Development of Group's Product and Service Offering, Workspace Professional Service and Interior Design.
Vice President and member of management team since 2017.
Key work experience:
- Wärtsilä Oyj, Director, Strategy and Business Development, 2015–2017
- F-Secure Oyj, Leadership in product management and strategy, 2009–2015
- Nokia Oyj, Leadership and other tasks of product management and strategy, 2002–2009
- McKinsey & Co, Management consultant, 2000–2002
- Andersen Consulting (Accenture), Management consultant, 1998–2000

Owns no Martela Oyj shares.

Vice President, Customer Supply Management
Taipale Ville
Born in 1971, M.Sc. (Tech.)
Area of responsibility: Group Sourcing, Product Development, Quality Control, Sustainability, Production, Logistics and Removal Service.
Vice President and member of management team since 2018.

Key work experience:
- Componenta Oyj, Vice President, Sourcing and Procurement, 2010–2015
- Fiskars Oyj, Director, Sourcing Unit, 2007–2010
- Nokia Oyj, Supply chain management and development positions, 1998–2007
- VTT, Researcher, 1997–1998

Owns no Martela Oyj shares.

Vice President, Sales & Marketing
Westerlund Johan
Born in 1975, M.Sc. (Econ.)
Area of responsibility: Group Customers, Marketing and Sales in Finland, Sweden, Norway and International Dealer Network.
Vice President and member of the management team since 2017.
Key work experience:
- Ricchetti Group S.p.a, Managing Director Nordics, 2015–2017
- Pukkila Oy, CEO, 2012–2015
- Newtop Oy, CFO, 2010–2012
- BearingPoint Oy, Management consultant, 2003–2010
- Kraft Foods, Economy and Business Controller positions, 2000–2003

Owns no Martela Oyj shares.

Information for shareholders

Annual General Meeting

The Annual General Meeting of Martela Oyj will be held on Thursday 12 March 2020 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 2 March 2020 and the shareholder should register by email to IR@martela.com or by post to Martela Oyj, Investor Relations, PL 44, 00371 Helsinki, no later than 4 March 2020 at 10 a.m.

Payment of dividends

The Board of Directors proposes to the Annual General Meeting that no dividend would be paid for the financial year 1 January 2019 – 31 December 2019. The Board of Directors will assess the possibility to propose dividend payment to an extraordinary general meeting later this year.

Publication of financial information

Martela Corporation's financial information in 2020 will be published as follows:

- January–March (Q1) Financial Review on Thursday 7.5.2020
- January–June (H1) Half-Year Report on Friday 7.8.2020
- January–September (Q3) Financial Review on Friday 6.11.2020

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.

Contact

Finland

Martela Oyj
Takkatie 1
PL 44
FI-00371 Helsinki
tel. +358 (0)10 345 50
www.martela.fi

Kidex Oy
Savikontie 25
FI-82500 Kitee
tel. +358 (0)10 345 7211

Muuttopalvelu Grundell Oy
(moving service)
Tikkurilantie 146
FI-01530 Vantaa
tel. +358 (0)10 480 4200
www.martela.fi/muuttopalvelu

Sweden

Martela AB
Storgatan 49A
57132 Nässjö
tel. +46 380 37 19 00
www.martela.se

Norway

Martela AS
Drammensveien 130
N-0277 Oslo
tel. +47 23 28 38 50
www.martela.no

Poland

Martela Sp. z o.o.
ul Geodetów 156
05-500 Józefosław
www.martela.com