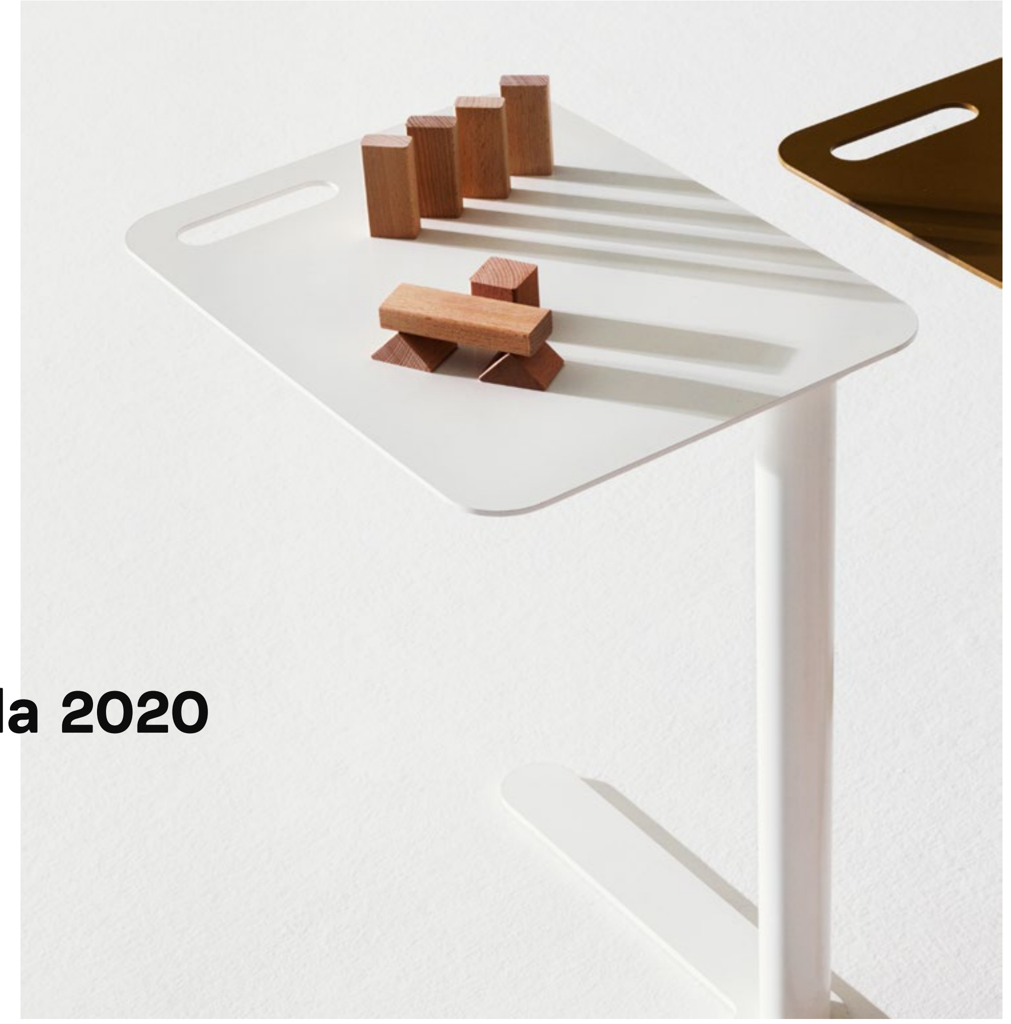
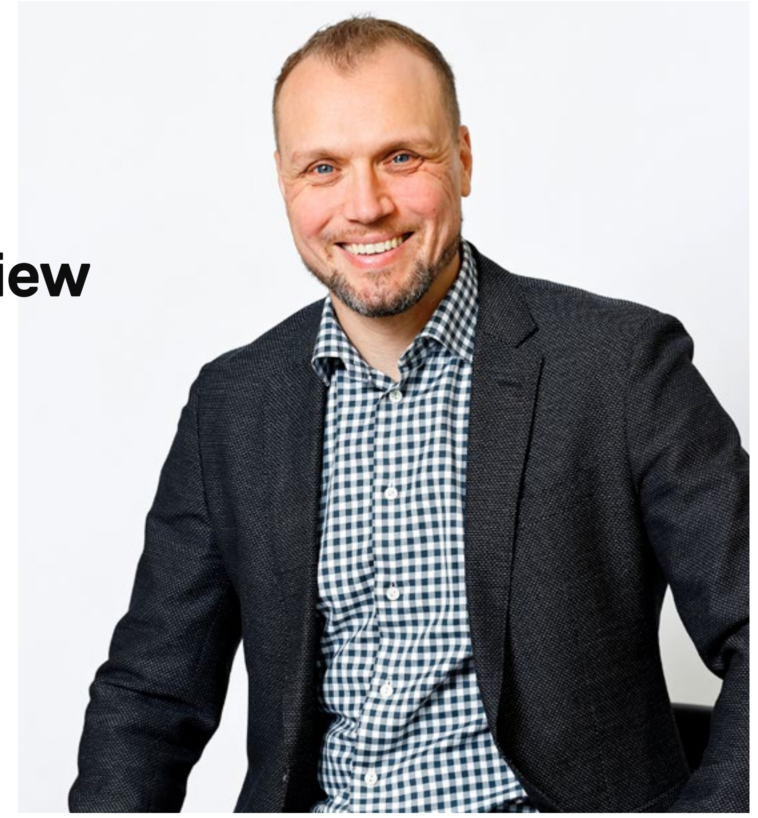
Martela

2020 Annual report

Contents





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 2020, the Martela Group's revenue was EUR 88.4 million and it employed an average of 451 employees.

Martela 2020

In 2020, Martela's revenue declined, and profit performance was weak. Operations remained loss-making. The main reason for the profit performance was the change in the general economic situation and in customer behaviour caused by the coronavirus pandemic. Many companies were forced to put their office space related acquisitions on hold as a result of the prolonged period of remote working and financial distress.

We completed our cost-efficiency programme that was announced in 2019 and achieved savings of about EUR 4 million. The programme's results started to be visible during the second quarter of 2020. When the pandemic spread to the Nordic countries in the spring, we took rapid measures to streamline our cost structure by, among other things, temporarily laying off employees.

Despite the coronavirus crisis, our delivery reliability remained excellent, and we focused on providing an excellent customer experience. Our net promoter score (NPS), which describes customer satisfaction, improved.

The transformation of working life, which was already in progress, accelerated suddenly as a result of the pandemic. Martela fulfils the requirements created by this transformation with flexible and responsible solutions for the future.

Revenue
(EUR million)

88.4

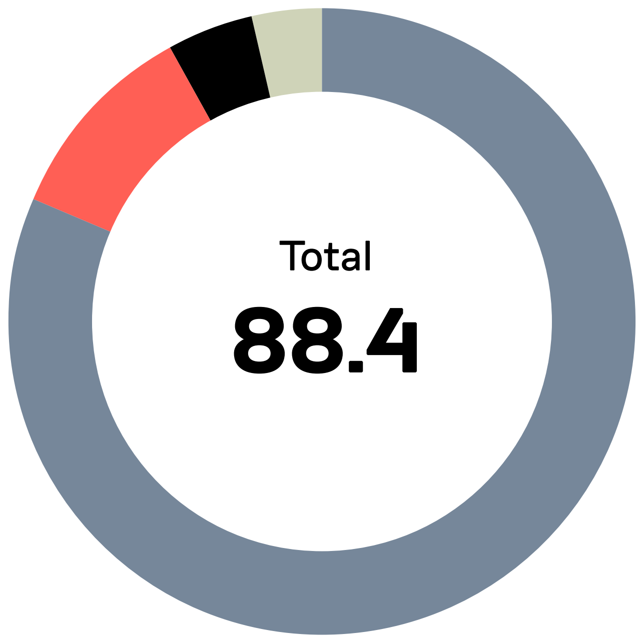
Operating profit
(EUR million)

-4.0

Personnel
(on average)

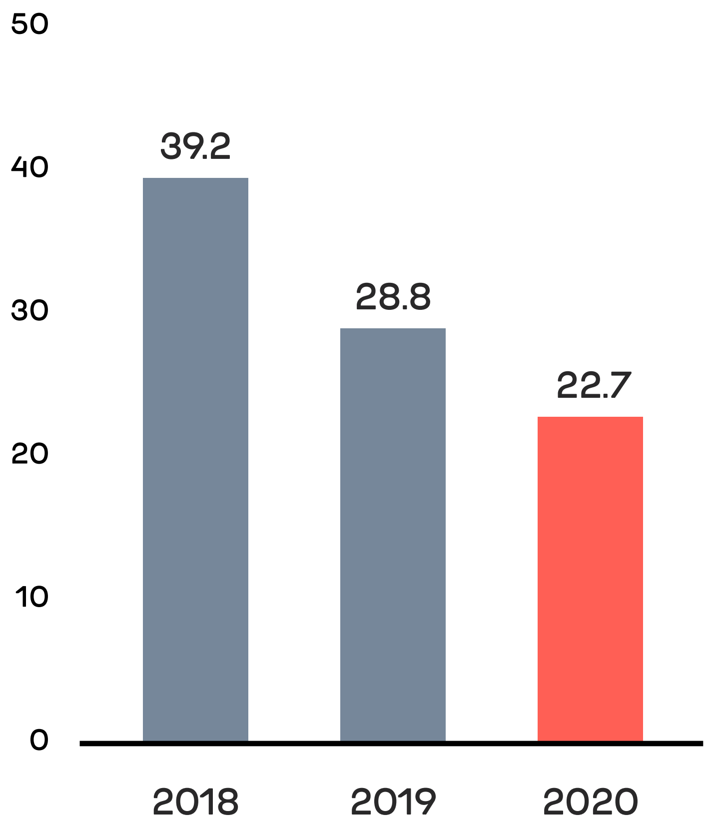
451

Revenue by country (EUR million)



Finland 72.4
Sweden 9.2
Norway 3.8
Other 3.1

Equity ratio (%)



Highlights of the year

WORKPLACE AS A SERVICE PROVED ITSELF IN THE PANDEMIC

Changes are constantly and rapidly taking place in organisations' situations and their number of employees, management culture and ways of working. The coronavirus pandemic accelerated these changes and the amount of remote working increased. Workplaces must adapt to these changes. Martela's Workplace as a Service helps companies adapt to change, avoid unnecessary investments and develop their workplace in a user-centric and responsible way. The model proved its benefits during the pandemic. The flexible model adapts to changing requirements and enables workplace optimisation. The service model can be used, for example, to lease home workstations for employees, to optimise the needed office space and to develop a hybrid working environment.

ALVA OY'S NEW WORKPLACE SUPPORTS NEW WAYS OF WORKING

Alva-yhtiöt's new office space was designed to serve new ways of working and the wellbeing of personnel. The office's furniture and interior were all acquired through Martela's flexible service model, which also includes smart solutions that measure office utilisation rate and the optimisation and circular economy model in the monthly fee. Implementation was delayed due to the pandemic, but the main goal of the project, flexibility, became even more important.

"We had a strong desire to focus on cozy surroundings, in addition to a functional workplace. As we gain more data on user experience, we can modify the premises and the furniture," says Tiina Mikkola, Vice President of Business Development at Alva.

CONTROLLED RETURN TO THE OFFICE WITH SMART SOLUTIONS

Our digital workplace solutions help create safe and functional workplaces and optimise the use of premises, for example when we return to the office after this period of remote working. The solutions allow the users of the premises and the organisation's management to base their decision-making on data instead of gut feeling. Smart solutions make it possible to manage an office's capacity, monitor use in real time, and analyse whether the safety measures and changes have been successful. Employees can be directed to a suitable workstation, observing social distancing requirements, and data on usage can be shared with property services to allow enhanced cleaning, for example, to be targeted correctly.

MARTELA CELEBRATED ITS 75-YEAR JOURNEY WITH RENEWAL

To celebrate its anniversary, Martela renewed itself in many ways. During the spring, the entire personnel was involved in defining the values that best describe Martela's core and operations: Together, Boldly, Listening and Caring. Martela's brand image was also refreshed. The Happy Mondays since 1945 theme describes Martela's mission to promote better work and wellbeing.

Empty offices showed us the value of flexible solutions

The pandemic catalysed the transformation of working life, and now is the time for Martela's workplace solutions to prove their benefits. The coronavirus pandemic showed that customer satisfaction is our strength.

The past year has not been easy for anyone, but there is light at the end of the tunnel. The coronavirus pandemic that spread to Europe in March drove workers from their offices to their homes to work remotely and was particularly tough on the private sector. As the economy stalled, many companies put their office renewal projects on ice. Project sales were relatively good, but the more fast-paced sales for customers' small-scale needs slowed down. Sales of our flexible Workplace as a Service solution grew quickly as organisations experienced more uncertainty in their financial situations. The public sector reacted more slowly than the private, but price pressure has been great in both sectors.

As total demand fell, Martela's revenue declined and the result remained negative. We completed the EUR 4 million cost-efficiency programme that was announced in 2019, and results started to show during the second quarter.

Pandemic accelerated change

The coronavirus pandemic helped to accelerate the transformation of working life that was already in progress. For a long time, it has been possible to work remotely and this has been normal in many companies, but the pandemic forced the remaining organisations and employees to adopt new ways of working very quickly.

We believe that the state of emergency caused by the pandemic will permanently change workplaces and the ways people work. The transition to a hybrid work model, which combines remote working and office working, will accelerate and organisations will need to re-evaluate their workplaces and their lifecycle. New solutions are needed to ensure smooth working and to keep office space costs under control in the midst of the transformation. Therefore, the transformation of work will increase demand for flexible workplace services.

Our Workplace as a Service (WaaS) solution meets this demand and sales of the model grew during the year. In the Workplace as a Service model, a customer's workspaces are able to adapt to even rapid changes in requirements and situations. In addition, customers avoid the risk associated with the ownership of the furniture and the capital tied up in furniture is freed up. The solution offered by Martela is economically smart and responsible.

In addition to offices, our lifecycle model meets the needs of learning environments. The operating culture at education institutions is already changing radically and teaching and learning methods are becoming increasingly varied. The pandemic accelerated the increase of the role of distance learning and teaching.

New needs require new products

We responded to the increase in demand for mobile meeting rooms and added a new member to the Pod product family. PodBooth Meeting, which was launched in February, is a soundproofed space for meetings and work for 1–6 people. The product family now includes furniture for work requiring concentration, for relaxation and for spontaneous meetings.

After the pandemic began, we started offering our customers furniture packages that facilitate their employees' remote working and improve the ergonomics of home offices in the form of a rental service. Sales of home workstations began to rise considerably after the summer.

Our survey-based Martela Remote Work Insights 2020 report increased our understanding of remote work: Many people like the fact that they can concentrate at home and that they can spend the time usually spent on commuting to work on something more enjoyable, but there are deficiencies in furniture and ergonomics of their home offices. Face-to-face interaction and spontaneous, informal meetings are, however, needed in certain jobs and to maintain a feeling of belonging in a working community. Though the amount of remote work we do is expected to increase, it will not completely replace work carried out at the office.

Sustainability is growing in importance

The constantly growing demand for sustainability and the rise of the circular economy are also significant trends. Products must be durable, and, for example, a certain proportion of recycled materials may be one of the criteria that needs to be met in an organisation's acquisitions.

Sustainability and responsibility are Martela's strengths, as sustainable choices generally also have economic benefits. Our Lifecycle model guarantees sustainability in all stages of the lifecycle of our working and learning environments. For example, from the perspective of energy consumption, it is essential that office spaces are the right size and suitable: the environmental impacts of an unused space are completely unnecessary.

Our furniture is manufactured to stand the test of time and use. We recycle furniture that is no longer required and find new owners for them and reuse the materials of furniture that can no longer be repaired. We sell cleaned and serviced furniture in our Martela Outlet chain.

Martela Outlet's sales grew during 2020 as people furnished their home offices. Both consumer and corporate customers have noticed that used furniture is a very good option – especially when it is genuinely as good as new.

Customer satisfaction at its highest level

In the midst of the pandemic, Martela's net promoter score (NPS) rose from 48 to 49, which is the highest level it has ever been. Martela's competent and committed employees deserve all the thanks for this as they are dedicated to ensuring customer satisfaction. Our delivery reliability remained high throughout the coronavirus crisis, which is an indication of our excellent supply chain management.

Martela's brand image also strengthens customer satisfaction. The brand was updated to mark Martela's 75th anniversary. We also clarified the values that guide our work with the help of the entire personnel.

Ahead of our time for 75 years

The 75-year-old Martela has always been ahead of its time. The company's long history is an indication of its pioneering spirit, which is precisely what we need to keep forging ahead. Martela is a pioneer and expert in workplace lifecycle management, and our Workplace as a Service model reinforces our position as a provider of expert services and continuous comprehensive solutions.

We see significant growth potential in the area of workplaces and Martela must seize this potential in order to make its core operations profitable. In the aftermath of the coronavirus pandemic, we will have the opportunity to offer our customers even better solutions than before. The past year has shown that even in situations requiring flexibility, we can still improve customer satisfaction. We will continue our work to promote a good working life.

Artti Aurasmaa,
CEO

Pandemic accelerated the transformation of working life

The coronavirus pandemic accelerated the transformation of working life, as office workers started working remotely. We got used to remote work, but it doesn't replace face-to-face meetings.

The transformation of the way we work, which has been in progress for a long time, accelerated rapidly in the spring of 2020 as the coronavirus pandemic drove workers from offices to their homes to work remotely.

The development of technology and digitalisation have made it possible for people to work at any time and any place and have increased the share of knowledge work. However, in many companies, office space is still the largest cost item after personnel expenses. The need to reduce costs and a growing awareness of climate change have created pressure to reduce energy consumption. These trends have encouraged companies to intensify their use of space and have prompted the transformation of office spaces from conventional individual offices to open-plan offices and now to activity-based offices.

Remote work has long been an option in many organisations, but employees have continued to come to the office to work and have meetings. Offices are primarily designed for a more old-fashioned type of work, even when they have been turned into open-plan offices due to cost pressures and the organisation's low hierarchy. The pandemic emptied offices for a long period and raised questions as to whether the type of offices we have now really are the best to meet our needs.

The decision to transition to remote work in spring 2020 was based on reasons of public health security, but the financial difficulties caused by the pandemic are likely to increase demand for more cost-effective and flexible office space solutions. Office spaces must adapt to the rapid change in requirements.

Face-to-face meetings still important

For a long time, we have already been working remotely on those days when we need to concentrate without distractions, but the possibilities of mobile work became increasingly evident during the coronavirus pandemic. We were even able to take care of many of our tasks better at home than the office.

However, we will still need to have face-to-face meetings. In order for creative problem solving and collaboration to be successful, people need to be physically present. Working together, genuine interaction and spontaneous intercommunication form the glue that keeps an organisation together. As remote working will never be able to replace meetings or working together at the same location, more and more working communities will transfer to a hybrid work model.

In other words, office spaces will need to continue to offer work communities opportunities to meet together and spaces for work requiring concentration. The premises may be smaller than before, but they must also be more attractive so that people will want to come to the workplace.

Sustainability is a requirement

The pandemic is also likely to accelerate the transformation of learning environments. Though traditional classroom solutions are no longer favoured in new educational institutions, remote schooling was a completely new experience for many last spring. Learning environments are typically designed to last decades, so they have been slow to develop. The benefits of distance teaching were also observed at educational institutions. In the future, we will be able to supplement contact teaching with distance teaching to a certain extent.

Organisations and consumers are increasingly interested in the responsibility and sustainability of their purchases. The transition to a circular economy has started. Lifecycle thinking is already a consideration in the acquisitions of pioneering organisations, but price is still a major aspect.

As a result of the pandemic, there are now many home office decorators who are interested in furniture that facilitates working and improves ergonomics. Many employers want to support their employees in their remote work by providing an ergonomic remote workstation.

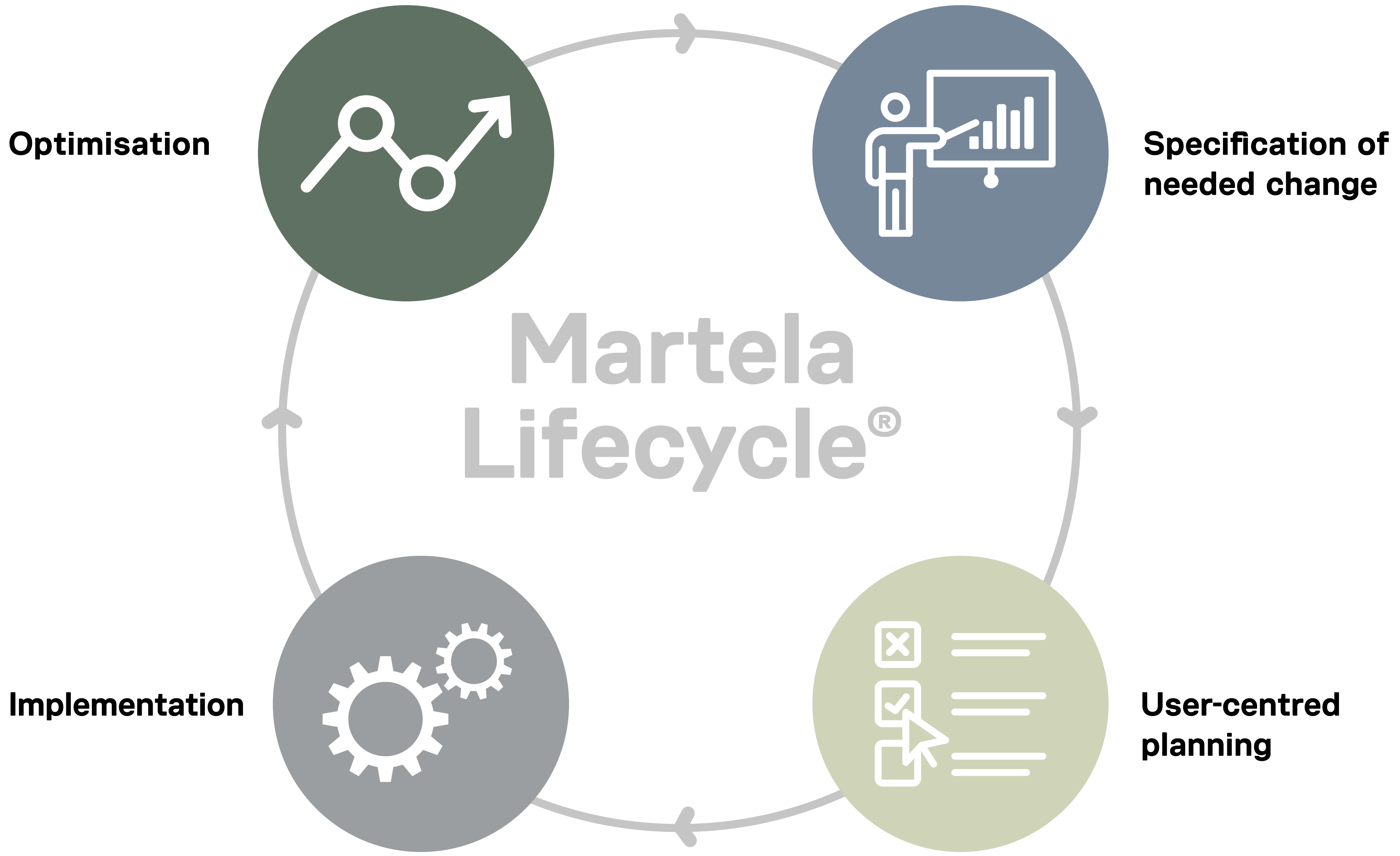
Service models adapt to change

WORKPLACE AS A SERVICE

The post-pandemic world of work will be built on hybrid work. People will have the freedom to choose where and when to work, together with others or alone. Thanks to the Workplace as a Service model, your employees will always have the best possible workplace at their disposal. Instead of individual pieces of furniture, the organisation will have a comprehensive solution for the entire lifecycle of the office, which constantly takes care of 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 only pay for what it genuinely needs, which means that the problems related to owning furniture do not exist. In addition to the company's office space, the service is also suitable for the development of employees' home offices and flexible co-working facilities.

LEARNING ENVIRONMENT AS A SERVICE

The operating culture at educational institutions is changing radically and teaching and learning methods are increasingly varied. New practices and methods also require a new type of learning environment. Developed 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 acquired as a service instead. The greatest benefit of the Learning environment as a Service model is that it creates a framework for redesigning learning environments in a user-centric way and introduces the circular economy to schools in a practical manner. Furniture that is in good condition but no longer needed due to the service model is repaired and sold through the Martela Outlet stores or the webshop or utilised in energy generation or as secondary raw material.



Value for organisation

- Working environment is always up-to-date and optimised
- Improved employee experience and wellbeing
- Increase in productivity and ability to innovate
- Renewal of operational and management culture
- Cost-effective and respor method of acquisition – Waste Nothing.

Board of Directors' Report and Financial Statements

Board of directors' report

Key figures

The Group's revenue for the financial year was EUR 88.4 million (106.2). The operating result for the year was EUR -4.0 million (-2.0). Earnings per share were EUR -1.16 (-0.61). Cash flow from operating activities totalled EUR 5.7 (6.3) million. The equity-to-assets ratio was 22.7 % (28.8) and gearing was 37.9 % (31.5). The return on investment for the year was -13.4 % (-6.4).

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 2020 Martela has expanded the Pod product family by introducing the meeting space called PodBooth meeting. Martela also launched a new cabinet solution called Capa.

EUR -2.0 (-2.2) million has been entered in the Group profit and loss statement as research and development expenses.

Market situation

The coronavirus pandemic has had a negative impact on the whole market environment of Martela, both in Scandinavia and in other countries. This has impacted especially the commercial sector. The negative impact has been smaller on the Finnish Public sector compared to the commercial sector, but the competition has toughened and prices have decreased also in the Public sector. At the moment it is challenging to say what the short- and midterm impacts to general market conditions will be and how long the uncertainty in the markets will continue.

Group structure

Kiinteistöyhtiö Ylähanka Oy, a subsidiary of Martela Oyj, was merged into the parent company during the first quarter of 2020.

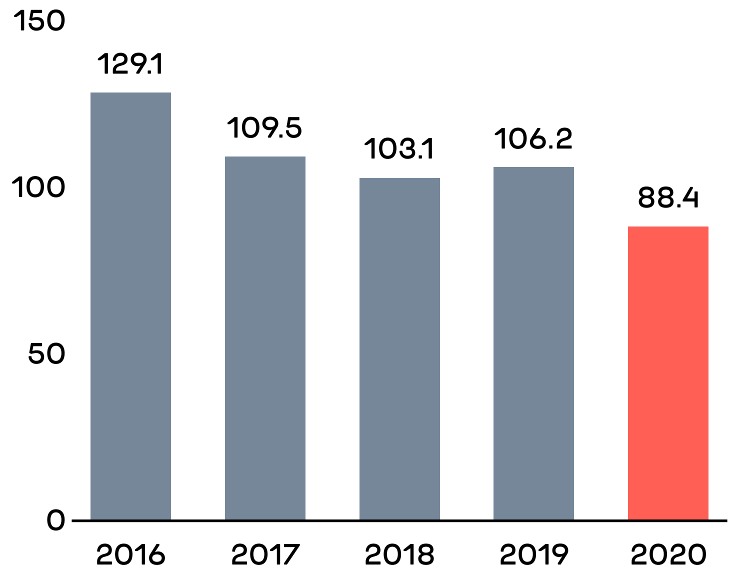
Revenue and operating result

The January—December 2020 revenue was EUR 88.4 million (106.2) a decrease of 16.8 % from previous year. Compared to the previous year, revenue decreased in Sweden 14.0% and in Norway 51.6%. Revenue from Finland decreased 13.0% and in Other countries 32.5%.

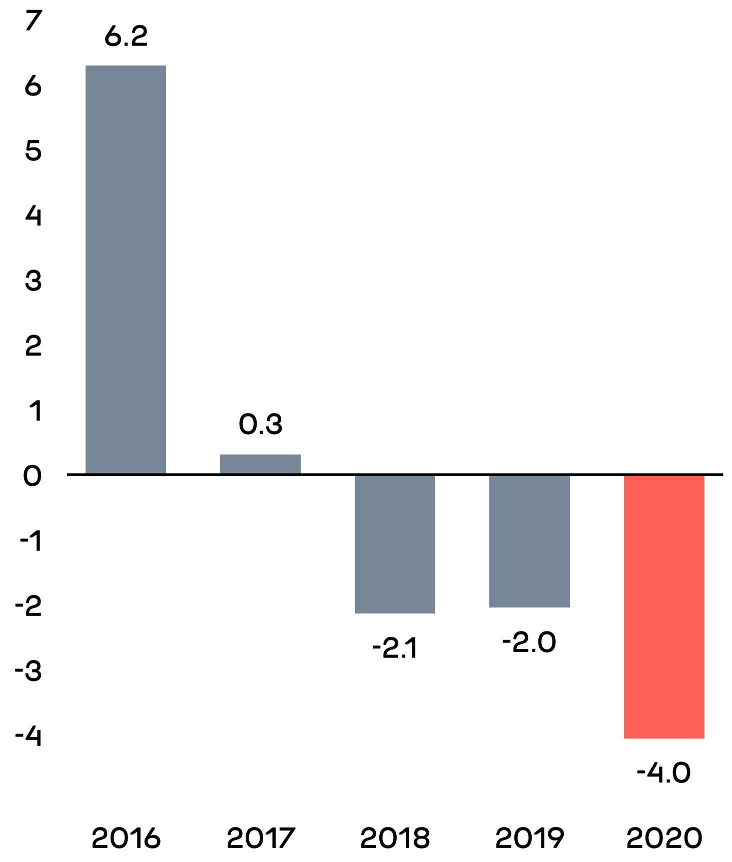
The Group's operating result for the January-December was EUR -4.0 million (-2.0).

The January—December result before taxes was EUR -4.8 million (-2.7). The January—December result was EUR -4.8 million (-2.5).

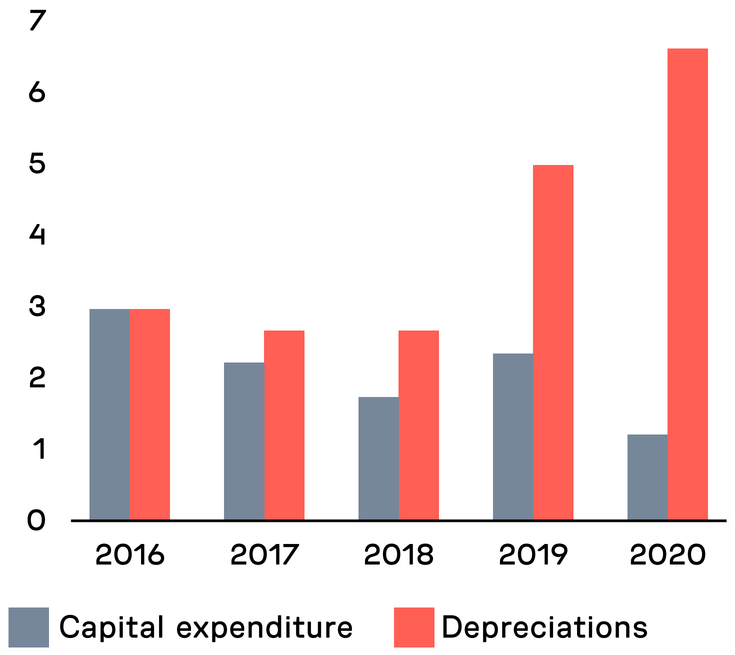
REVENUE (EUR MILLION)



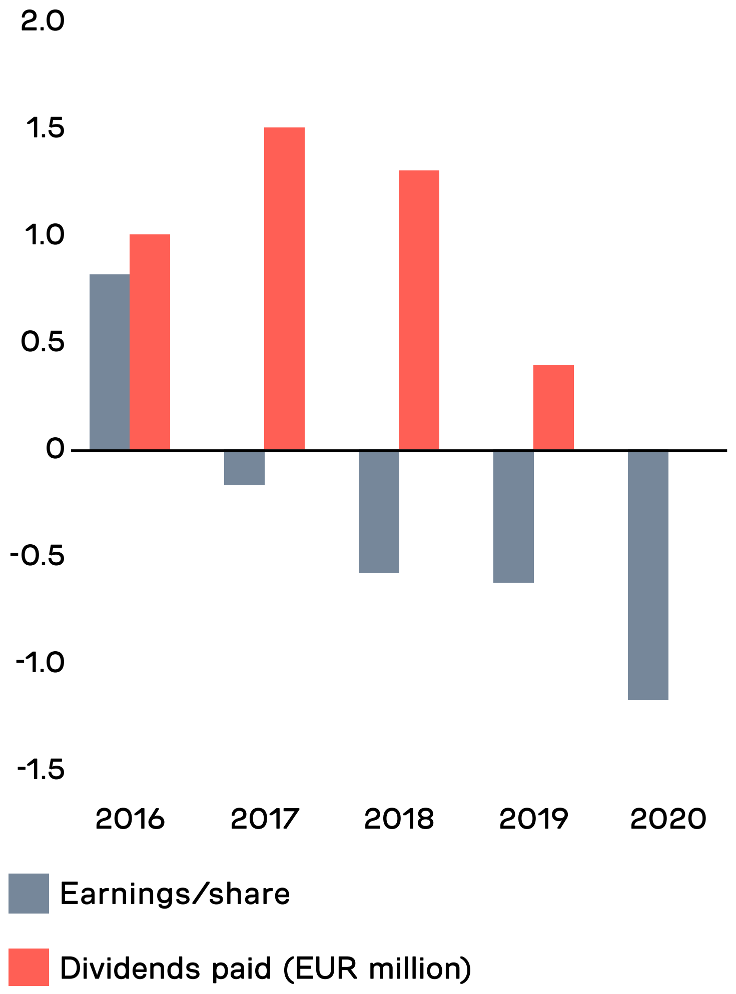
OPERATING PROFIT (EUR MILLION)



CAPITAL EXPENDITURE AND DEPRECIATIONS (EUR MILLION)



EARNINGS/SHARE AND DIVIDENDS



Financial position

The cash flow from operating activities in January—December was EUR 5.7 million (6.3).

At the end of the period, interest-bearing liabilities stood at EUR 15.4 million including EUR 6.0 million lease liabilities according to IFRS 16. At the end of comparison period the interest bearing liabilities stood at EUR 14.6 million. Net liabilities were EUR 4.3 million (5.0). At the end of the period, short-term limits of EUR 4.0 million were in use (5.0) and available limits stood at EUR 0.7 million (2.0).

The gearing ratio at the end of the period was 37.9% (31.5) and the equity ratio was 22.7% (28.8). The key ratios were negatively impacted by the lease liabilities according to IFRS 16 EUR 6.0 million (5.3). Financial income and expenses were EUR -0.8 million (-0.7).

Financing arrangements include covenant clauses in which the ratio between the Group's net liabilities and EBITDA and the Group's equity ratio are examined. The key figures calculated at the end of the review period didn't in all financial arrangements fulfill the covenant clauses. Financing arrangements where covenant clauses were not fulfilled equaled approximatley 10% of all financing arrangements.

The balance sheet total stood at EUR 51.7 million (55.9) at the end of the period.

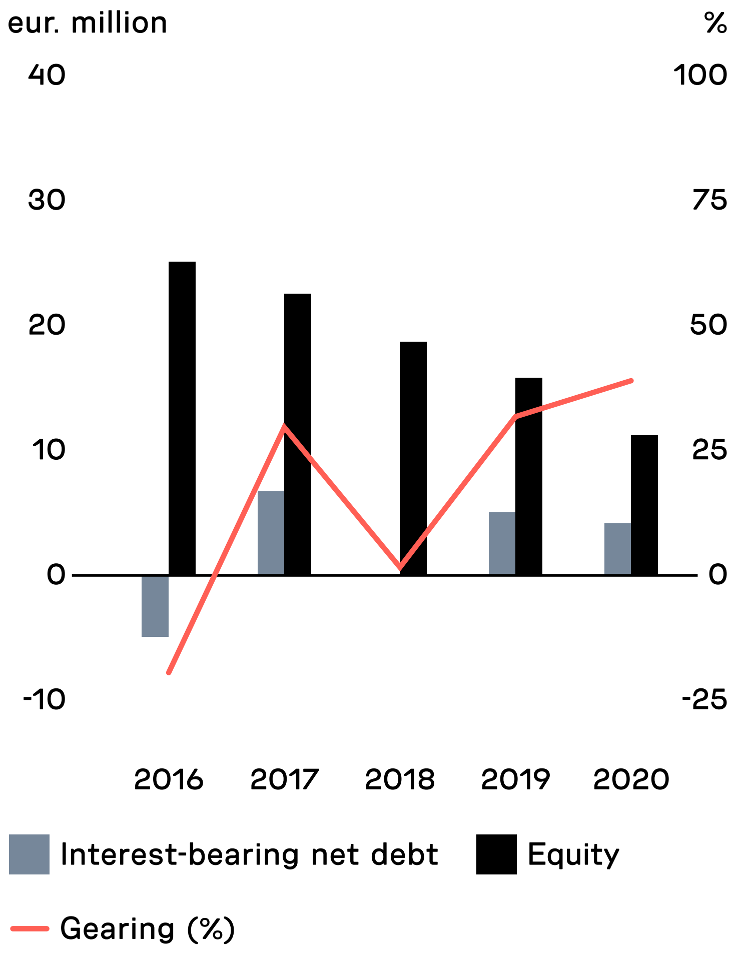
Capital expenditure

The Group's gross capital expenditure for January—December came to EUR 1.2 million (2.3).

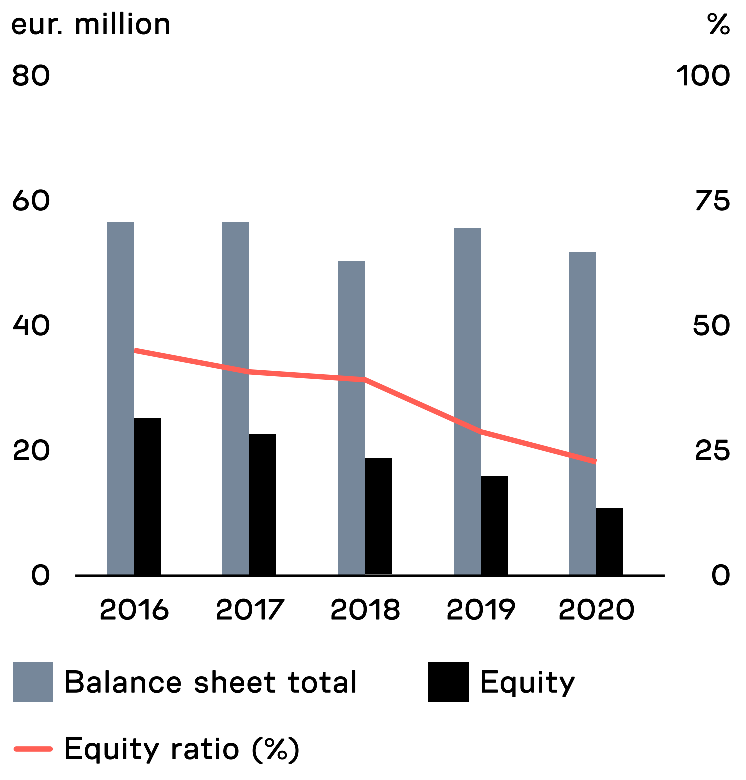
The group management team

Kristiina Hoppu, VP Human Recources, has been appointed a member of the Martela Group's Management Team since August 1, 2020. MartelaGroup's Board of Directors has appointed Artti Aurasmaa as the company's new CEO since October 19, 2020. Aurasmaa has solid experience in enabling the growth of the service business in a variety of operating environments. For this moment onwards Group Management Team has consisted of CEO Artti Aurasmaa, CFO Kalle Lehtonen, VP Sales and Marketing Johan Westerlund, VP Human Recources Kristiina Hoppu and VP Customer Supply Management Ville Taipale.

GEARING



EQUITY RATIO



Personnel

The Group employed an average of 451 people (494), which represents a decrease of 43 persons or 8.7%. Personnel on average employed in Finland was 375 (423), in Sweden 24 (22), in Norway 15 (10) and in group other countries 37 (39).

The number of employees in the Group was 435 (464) at the end of the review period. Personnel costs in January–December totalled EUR 23.1 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 as well as quality, environmental and 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 2020 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/about-us/sustainability/corporate-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 units have 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. During 2014, the systems were unified into a certified, multi-site quality and environmental system covering the entire Group's operations. During 2020, a multi-site occupational health and safety system certification in accordance with the ISO 45001 standard was also achieved.

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 in 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 turnover, while Martela itself concentrates on final assembly and service business. Martela had about 150 suppliers of materials and components for standard products.

Almost a quarter of the Group's turnover goes on salaries and social security payments. Martela values local manufacturing and employment. As the share of its service business is growing, the company will keep creating more new jobs close to its markets. The distribution of financial value will be discussed in further detail in the forthcoming 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. Martela has the best opportunities to influence the reduction of greenhouse gas emissions and energy use in its market area through its customers' premises. Martela is constantly working to help its customers create facilities that support knowledge work and improve space efficiency.

By far the most significant climate impact of Martela arises from the use of materials related to the products delivered to customers. During 2019, Martela's calculated greenhouse gas emissions totalled almost 14 million kg. Of the greenhouse gas emissions, 89% were due to material use (scope 3), 4% to indirect energy use (scope 2) and 6% to the distribution of finished products to customers (scope 1).

The total amount of indirect energy used for heating, lighting and ventilation in Martela's sites was slightly more than 36,000 GJ (10 GWh) in 2019. 87% of the total energy consumption was renewable. Martela procured almost 10 million kilos of materials, of which 60% were wood-based materials and 30% metal-based materials. Through the recycling business, Martela collected more than three and a half million kilos of mostly recoverable material from customers. In its own operations, Martela generated almost two million kilos of waste, almost all of which is utilised as energy or recycled material, with hazardous waste accounting for only one-tenth of one per cent. Hazardous waste is generated mainly from the maintenance of properties and equipment.

There are no significant environmental risks in Martela's own operations, but global changes in, for example, energy sources, pricing, availability of materials and changes in the way of working may affect Martela's operations in the future.

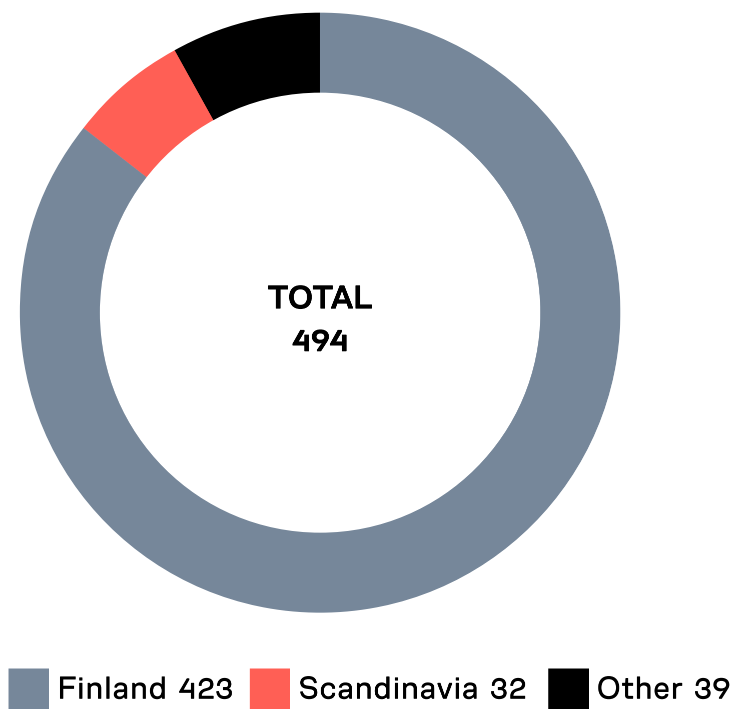
Environmental goals, their realisation and more detailed environmental metrics are published annually in the Sustainability Report.

SOCIAL MATTERS AND HUMAN RESOURCES

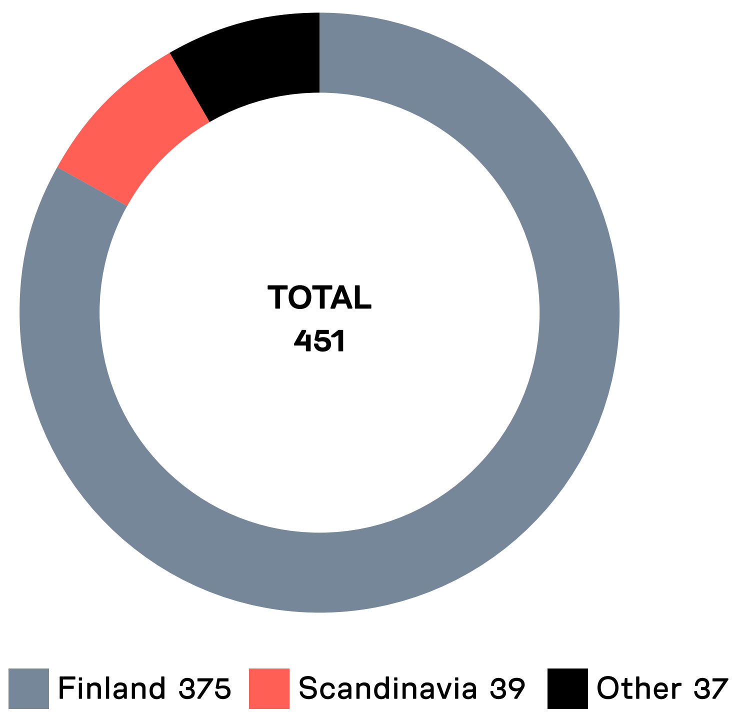
The People Policy includes the principles of responsible human resources management, clarifies and unifies the management of human resources and promotes maintenance and development of the corporate and employer image.

According to the materiality assessment in the Sustainability Report, improvement of occupational well-

PERSONNEL BY AREAS, ON AVERAGE 2019



PERSONNEL BY AREAS, ON AVERAGE 2020



being is the most important social and human resources area in Martela's operations. The Martela Lifecycle model is utilised for improving occupational well-being of knowledge workers, which is about half of Martela's personnel. Occupational well-being included in the Sustainability Programme is monitored with the help of People Spirit employee satisfaction survey, for example. Due to the exceptional changes in circumstances caused by the pandemic, the People Spirit survey was not conducted during 2020.

A survey concerning the impact of the exceptional circumstances caused by the pandemic on management, work flow and the well-being of the work community was conducted among people managers in the early autumn. The positive results showed that Martela has succeeded in supporting both people managers and personnel in the changed working conditions. In addition, a work environment survey was conducted for all personnel. The obtained results are used to improve the functionality of both office and remote working.

During 2020, strong investments were made in the occupational health and safety management system, and at the end of the year Martela was awarded the ISO45001 certificate. In the Martela Group, the greatest occupational safety risks are related to the personnel of the removal services, who work in varying customer locations under changing circumstances. After Martela was granted a training center status by Traficom in 2019, occupational safety card training has been carried out internally.

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.

Martela's material supplier base is subject to an annual country-specific, social responsibility risk analysis. Based on the risk analysis, the necessary supplier specific assessment of compliance is planned, for example, by own or third-party evaluation. During 2020 the pandemic prevented nearly all of supplier visits by Martela and only one third-party assessment was made. The findings of the assessment were mainly related to occupational safety and management of chemicals, although the supplier is ISO 14001 and ISO 45001 certified. Due to the pandemic, assessment of suppliers had to be limited to questionnaires and written supplier commitments related to Möbelfakta labelling.

The 2020 sustainability training was implemented in the autumn and was attended by 80% of the personnel. The training was used to study how comprehensively the employees perceive that the principles in Martela's code of conduct are present in team meetings and how well they are aware of the operating models for dealing with inappropriate behaviour. About half of the staff remembered that the absolute ban on corruption and bribery had been discussed in team meetings. Nearly 70% remembered that the ban on inappropriate behaviour had been discussed. Employees were also asked for their commitment to the principles of code of conduct and to achieving accident-free and smooth working. 96% of employees committed to the principles of responsible business practice, and almost everyone committed to striving for accident-free and smooth working. Reviewing and discussing the principles is an important part of everyday work enabling one to be committed to them.

PREVENTION OF CORRUPTION AND BRIBERY

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

All transactions are recorded through the financial management/bookkeeping of each subsidiary. Martela's and all its subsidiaries bookkeeping and transactions are subject to an annual statutory audit. The bookkeeping is transparent to the CFO of the Group.

Share

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

In January—December, a total of 1,786,397 (822,862) of the company's series A shares were traded on the NASDAQ OMX Helsinki exchange, corresponding to 50.3% (23.2) of the total number of series A shares.

The value of trading turnover was EUR 4.3 million (2.6), and the share price was EUR 3.09 at the end of the period (3.36). During January–December the share price was EUR 3.58 at its highest and EUR 1.78 at its lowest. At the end of December, equity per share was EUR 2.71 (3.80).

There were no disclosure notifications in 2020. 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 by the decision made by the Annual General Meeting on March 13, 2018.

SHARE-BASED INCENTIVE PROGRAMME

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

The target group for the 2017–2018 and 2019–2020 earning periods is the Group's Management Team. The potential reward of the programme from the earning period 2017–2018 is based on the Group´s Earnings before Interest and Taxes (EBIT) and from the earning period 2019–2020 based on the Group's revenue and Earnings before Interest and Taxes (EBIT). No incentives will be paid for the earning period 2017–2018. The cash portion is aimed to cover taxes and other costs related to the reward. Management of the share-based incentive scheme has been outsourced to an external service provider.

2020 Annual General Meeting

Martela Corporation's Annual General Meeting was held on Thursday, March 12, 2020. The Meeting approved the Financial Statements, discharged the members of the Board of Directors and CEO from liability for the year of 2019 and adopted Remuneration Policy for the Company's governing bodies. The Board of Directors proposal that no dividend will be distributed was approved.

The Annual General Meeting confirmed that the Board of Directors will consist of seven members and Ms. Minna Andersson, Mr. Jan Mattsson, 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. Johan Mild elected as a new member of the Board of Directors.

Authorised Public Accountant Ernst & Young Oy was elected 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 Board of Directors elected by Martela Corporation's Annual General Meeting had its organisational meeting after the Annual General Meeting and re-elected from among its members Heikki Martela as the Chairman and Katarina Mellström as the new Vice Chairman of the Board.

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 2020 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 Responsibility Report includes extensively the non-financial information (NFI) required by the accounting law reforms. The Responsibility Report of 2020 will be published after the Annual Report.

Risks and uncertainties

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 22 of the notes to the financial statements.

SHORT-TERM RISKS

The principal risk regarding profit performance relates to the general economic uncertainty and the consequent effects on the overall demand in Martela's operating environment. The coronavirus pandemic and the uncertainty caused by it have had a negative impact on the market situation. Due to the project-based nature of the sector, forecasting short-term development is challenging in normal circumstances. This has been further been emphasised by the general uncertainty caused by the pandemic.

Events after the end of the financial year

Head of Innovation to Market –organisation and management team member VP, Mikko Mäkelä, is heading for new challenges outside Martela and leaves the company at the end of January. Artti Aurasmaa, CEO, will take as interim position to lead the Innovation to Market business in addition to his duties as the CEO. The change has been announced in the stock exchange release on January 14, 2021.

Martela Plans restructuring measures to improve operational efficiency and starts co-operation negotiations. This has been announced in the stock exchange release on January 27, 2021.

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

Outlook for 2021

The Martela Group anticipates that its revenue and operating result in 2021 will improve compared to the previous year. Due to normal seasonal variations, the Group's operating result accumulates during the second half of the year.

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 2021.

Annual general meeting

The Annual General Meeting is planned to be held on Thursday 18 March 2021. The notice of the Annual General Meeting will be published in a separate release.

Consolidated comprehensive income statement

(EUR 1,000)	Note	1.1.–31.12.2020	1.1.–31.12.2019
Revenue	1	**88,385**	**106,207**
Other operating income	2	540	356
Changes of inventories of finished goods and work in progress		1,689	116
Raw material and consumables used*		-54,606	-63,977
Production for own use		90	172
Employee benefits expenses	3	-23,072	-26,651
Other operating expenses*	4	-10,498	-13,304
Depreciation and impairment	5	-6,523	-4,949
Operating profit (-loss)		**-3,996**	**-2,031**
Financial income	7	123	103
Financial expenses	7	-940	-772
Profit (-loss) before taxes		**-4,813**	**-2,701**
Income taxes	8	7	159
Profit (-loss) for the financial year		**-4,806**	**-2,541**
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		28	-37
Taxes from items that will not later be recognised through profit or loss		4	6
Items that may later be recognised through profit or loss			
Other changes			-38
Translation differences		-22	-98
Other comprehensive income for the period		**10**	**-167**
Total comprehensive income		**-4,796**	**-2,708**
Allocation of profit (-loss) for the financial year			
Equity holders of the parent		-4,806	-2,541
Allocation of total comprehensive income			
Equity holders of the parent		-4,796	-2,708
Earnings per share of the profit attributable to the equity holders of the parent			
Basic earnings/share, EUR	9	-1,16	-0,61
Diluted earnings/share, EUR	9	-1,16	-0,61

Consolidated balance sheet

(EUR 1,000)	Note	31.12.2020	31.12.2019
ASSETS			
Non-current assets			
Intangible assets	10	5,792	7,605
Tangible assets	11	10,387	9,582
Available-for-sale financial assets		7	7
Deferred tax assets	13	314	287
Non-current assets, total		**16,499**	**17,481**
Current assets			
Inventories	14	9,473	8,587
Trade receivables and other receivables	12, 15	14,562	20,179
Cash and cash equivalents		11,172	9,621
Current assets, total		**35,207**	**38,387**
ASSETS, TOTAL		**51,706**	**55,868**

(EUR 1,000)	Note	31.12.2020	31.12.2019
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		-1,060	-1,038
Retained earnings		4,292	9,138
Equity, total		**11,212**	**16,080**
Non-current liabilities			
Deferred tax liabilities	13	198	283
Pension obligations	19	492	472
Financial liabilities	12, 18	6,277	5,924
Provisions	20	282	282
Non-current liabilities, total		**7,249**	**6,961**
Current liabilities			
Financial liabilities	12, 18	8,656	8,188
Advances received	21	2,281	3,728
Trade payables	12, 21	8,885	9,839
Accrued liabilities and prepaid income	12, 21	8,289	8,176
Other current liabilities	12, 21	5,063	2,826
Provisions	20	70	70
Non-interest-bearing current liabilities, total		**33,245**	**32,827**
LIABILITIES, TOTAL		**40,494**	**39,788**
EQUITY AND LIABILITIES, TOTAL		**51,706**	**55,868**

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

Consolidated cash flow statement

(EUR 1,000)	1.1.–31.12.2020	1.1.–31.12.2019
Cash flows from operating activities		
Cash flow from sales	94,370	107,633
Cash flow from other operating income	393	325
Payments on operating costs	-88,199	-101,324
Net cash from operating activities before financial items and taxes	6,564	6,634
Interest paid	-545	-360
Interest received	18	5
Other financial items	-252	-208
Dividends received	8	0
Taxes paid	-74	203
Net cash from operating activities (A)	**5,718**	**6,274**
Cash flows from investing activities		
Capital expenditure on tangible and intangible assets	-1,219	-3,040
Proceeds from sale of tangible and intangible assets	59	5
Net cash used in investing activities (B)	**-1,159**	**-3,034**
Cash flows form financing activities		
Proceeds from short-term loans	5,000	0
Repayments of short-term loans	-9,333	-1,152
Repayments of lease liabilities	-3,027	-2,631
Proceeds of long-term loans	4,400	0
Dividends paid and other profit distribution	0	-414
Net cash used in financing activities (C)	**-2,960**	**-4,197**
Change in cash and cash equivalents (A+B+C), increase +, decrease -	**1,599**	**-957**
Cash and cash equivalents at the beginning of year	**9,621**	**10,594**
Translation differences	-47	-16
Cash and cash equivalents at the end of year	**11,172**	**9,621**

Statement of changes in equity

Equity attributable to equity holders of the parent (EUR 1,000)	Share capital	Share premium account	Other reserves	Treasury shares	Translation diff.	Retained earnings	Equity total
Equity 1.1.2019	7,000	**1,116**	**-9**	**-128**	**-940**	**11,751**	**18,790**
Correction of errors in previous periods						340	340
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	0						
Dividends	0					-414	-414
Equity 31.12.2019	**7,000**	**1,116**	**-9**	**-128**	**-1,038**	**9,138**	**16,080**
Equity 1.1.2020	**7,000**	**1,116**	**-9**	**-128**	**-1,038**	**9,138**	**16,080**
Correction of errors in previous periods							
Other comprehensive income						,	,
Profit (-loss) for the financial year						-4,806	-4,806
Other items of comprehensive income adjusted by tax effects							
Translation differences					-22		-22
Items resulting from remeasurement of the net debt related to defined benefit plans (incl. Deferred taxes)						32	32
Other change							0
Total comprehensive income					**-22**	**-4,774**	**-4,796**
Share-based incentives						-72	-72
Business transactions with owners							
Dividends						0	0
Equity 31.12.2020	**7,000**	**1,116**	**-9**	**-128**	**-1,060**	**4,292**	**11,212**

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 4, 2021. 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, 2020. 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.

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% 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.

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. The public grants received during the financial year 2020 consist of grants granted by Business Finland to Group companies.

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 is also transferred to the buyer through the approval of the delivery. Revenue from sold goods is recognised as the control of the goods is transferred to the buyer according to the agreement. The normal warranty for standard Martela produced products in normal use is five years and for other standard products two years.

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

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

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, and are treated in accordance to IFRS 16.

Leases in which substantially all the risks and rewards incidental to ownership of an asset remain with the lessor are classified as operative lease contracts and recognised as revenue in the statement of comprehensive income on a straight-line basis over the lease term. In finance leases, the risks and benefits of ownership have been substantially transferred to the lessee. The gain on the sale of the contract is recognised in the same way as for the sale of an asset.

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 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. There has been no development costs that met the capitalisation criteria during the financial year.

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, 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.

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 lease agreements of indefinite duration. The estimated rental periods are 2 years for rented offices and sales facilities and 1 year for warehouses. Martela applies the exemptions to IFRS 16 and does not apply IFRS 16 to short-term leases for which the lease term ends within 12 months and leases of low-value assets, which are not offices or warehouses in use by Martela.

Short term lease contracts and leases of low-value assets, 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.

The lease liabilities have been discounted at the borrowing rate. 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 recognized as equal instalments over the rental period in the consolidated statement of comprehensive income.

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.

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 consists 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 as financial liabilities measured at amortised cost (mainly includes borrowings from financial institutions, IFRS 16 lease liabilities and trade payables) .

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

Share capital

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

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

DIVIDENDS

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

Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that on outflow of economic benefits will be required to settle the obligation and the amount can be estimated reliably. The amount recognised as a provision is equal to the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

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 foremost estimates concern the utilisation of deferred tax assets against future taxable income and the assumptions used in the impairment testing. Other estimates requiring management's judgement mainly concerns the amount of non-marketable inventories, impairment of trade receivables, the amount of guarantee provisions and the definition of the lease period in lease contracts of indefinite duration under IFRS 16. 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.

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.

Liikevaihto (EUR 1,000)	1.1.–31.12.2020	1.1.–31.12.2019
Revenue by area		
Finland	**72,350**	**83,170**
Sweden	9,172	10,663
Norway	3,770	7,792
Other areas	3,093	4,582
Total	**88,385**	**106,207**
Income from the sale of goods	74,209	91,494
Income from the sale of services	14,176	14,713
Total	**88,385**	**106,207**

Revenue includes EUR 579 thousand (196) income from sold furniture that based on the customer agreement is classified as rental income.

(EUR 1,000)	1.1.–31.12.2020	1.1.–31.12.2019
Assets and liabilities from contracts with customers		
Trade receivables	12,656	16,847
Accrued income based on customer contracts	646	1,358
Prepayments based on customer contracts	2,281	3,728

Assets

Information about geographical regions Non-current assets (EUR 1,000)	Intangible assets 31.12.2020	Tangible assets 31.12.2020
Finland	5,788	10,153
Sweden	0	101
Other regions	4	132
Total	**5,792**	**10,387**

Non-current assets (EUR 1,000)	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**

2. Other operating income

(EUR 1,000)	1.1.–31.12.2020	1.1.–31.12.2019
Gains on sale of tangible assets	62	5
Rental income	257	261
Public subsidies	16	3
Other income from operations	205	88
Total	**540**	**356**

3. Employee benefits expenses

(EUR 1,000)	1.1.–31.12.2020	1.1.–31.12.2019
Salaries and wages	-18,936	-21,674
Pension expenses, defined contribution plans	-2,933	-3,539
Pension expenses, defined benefit plans	-221	-171
Part paid as share-based incentives	72	-72
Other salary-related expenses	-1,053	-1,196
Personnel expenses in the income statement	-23,072	-26,651
Other fringe benefits	-371	-364
Total	**-23,442**	**-27,015**

A total of EUR - 729 thousand for 2020 and EUR - 750 thousand from 2019 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	2020	2019
Personnel on average, workers	227	258
Personnel on average, officials	223	235
Personnel on average, total	**451**	**494**
Personnel at year end	**435**	**464**
Personnel on average in Finland	375	423
Personnel on average in Sweden	24	21
Personnel on average in Norway	15	10
Personnel on average in Poland	38	39
Total	**451**	**494**

4. Other operating expenses

Other operating expenses are reported by type of expense.

(EUR 1,000)	1.1.–31.12.2020	1.1.–31.12.2019
Freight	-527	-1,376
Travel	-448	-1,021
Administration	-1,582	-2,010
IT	-2,833	-2,617
Marketing	-1,198	-1,264
Vehicles	-214	-254
Real estate	-1,065	-1,441
Other	-2,631	-3,319
Total	**-526**	**-13,304**
Auditors' fees		
Auditing	-73	-86
Other services	-7	-79
Total	**-80**	**-165**

Auditors' fees are included in administration expenses.

5. Depreciation and impairment

(EUR 1,000)	1.1.–31.12.2020	1.1.–31.12.2019
Depreciation		
Intangible assets	-2,196	-900
Tangible assets		
Buildings and structures	-484	-540
Machinery and equipment	-695	-790
Depreciation, total	**-3,375**	**-2,230**
Depreciation of right-of-use assets according to IFRS 16		
Buildings and structures	-2,171	-2,110
Machinery and equipment	-977	-609
Depreciation, total	**-3,148**	**-2,719**

6. Research and development expenses

The income statement includes research and development expenses of EUR -1,971 thousand (EUR -2,211 thousand in 2019).

7. Financial income and expenses

(EUR 1,000)	1.1.–31.12.2020	1.1.–31.12.2019
Financial income		
Interest income on loans and other receivables	18	5
Foreign exchange gain on loans and other receivables	95	96
Ohter financial income	10	2
Total	**123**	**103**
Financial expenses		
Interest expenses from financial liabilities measured at amortised cost	-403	-285
Foreign exchange losses on loans and other receivables	-224	-176
Interest expenses of lease liabilities according to IFRS 16	-162	-165
Other financial expenses	-152	-146
Total	**-940**	**-772**
Financial income and expenses, total	**-818**	**-670**
Total exchange rate differences affecting profit and loss are as follows:		
Exchange rate differences, sales (included in revenue)	-33	-43
Exchange rate differences, purchases (included in adj.of purchases)	-72	-68
Exchange rate differences, financial items	-128	-80
Exchange rate differences, total	**-234**	**-191**

8. Income taxes

(EUR 1,000)	1.1.–31.12.2020	1.1.–31.12.2019
Income taxes, financial year	-25	-20
Taxes for previous years	-77	3
Change in deferred tax liabilities and assets	110	176
Total	**7**	**159**

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.–31.12.2020	1.1.–31.12.2019
Profit before taxes	-4,813	-2,701
Taxes calculated using the domestic corporation tax rate	-963	-540
Different tax rates of subsidiaries abroad	-46	-31
Taxes for previous years	-77	3
Recognition of unused tax losses not booked earlier	-116	-116
Tax-exempt income	0	-3
Non-deductible expenses	44	36
Unbooked deferred tax assets on losses in taxation	1908	731
Other items	-758	-239
Income taxes for the year in the p/l (+ = expense, - = profit)	**-7**	**-159**

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.–31.12.2020	1.1.–31.12.2019
Profit attributable to equity holders of the parent	-4,806	-2,541
Weighted average number of shares (1000)	4,143	4,143
Basic earnings per share (EUR/share)	**-1,16**	**-0,61**

The company has no diluting instruments 31.12.2020 or 31.12.2019.

10. Intangible assets

(EUR 1,000)	1.1.-31.12.2020 Intangible assets	Goodwill	Work in progress	Total	1.1.-31.12.2019 Intangible assets	Goodwill	Work in progress	Total
Acquisition cost 1.1.	13,267	883	2,038	16,188	13,135	883	478	14,496
Increases	2,092		936	3,028	164		2,159	2,323
Decreases	0		-2,656	-2,656	-31		-600	-631
Acquisition cost 31.12.	15,360	883	317	16,560	13,267	883	2,038	16,188
Accumulated depreciation 1.1.	-8,582	0	0	-8,582	-7,721	0	0	-7,721
Accumulated depreciation, decreases	0			0	31	0	0	31
Depreciation for the year 1.1.-31.12.	-1299			-1,299	-892	0	0	-892
Impairment	-888			-888				
Exchange rate differences						0	0	0
Accumulated depreciation 31.12.	-10,769	0	0	-10,769	-8,582	0	0	-8,582
Carrying amount 1.1.	4,685	883	2,038	7,605	5,414	883	478	6,776
Carrying amount 31.12.	**4,591**	**883**	**317**	**5,792**	**4,685**	**883**	**2,038**	**7,605**

Goodwill

The Group's Goodwill EUR 883 thousand (EUR 883 thousand in 2019) relates to the Grundell acquisition Martela made December 31, 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 2.0% and EBIT 3.0%. The use of testing model requires making estimates and assumptions concerning market growth and general interest rate level. The used pre-tax discount rate is 9.4% (11.6%) which equals the weighted average cost of capital.

The cash flows after the five-year period have been forecasted by estimating the future growth rate of revenue to be 1.5%. Based on the impairment test there is no need to recognise an impairment loss.

Sensitivity analysis of impairment testing

The carrying value of the cash generating unit is EUR 4.3 million higher than the book value according to the performed impairmenttest. The rise in discount rate by 24 %-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

1.1.2020–31.12.2020 (EUR 1,000)	Land areas	Buildings	Buildings IFRS 16	Machinery and equipment	Machinery and equipment IFRS 16	Other tangible assets	Work in progress	Total
Acquisition cost 1.1.	66	24,462	7,500	33,329	5,614	34	119	71,124
Increases		50	2194	1509	1606		34	5,392
Decreases			-157	-45	-4582			-4,784
Exchange rate differences					-2			-2
Acquisition cost 31.12.	**66**	**24,513**	**9,537**	**34,793**	**2,637**	**34**	**152**	**71,732**
Accumulated depreciation 1.1.	4	-22,702	-3,162	-30,907	-4,776	0	0	-61,543
Accumulated depreciation, decreases	0		130	23	4383	0	0	4,536
Depreciation for the year 1.1.–31.12.	0	-487	-2,171	-1,018	-662	0	0	-4,339
Exchange rate differences						0	0	0
Accumulated depreciation 31.12.	**4**	**-23,189**	**-5,203**	**-31,902**	**-1,054**	**0**	**0**	**-61,346**
Carrying amount 1.1.	70	1,760	4,337	2,422	839	34	119	9,582
Carrying amount 31.12.	**70**	**1,323**	**4,334**	**2,891**	**1,582**	**34**	**152**	**10,387**

1.1.2019–31.12.2019 (EUR 1,000)	Land areas	Buildings	Buildings IFRS 16	Machinery and equipment	Machinery and equipment IFRS 16	Other tangible assets	Work in progress	Total
Acquisition cost 1.1.	66	24,410	6,666	32,170	5,253	34	0	68,599
Increases		80	1462	1295	416		119	3,371
Decreases		-15	-606	-136	-51			-809
Exchange rate differences		-12	-22		-2			-37
Acquisition cost 31.12.	**66**	**24,462**	**7,500**	**33,329**	**5,614**	**34**	**119**	**71,124**
Accumulated depreciation 1.1.	3	-22,171	-1,059	-29,933	-4,166	0	0	-57,327
Accumulated depreciation, decreases	0	14		143		0	0	157
Depreciation for the year 1.1.–31.12.	0	-545	-2110	-1117	-609	0	0	-4,383
Exchange rate differences	1		7			0	0	8
Accumulated depreciation 31.12.	**4**	**-22,702**	**-3,162**	**-30,907**	**-4,776**	**0**	**0**	**-61,545**
Carrying amount 1.1.	69	2,239	5,329	2,237	1,070	34	0	10,981
Carrying amount 31.12.	**70**	**1,760**	**4,337**	**2,422**	**839**	**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.

12. Book values of financial assets and liabilities by group

(EUR 1,000)	Financial assets measured at amortised costs	Financial liabilities measured at amortised cost	Book values of balance sheet items	Fair value	Hierarchy level	Note
2020 BALANCE SHEET ITEMS						
Non-current financial assets						
Other financial assets			7	7	2	
Current financial assets						
Trade and other receivables	12,656		12,656	12,656	2	15
Book value by group	12,656		12,663	12,663		
Non-current financial liabilities						
Interest-bearing liabilities		6,277	6,277	6,277	2	18
Current financial liabilities						
Interest-bearing liabilities		8,656	8,656	8,656	2	18
Trade payables and other liabilities		14,118	14,118	14,118	2	21
Book value by group		**29,052**	**29,052**	**29,052**		

(EUR 1,000)	Financial assets measured at amortised costs	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	0					
Other financial assets			52	52	2	
Current financial assets						
Trade and other receivables	16,847		16,847	16,847	2	15
Book value by group	16,847		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	21
Book value by group		**26,901**	**26,901**	**26,901**		

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

Changes in deferred taxes during 2020 (EUR 1,000)	1.1.2020	Recognised in the income statement	Recognised in the other comprehensive income	Exchange rate differences	31.12.2020
Deferred tax assets					
Pension obligations	64	0	4	0	68
Other temporary differences*	153	23	0	70	245
Total	**217**	**23**	**4**	**70**	**314**
Deferred tax liabilities					
On buildings measured at the fair value of the transition date	264	-66	0	0	198
Other temporary differences	19	-20	0	0	0
Total	**283**	**-86**	**0**	**0**	**198**
Deferred tax assets and liabilities, total	**-67**	**108**	**4**	**70**	**115**

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

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

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 24.6 million (17.7 in 2019) including current year results.
Of these losses EUR 4.9 million expires from 2028 and the remainder, according to current knowledge, have no expiration date
The losses originate mainly from foreign subsidiaries.

14. Inventories

(EUR 1,000)	31.12.2020	31.12.2019
Raw materials and consumables	7,757	6,738
Work in progress	1,063	1,081
Finished goods	654	768
Total	**9,473**	**8,587**

The value of inventories has been written down by -229 thousand (-263 thousand 2019) 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)	31.12.2020	31.12.2019
Trade receivables	**12,656**	**16,847**
Accrued income and prepaid expenses of		
Personnel expenses	150	151
Advances	1,755	3,182
Accrued income and prepaid expenses total	**1,905**	**3,332**
Total	**14,562**	**20,179**

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)	2020	Incl. credit loss provision	2019	Incl. credit loss provision
Undue	10,318	55	14,051	59
0–6 months overdue	2,064	33	2,399	310
6–12 months overdue	144	12	211	181
12–24 months overdue	22	12	111	82
Over 24 months overdue	107	638	75	608
Total	**12,656**	**751**	**16,847**	**1,240**

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.
The sales invoices are interest-fre and the most general payment term is 7 days.

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

Region (EUR 1,000)	2020	2019
Finland	9,883	10,890
Scandinavia	1,627	4,744
Other European countries	806	746
Other regions	340	467
Total	**12,656**	**16,847**

Credit risks from trade receivables are not concentrated.

In 2020 credit losses of EUR -79 thousand (EUR -398 thousand in 2019) has been recognised as expenses and are presented in other operating expenses.

16. Equity

Share capital
The paid share capital entered in the Trade register is 7,000,000 eur. According to the Articles of Association the maximum share capital is EUR 14,000,000 and the minimum capital EUR 3,500,000. the counter value of a share is 1.68. The K-shares carry 20 votes at the annual general meeting and the A-shares 1 vote each. Both share series have the same dividend rights.

	Number of shares						
Changes in share capital (EUR 1,000)	**A- shares**	**K-shares**	**Share capital**	**Share premium account**	**Treasury shares**	**Treasury shares, share-based incentive-system**	**Total**
1.1.2019	**3,537,718**	**604,800**	**7,000**	**1,116**	**-128**	**0**	**7,988**
Acq.of shares for share-based incentive system*							
Shares given*							0
Shares returned							
Share issue							
31.12.2019	**3,537,718**	**604,800**	**7,000**	**1,116**	**-128**	**0**	**7,988**
Acq.of shares for share-based incentive system*							
Shares given*					**0**		0
Shares returned							
Share issue							
31.12.2020	**3,537,718**	**604,800**	**7,000**	**1,116**	**-128**	**0**	**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.

A retrospective adjustment of EUR 352 thousand guarantee provision plus the deferred tax effect of EUR 70 thousand have been made to equity. More information can be found in the note 20. Moreover a retrospective correction of the inventory of EUR 621 has also been made to equity.

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 September 1, 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 18 350 thousand on December 31, 2020.

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.

Program	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	No	No
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	0,0
Number of persons at the end of reporting year	0	5
Payment method	Cash & Equity	Cash & Equity

Changes during the period 2020	Earning period 2017–2018	Earning period 2019–2020	Total
1.1.2020			
Outstanding at the beginning of the reporting period, pcs	0	91,000	91,000
Changes during the period			
Granted	0		0
Forfeited	0		0
Shares given	0		0
Outstanding at the end of the period	0	91,000	91,000

Effects from the share based incentive programme on the financial year 2020, (EUR 1,000)	
Expenses for the financial year, share-based payments, equity settled	-72
Liabilities arising from share-based payments on 31.12.2020	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)	31.12.2020	31.12.2019
Non-current		
Bank loans	2,900	3,086
Lease liabilities, IFRS 16	3,377	2,838
Total	**6,277**	**5,924**
Current		
Bank loans	6,000	5,748
Lease liabilities, IFRS 16	2,656	2440
Total	**8,656**	**8,188**

The Group's bank loans have either variable or fixed interest rates. The Group's average interest rate is 4.2% (3.9% 2019). The current portions of debt are presented more in detail under Note 22 Management of financial risks.

A covenant linked to net debt to EBITDA-ratio and the Group's equity ratio was attached to the Group's bank loans. The net debt to EBITDA-ratio can be at maximum 3.7 according to one of the contracts and according to the other contract the net debt to EBITDA without the effect of IFRS 16 can be a maximum of 4.0 and the equity ratio can be 25% 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 these covenants were EUR 8.9 million on 31.12.2020 and Martela didn't meet one of the contracts (Calculated figures: net debt/EBITDA without the effect of IFRS 16 5.8 and equity ratio 25.8) The amount of the broken covenant loan is EUR 1 million and will be repaid in accordance with the original payment schedule in April 2021.

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:	31.12.2020 Lease liabilities, IFRS 16	31.12.2019 Finance lease liabilities, IAS 17
Lease liabilities - total amount of minimum lease payments		
No later than one year	2,782	2543
Later than one year and no later than five years	3,439	3043
Later than five years		0
Total	**6,221**	**5,586**
Lease liabilities - present value of minimum lease payments		
No later than one year	2,656	2,440
Later than one year and no later than five years	3,339	2,838
Later than five years	41	0
Total	**6,036**	**5,278**
Unearned finance expense	**184**	**308**

The average interest of financial leases was 3.7% in 2020 and 3.1% in 2019.

Amounts recognised in profit or loss (EUR 1 000)	31.12.2020	31.12.2019
Interest on lease liabilities	-236	-156
Expenses related to short-term leases	-830	-1 069

			Non cash changes			
Changes in net debt 2020	**1.1.2020**	**Cash flows**	**Transfer between groups**	**IFRS 16 increase**	**IFRS 16 repayments**	**31.12.2020**
Long-term liabilities total	5,797	4,400	-4,459	2,851	-2,311	6,277
Short-term liabilities total	8,315	-4,333	4,459	3,169	-2,953	8,656
Total liabilities from the financing activities	**14,112**	**67**	**0**	**6,020**	**-5,265**	**14,933**

			Non cash changes			
Changes in net debt 2019	**1.1.2019**	**Cash flows**	**Transfer between groups**	**IFRS 16 increase**	**IFRS 16 repayments**	**31.12.2019**
Long-term liabilities total	3,956	0	-870	2,711		5,797
Short-term liabilities total	6,319	-1,152	870	5,131	-2,853	8,315
Total liabilities from the financing activities	**10,275**	**-1,152**	**0**	**7,842**		**14,112**

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 2017 salary levels and accounted for accordingly.

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**	
(EUR 1,000)	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
1.1.	**3,059**	**2,961**	**-2,737**	**-2,669**	**322**	**292**
Recognised in profit or loss						
Service cost in the period	148	141			148	141
Past service cost	0	0	0	0	,	,
Interest expense or income	34	53	-31	-49	3	4
Settlements	0	-400	0	400		
	181	**-206**	**-31**	**351**	**150**	**145**
Recognised in other comprehensive income						
Items resulting from remeasurement:						
Gains (-) or losses (+) resulting from changes in demographical assumptions	0	0			0	0
Actuarial gain (-) and losses (+) resulting from changes in financial assumptions	279	373			279	373
Experience based profits (-) or losses (+)	-6	-55			-6	-55
Return on the funds included in the plan, excluding items in interest expenses or income (+/-)			-301	-281	-301	-281
	273	**318**	**-301**	**-281**	**-27**	**38**
Other items						
Employer's payments (+)	0	-14	-102	-138	-102	-152
	0	**-14**	**-102**	**-138**	**-102**	**-152**
31.12.	**3,513**	**3,059**	**-3,172**	**-2,737**	**342**	**322**

The Group anticipates that it will pay a total of EUR 158 thousand to defined benefit pension plans in the financial period of 2021.

Sensitivity analysis

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

	Defined benefit liability	**Fair value of the funds included in the plan**
Effect of a change in the assumption employed	**The assumption is growing**	**The assumption is growing**
Discount rate (0.5% change)	-8.8%	-8.3%
Increase in salaries (0.5% change)	N/A	N/A
Morality rate (a change of 5% points)	-1.3%	-1.2%

The weighted average of the duration of the plans is 18,4 years.

20. Provisions

(EUR 1,000)	31.12.2020	31.12.2019
Long-term provisions	282	282
Short-term provisions	70	70
Total	**352**	**352**

The normal warranty for standard Martela produced products is five years. The warranty provision has been calculated as an estimate of the 5-year warranties for Martela products and the sale of Martela products.

21. Current liabilities

(EUR 1,000)	31.12.2020	31.12.2019
	8,656	8,188
Advances received	2,281	3,728
Trade payables	8,885	9,839
Total	**19,822**	**21,755**
Accrued liabilities and prepaid income of		
Personnel expenses	5,432	4,874
Interests	170	124
Royalties	155	183
Residual expenses	2,530	2,984
Other	2	10
Total	**8,289**	**8,176**
Other current liabilities	5,063	2,826
Other	**5,063**	**2,826**
Provisions*	70	70
Current liabilities	**33,245**	**32,827**

*For more information see note 20.

22. Management of financial risks

Financial risks are unexpected exceptions relating to exchange rates, liquidity, customer liquidity, investments and interest rates. The objective of financial risk management is to ensure that the company has sufficient financing on a cost-efficient basis and to reduce the adverse effects of financial market fluctuations on the Group's result and net assets. The general principles of risk management are approved by Board of Directors and the practical implementation of financial risk management is on the responsibility of the parent company's financial administration.

Market risks

Market risks comprise the following three risks: Currency risk, interest rate risk and price risk. The associated fluctuations in exchange rates, market interest rates and market prices may lead to changes in the fair value of financial instruments and in the future cash flows and hence they impact the result and balance sheet of the Gruop.

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 2019 and 2020.

The following table presents currency risks per instrument and currency.

Transaction risks per instrument and currency 31.12.2020

(EUR 1,000)	EUR	SEK	NOK
Trade receivables	0	1,144	1333
Trade payables	3	0	69
Total	**3**	**1,144**	**1,402**

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**

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 2020 (2019). The estimates are based on the assumption that no other variables change.

Analysis of sensitivity to transaction risk (EUR 1,000)	Impact on result
31.12.2020	
EUR	+/- 0
SEK	+/- 144
NOK	+/- 140
31.12.2019	
EUR	+/- 4
SEK	+/- 231
NOK	+/- 204

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

Financial instruments (EUR 1,000)	31.12.2020	31.12.2019
Fixed rate		
Financial liabilities	6,033	5,278
Variable rate		
Financial liabilities	8,900	8,833
Total	**14,933**	**14,111**

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
31.12.2020	
Financial liabilities	
Variable rate financial instruments	-89
31.12.2019	
Financial liabilities	
Variable rate financial instruments	-88

Price risk
Available-for-sale shares included in financial assets are not deemed subject to resale price risk.

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 turnover and maturity structure of Group's companies trade receivables are reported monthly and are monitored by the parent company's financial management.
The principles of credit risk management are confirmed by Martela's Board of Directors. Risk management is based on the authorisations given to the organisation.
Credit risks related to the company's trade and other receivables are minimised by using short terms of payment, effective collection measures and accounting for the counterparty's creditworthiness. Supply agreements are used when the customer company is unknown and the available credit information is insufficient. In this context a supply agreement is an agreement which secures andy 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 corresponds to the maximum amount of the credit risk.
The maximum financial asset credit risk amount on the balance sheet date 31 December is presented in the following table:

Maximum financial asset credit risk (EUR 1,000)	31.12.2020	31.12.2019
Financial assets measured at fair value through profit or loss	7	52
Trade receivables and other receivables	14,562	16,847
Cash and cash equivalents	11,172	9,621
Total	**25,741**	**26,520**

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 bank's 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 2020 were EUR 11 172 thousand and unused credit limits EUR 883 thousand.

Contractual cash flows mature as follows (EUR 1,000)	2021	2022	2023	2024	2025	Later	Total	Balance sheet value
Bank loans	6,000	1,000	1,900				8,900	8,900
Finance leases	2,449	2,346	739	333	150	41	6,059	6,059
Trade payables	8,885	0	0	0	0	0	8,885	8,885
Loan interest and guarantee fees	324	106	38		0	0	468	
Total	**17,334**	**3,452**	**2,677**	**333**	**150**	**41**	**24,312**	

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

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
Financial 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	166	
Total	**18,162**	**4,776**	**1,080**	**99**	**0**	**0**	**24,117**	

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	31.12.2020	31.12.2019
Shareholders' equity	11,212	16,080
Balance sheet total - advance payments	49,425	55,868
Equity to assets ratio %	**22,7**	**28,8**

23. Pledges granted and contingent liabilities

(EUR 1,000)	31.12.2020	31.12.2019
Debts secured by mortgages		
Bank and pension loans	8,900	8,833
Property mortgages	7,565	7,565
Corporate mortgages	14,358	14,240
Total mortgages	**21,923**	**21,805**
Other pledges		
Guarantees as security for rents	379	321

24. Related party transactions

Martela Group's related party transactions comprise the CEO, members of the Board and the Group's management team, as well as their family members. Martela Group's related parties also include a shareholder who holds at least 20% of the company's total number of votes.

Members of the Board hold a total of 6.6% of the share capital and 14.0% of the votes.

Persons in the management own a total of 5,000 Martela Corporation shares as at 31st December, 2020.

Group structure	Domicile	Holding (%) 31.12.2020	Of votes (%) 31.12.2020	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	
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., Varsova	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)	2020	2019
Management employee benefits		
Salaries and other short-term employee benefits	-1,211	-1,038
Total	-1,211	-1,038
Salaries and fees		
Board members	-173	-173
CEO*	-392	-261
Management team members (excl. CEO)	-646	-604
	-1,211	**-1,038**

*In connection with the dismissal of Martela's President and CEO, a total of EUR 66 thousand was paid in 2020, including social security costs.

Fees paid to Board members:	2020	2019
Andersson Minna	-20.4	-20.4
Komi Kirsi*		-5.5
Leskinen Eero	-5.5	-22
Martela Eero	-22	-22
Martela Heikki	-42.4	-42.4
Mattson Jan**	-22	-16.5
Mellström Katarina ***	-22	-22
Mild Johan***	-16.5	
Vepsäläinen Anni	-22	-22
Total	**-172.8**	**-172.8**

* in Board until Q1 2019 ** new member, in Board from Q2 2019
*** new member, in Board from Q2 2020

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

Salaries, fees and pension commitment to CEO	2020	2019
Salaries and fees	-320	-261
Statutory earnings-related pension payment (TyEL) on salaries	-71	-66

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 hies salary for 6 months.

CEO and the Group management team has long term share-based incentive programme, in which 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 any of the earning periods.

More information in Note 17 Share-based payments.

25. Key financial indicators for the Group

Martela Group 2016–2020		2020	2019	2018	2017	2016
Revenue	MEUR	88.4	106.2	103.1	109.5	129.1
Change in revenue	%	-16.8	3.0	-5.9	-15.2	-2.8
Export and operations outside Finland	MEUR	16.3	23.1	17.0	22.3	33.1
In relation to revenue	%	18.5	21.7	16.5	20.4	25.6
Exports from Finland	MEUR	16.1	22.7	16.3	18.4	16.5
Gross capital expenditure	MEUR	1.2	2.3	1.7	2.2	2.9
In relation to revenue	%	1.4	2.1	1.6	2.1	2.2
Depreciation	MEUR	6.5	4.9	2.6	2.6	2.9
Research and development	MEUR	2.0	2.2	1.9	2.0	1.9
In relation to revenue	%	2.2	2.1	1.8	1.8	1.5
Personnel on average		451	494	510	508	550
Change in personnel	%	-8.7	-3.1	0.4	-7.3	-11.6
Personnel at the end of year		435	464	501	507	506
of which in Finland		362	385	425	435	435
Profitability						
Operating profit	MEUR	-4.0	-2.0	-2.1	0.3	6.2
In relation to revenue	%	-4.5	-1.9	-2.0	0.2	4.8
Profit before taxes	MEUR	-4.8	-2.7	-2.5	0.0	5.6
In relation to revenue	%	-5.4	-2.5	-2.4	0.0	4.4
Profit for the year *	MEUR	-4.8	-2.5	-2.4	-0.6	3.3
In relation to revenue	%	-5.4	-2.4	-2.3	-0.6	2.6
Revenue / employee	teur	196	215	202	216	235
Return on equity	%	-35.7	-14.7	-11.4	-2.7	13.9
Return on investment	%	-13.4	-6.4	-4.9	1.6	18.2
Finance and financial position						
Balance sheet total	MEUR	51.7	55.9	50.0	56.4	56.2
Equity	MEUR	11.2	16.1	18.8	22.6	25.2
Interest-bearing net liabilities	MEUR	4.3	5.0	0.1	6.6	-4.8
In relation to revenue	%	4.9	4.7	0.1	6.0	-3.7
Equity ratio	%	22.7	28.8	39.2	40.8	45.3
Gearing	%	37.9	31.5	0.7	28.9	-18.9
Net cash flow from operations	MEUR	5.7	6.3	7.4	-7.6	11.7
Dividends paid	MEUR	0.0	0.4	1.3	1.5	1.0

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

26. Key share-related figures

Martela Group 2016-2020		2020	2019	2018	2017	2016
Earnings per share	EUR	-1.16	-0.61	-0.57	-0.15	0.81
Earnings per share (diluted)	EUR	-1.16	-0.61	-0.57	-0.15	0.81
Share par value	EUR	1.68	1.68	1.68	1.68	1.68
Dividend *)	EUR	0.0*	0	0.10	0.32	0.37
Dividend/earnings per share	%	0.0	0.0	-17.5	-208.4	45.8
Effective dividend yield	%	0.00	0.00	3.38	4.30	2.90
Equity per share	EUR	2.71	3.80	4.54	5.47	6.13
Price of A-share 31.12.	EUR	3.09	3.36	2.96	7.47	12.84
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		-2.66	-5.48	-5.18	-48.64	15.90
Market value of shares **	MEUR	12.80	13.92	12.26	30.95	52.75

* Proposal by the Board of Directors
** Price of A-shares used as value of K shares

Formulas to key figures

Earnings / share	=	Profit attributable to equity holders of the parent / Average share issue-adjusted number of shares
Price /earnings multiple (P/E)	=	Share issue-adjusted share price at year end / Earnings / share
Equity / share, EUR	=	Equity attributable to the equity holders of the parent / Share issue-adjusted number of share at year end
Dividend / share, EUR	=	Dividend for the financial year / Share issue-adjusted number of share at year end
Dividend / earnings, %	=	Dividend / share x 100 / Earnings / share
Market value of shares, EUR	=	Total number of shares at year end x share price on the balance sheet date
Return on equity, %	=	Profit/loss for the financial year x 100 / Equity (average during the year)
Return on investment, %	=	(Pre-tax profit/loss + interest expenses + other financial items) x 100 / Balance sheet total – Non-interest-bearing liabilities (average during the year)
Equity ratio, %	=	Equity x 100 / Balance sheet total – advances received
Gearing, %	=	Interest-bearing-liab. – cash, cash equiv.and liq. asset securities x 100 / 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 31.12.2020 was 4,155,600. The shares are divided into A and K shares. Each A share carries 1 vote and each K share 20 votes in annual general shareholders' meeting.

Both share series have the same dividend rights. The company's maximum share capital is EUR 14,000,000 and the minimum is EUR 3,500,000.

Martela Oyj's shares were entered in the book-entry register on 10.2.1995. The counter-book value of each share is EUR 1.68.

The A shares are quoted on the Small Cap list of Nasdaq Helsinki.

Distribution of shares 31.12.2020	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 31.12.2020	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
Etelä-Pohjanmaan Turve Oy	0	133,000	133,000	3.2	133,000	0.9
Kelhu Markku Juhani	0	110,000	110,000	2.6	110,000	0.7
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
Sijoitusrahasto 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
Martela Ille Ilari	13,218	8,368	21,586	0.5	272,728	1.7
Martela Jarmo Matti Tapani	8,919	0	8,919	0.2	178,380	1.1
Other shareholders	50,640	2,032,853	2,083,493	50.1	3,045,653	19.5
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 6.6% of shares and 14.0% of votes.

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

The Annual General Meeting has in 2020 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 31.12.2020. Shares, pcs	Number of shareholders	% of total shareholders	Number of shares	%	Number of votes	% of Votes
1 - 500	2,460	78.7	343,558	8.3	351,158	**2.2**
501 - 1,000	313	10.0	242,669	5.8	246,469	**1.6**
1,001 - 5,000	262	8.4	601,710	14.5	841,870	5.4
Over 5,000	91	2.9	2,950,744	71.0	13,868,923	88.6
Total	3,126	100.0	4,138,681	99.6	15,308,420	97.8
of which nominee-registered	8		72,112	1.7	72,112	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 31.12.2020	Number of shareholders	% of total shareholders	Number of shares	%	Number of votes	% of Votes
Private companies	119	3.8	1,167,376	28.1	6,715,376	42.9
Financial and insurance institutions	10	0.3	108,948	2.6	163,902	1.0
Public corporations	1	0.0	335,400	8.1	335,400	2.1
Non-profit entities	5	0.2	3,161	0.1	3,161	0.0
Households	2,981	95.4	2,441,310	58.7	8,063,049	51.5
Foreign investors	10	0.3	10,374	0.2	27,532	0.2
Total	3,126	100.0	4,066,569	97.9	15,308,420	97.8
of which nominee-registered	6		72,112	1.7	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	1.1-31.12.2020	1.1-31.12.2019
Revenue	1	**85,342**	**102,234**
Change in inventories of finished goods and work in progress		521	-195
Production for own use		90	172
Other operating income	2	1,203	1,237
Materials and services	3	-64,006	-76,371
Personnel expenses	4	-13,329	-16,073
Other operating expenses	5	-9,376	-11,281
Depreciation and impairment	6	-3,520	-2,216
Operating profit (-loss)		**-3,076**	**-2,493**
Financial income and expenses	7	-3,483	-1,953
Profit (-loss) before appropriations and taxes		**-6,559**	**-4,446**
Group contributions	8	500	1,300
Depreciation difference and Group contributions		**500**	**1,300**
Income taxes	9	0	2
Profit (-loss) for the financial year		**-6,059**	**-3,144**

Parent Company Balance Sheet

Assets (EUR 1,000)	Note	31.12.2020	31.12.2019
NON-CURRENT ASSETS			
Intangible assets	10		
Intangible rights		1,781	185
Goodwill		6,440	7,360
Other long-term expenditure		2,847	4,547
Advance payments		317	2,038
		11,386	**14,131**
Tangible assets	11		
Land and water areas		80	80
Buildings and structures		1,866	1,895
Machinery and equipment		920	878
Other tangible assets		23	23
		2,889	**2,876**
Investments	12		
Share is subsidiaries		7,489	7,498
Receivables from subsidiaries		4,973	5,425
Other shares and participations		7	7
		12,469	**12,930**
CURRENT ASSETS			
Inventories			
Materials and supplies		6,484	5,441
Work in progress		988	1,019
Finished goods		1,040	1,109
Advances paid to suppliers		10	429
		8,522	**7,998**
Non-current receivables	13		
Trade receivables		13,567	17,515
Loan receivables		3,220	5,059
Accrued income and prepaid expenses		1,636	2,759
		18,424	**25,333**
Cash and cash equivalents		**10,393**	**8,918**
		64,083	**72,185**

Equity and liabilities (EUR 1,000)	Note	31.12.2020	31.12.2019
SHAREHOLDERS' EQUITY			
Shareholders' equity	14		
Share capital		7,000	7,000
Share premium account		1,116	1,116
Reserve fund		11	11
Retained earnings		24,409	27,552
Profit for the year		-6,059	-3,144
Total		**26,477**	**32,535**
Compulsory reservations			
Other compulsory reservations		352	352
LIABILITIES			
Non-current	15		
Loans from financial institutions		2,900	3,086
Accrued liabilities and prepaid income		150	150
		3,050	**3,236**
Current	16		
Loans from financial institutions		6,000	5,743
		6,000	**5,743**
Advances received		461	2,533
Trade payables		13,908	13,581
Accrued liabilities and prepaid income		9,037	12,025
Other current liabilities		4,798	2,180
		28,203	**30,318**
Liabilities, total		**37,254**	**39,297**
		64,083	**72,185**

Other compulsory reservations are corrected in the comparison year 2019.

Parent Company's Cash Flow Statement

(EUR 1,000)	1.1.-31.12.2020	1.1.-31.12.2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows from sales	85,287	106,331
Cash flow from other operating income	1,210	1,237
Payments on operating costs	-83,558	-102,847
Net cash from operating activities before financial items and taxes	**2,939**	**4,721**
Interests paid and other financial payments	-402	-346
Dividends received	0	0
Taxes paid	0	184
Net cash from operating activities (A)	**2,537**	**4,558**
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure on tangible and intangible assets	-1,011	-1,949
Proceeds from sale of tangible and intangible assets	0	0
Loans granted	-123	-1,319
Net Cash used in investing activities (B)	**-1,134**	**-3,267**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from current loans	5,000	
Repayments of current loans	-9,329	-1,143
Proceeds from non-current loans	4,400	0
Dividends and other profit distribution		-414
Net cash used in financing activities (C)	**71**	**-1,557**
CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C) (+ increase, - decrease)	**1,474**	**-266**
Cash and cash equivalent at the beginning of financial year*	**8,918**	**9,185**
Cash and cash equivalent at the end of financial year*	**10,393**	**8,918**

* 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 straight line method). Intangible assets are depreciated according to their estimated useful life in 3–10 years. Goodwill is depreciated by straight-line method in 10 years.

Tangible assets:

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

Depreciation periods for tangible assets:

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

Impairment testing of long-term assets

Goodwill and investments in subsidiaries are tested for impairment annually regardless if there are any indications that the amount might be impaired. 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 are 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.

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 effective share-based incentive programme there are two earning periods, which are 2017–2018 and 2019–2020, and payment are made as a combination of shares and cash. No incentives will be paid for the earning periods.

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

Other compulsory reservations
The normal warranty for standard Martela produced products is five years. The warranty provision (EUR 352 thousand) has been calculated as an estimate of the five-year warranties for Martela products and the sale of Martela products.

1. Breakdown of revenue by market area

% of revenue	2020	2019
Finland	81	76
Scandinavia	16	19
Other	3	5
Total	**100**	**100**

2. Other operating income

(EUR 1,000)	2020	2019
Rental income	251	245
Government grants	70	0
Other operating income	40	22
Other operating income, Group	842	970
Total	**1,203**	**1,237**

3. Materials and services

(EUR 1,000)	2020	2019
Purchasing during the financial year	-49,153	-57,570
Change in inventories of materials and suppliers	1,043	-341
External services	-15,375	-18,655
Materials and supplies, total	**-63,486**	**-76,566**

4. Personnel expenses and number of personnel

(EUR 1,000)	2020	2019
Salaries, CEO	-320	-262
Pension expenses	-71	0
Salaries of Board and directors	-173	-173
Salaries of Board and directors and managing director, total	-564	-435
Other salaries	-10,565	-12,776
Pension expenses	-1,921	-2,443
Other salary-related expenses	-279	-418
Personnel expenses in the income statement	-13,329	-16,073
Fringe benefits	-211	-232
Total	**-13,540**	**-16,305**
Personnel		
Personnel on average, workers	58	82
Personnel on average, officials	170	186
Personnel on average, total	**227**	**268**
Personnel at the year end	**227**	**238**

5. Other operating expenses

(EUR 1,000)	2020	2019
Auditor's fees		
Auditing	-73	-58
Other services	-2	-79
Auditor's fees, total	**-75**	**-137**

6. Depreciation and write-down

(EUR 1,000)	2020	2019
Depreciation according to plan		
Intangible assets	-3,173	-1,907
Tangible assets		
Buildings and structures	-29	-34
Machinery and equipment	-318	-275
Depreciation according to plan, total	**-3,520**	**-2,216**
Impairments	0	0
Depreciations and impairments, total	**-3,520**	**-2,216**

7. Financial income and expenses

(EUR 1,000)	2020	2019
Financial income and expenses		
Interest income from short-term investments	26	3
Interest income from short-term investments from Group companies	52	55
Foreign exchange gains	0	5
Interest expenses	-478	-293
Losses on foreign exchange	-19	-105
Other financial expenses	-60	-83
Impairment	-3,005	-1,535
Total	**-3,483**	**-1,953**

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

8. Depreciations and Group contributions

(EUR 1,000)	2020	2019
Appropriations		
Group contributions, received	500	1,300
Group contributions, given - /received +	500	1,300
Group contributions total	**500**	**1,300**
Appropriations, total	**500**	**1,300**

9. Income Taxes

(EUR 1,000)	2020	2019
Income taxes from operations	0	0
Taxes from previous years	0	2
Total	**0**	**2**

Deferred tax liabilities and assets have not been included into income statement nor balance sheet. There was no deferred tax asset related to periodisation differences nor losses in 2019 and 2020.

10. Intangible assets

1.1.2020 - 31.12.2020 (EUR 1,000)	Intangible rights	Goodwill	Other long-term expenses	Work in progress	Intangible assets total
Acquisition cost 1.1.	3,312	9,200	12,416	2,038	26,966
Increases	2,092	0	50	936	3,079
Decreases	0	0	0	-2,656	-2,656
Acquisition cost 31.12.	**5,404**	**9,200**	**12,466**	**318**	**27,388**
Accumulated depreciation 1.1.	-3,128	-1,840	-7,868	0	-12,837
Depreciation for the year 1.1.–31.12.	-497	-920	-1,750	0	-3,167
Accumulated depreciation 31.12.	**-3,625**	**-2,760**	**-9,618**	**0**	**-16,004**
Carrying amount 1.1.	185	7,360	4,547	2,038	14,130
Carrying amount 31.12.	**1,781**	**6,440**	**2,847**	**317**	**11,386**

1.1.2019 - 31.12.2019 (EUR 1,000)	Intangible rights	Goodwill	Other long-term expenses	Work in progress	Intangible assets total
Acquisition cost 1.1.	3,215	9,200	12,339	478	25,232
Increases	97	0	77	2,159	2,336
Acquisition cost 31.12.	**3,312**	**9,200**	**12,416**	**2,038**	**26,969**
Accumulated depreciation 1.1.	-3,108	-920	-6,907	0	-10,936
Depreciation for the year 1.1.–31.12.	-20	-920	-962	0	-1,901
Accumulated depreciation 31.12.	**-3,128**	**-1,840**	**-7,868**	**0**	**-12,837**
Carrying amount 1.1.	107	8,280	5,430	478	14,295
Carrying amount 31.12.	**185**	**7,360**	**4,547**	**2,038**	**14,131**

11. Tangible assets

1.1.2020 - 31.12.2020 (EUR 1,000)	Land areas	Buildings	Machinery and equipment	Other tangible assets	Work in progress	Total
Acquisition cost 1.1.	80	10,623	12,445	23	0	23,171
Increases	0	0	367	0	0	367
Acquisition cost 31.12.	**80**	**10,623**	**12,812**	**23**	**0**	**23,538**
Accumulated depreciation 1.1.	0	-8,728	-11,567	0	0	-20,295
Depreciation for the year 1.1.–31.12.	0	-29	-324	0	0	-353
Accumulated depreciation 31.12.	**0**	**-8,757**	**-11,891**	**0**	**0**	**-20,648**
Carrying amount 1.1.	80	1,895	878	23	0	2,876
Carrying amount 31.12.	**80**	**1,866**	**920**	**23**	**0**	**2,889**

1.1.2019 - 31.12.2019 (EUR 1,000)	Land areas	Buildings	Machinery and equipment	Other tangible assets	Work in progress	Total
Acquisition cost 1.1.	80	10,623	11,999	23	0	22,725
Increases	0	0	446	0	0	446
Acquisition cost 31.12.	**80**	**10,623**	**12,445**	**23**	**0**	**23,170**
Accumulated depreciation 1.1.	0	-8,694	-11,286	0	0	-19,980
Depreciation for the year 1.1.–31.12.	0	-34	-281	0	0	-315
Accumulated depreciation 31.12.	**0**	**-8,728**	**-11,567**	**0**	**0**	**-20,295**
Carrying amount 1.1.	80	1,929	713	23	0	2,745
Carrying amount 31.12.	**80**	**1,895**	**878**	**23**	**0**	**2,876**

Revaluations included in buildings 2020 total EUR 1 850 thousand (1 850).
Carrying amount of production machinery and equipment in 2020 was EUR 55 thousand (90 in 2019).

12. Investments

1.1.2020 - 31.12.2020 (EUR 1,000)	Subsidiary shares	Shares in associated undertakings	Other shares and participations	Shareholder loan receivables	Total
Balance sheet value at beginning of year	7,498	0	7	5,425	12,929
Increases	0	0	0	2552	2,552
Decreases / Impairment	-9	0	0	-3,004	-3,013
Balance sheet value at end of year	**7,489**	**0**	**7**	**4,973**	**12,470**

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

Subsidiary shares:		Parent company's holding, %	Of total votes, %	Number of shares	Par value 1,000	Book value EUR 1,000
Kidex Oy	Finland	100	100	200	EUR 2,208	2,208
Muuttopalvelu Grundell Oy	Finland	100	100	100	EUR 8	4,440
Kiinteistö Oy Ylähanka	Finland	100	100	510	EUR 0	0
Martela AB, Bodafors	Sweden	100	100	50,000	SEK 5,000	550
Aski avvecklingsbolag AB, Malmö	Sweden	100	100	12,500	SEK 1,250	132
Martela AS, Oslo	Norway	100	100	200	NOK 200	24
Martela Sp.z o.o., Varsova	Poland	100	100	3,483	PLN 3,483	135
Tehokaluste Oy	Finland	100	100	1	EUR 0	0
Total						**7,490**
Other shares and participations						**7**

Kiinteistö Oy Ylähanka merged with its parent company Martela Oyj on February 6, 2020.

13. Receivables

(EUR 1,000)	2020	2019
Current receivables		
Receivables from Group companies		
Trade receivables	1,875	1,502
Loan receivables	3,220	5,059
Accrued income and prepaid expenses	0	0
Receivables from others		
Trade receivables	11,692	16,013
Accrued income and prepaid expenses	1,636	2,759
Current receivables, total	**18,424**	**25,333**

Accrued income and prepaid expenses, main items;	2020	2019
Related to personnel expenses	150	164
Related to payments in advance	400	463
Other accrued income or prepaid expenses	38	774
Periodization of revenue	1,047	1,358
Accrued income and prepaid expenses total	**1,636**	**2,759**

14. Changes in shareholders' equity

Distribution of shares 31.12.2020	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	2020	2019
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.	**24,409**	**27,698**
Entries in retained earnings	0	269
Dividends	0	-414
Profit (-loss) for the year	-6,059	-3,144
Retained earnings 31.12.	**18,349**	**24,409**
Shareholders' equity total	**26,477**	**32,535**

The distributable equity of the parent company is EUR 18,349 thousand in 2020.
A correction of an inventory difference of previous periods of EUR 621 thousand and a guarantee provision of EUR 352 have been recorded in retained earnings.

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

Martela Oyj owns 13,082 A shares (13,082 in 2019). 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 acquisition cost of shares for the incentive scheme has been treated in the IFRS consolidated financial statement as an item comparable to treasury shares.

Market value of treasury shares on 31.12.2020 was EUR 3.09 per share (3.36), a total of EUR 40.4 thousand (43.9 thousand in 2019)

15. Non-current liabilities

(EUR 1,000)	2020	2019
Loans from financial institutions	2,900	3,086
Accrued expenses	150	150
Total	**3,050**	**3,236**

Changes and repayments of non-current liabilities	2020	2019
Loans from financial institutions		
Loans 1.1.	3,086	3,429
Additions	1,400	0
Repayments	-1,586	-343
Loans 31.12.	**2,900**	**3,086**
Accrued liabilities		
Related to the personnel expenses	150	150

Repayments	2021	2022	2023	2024
Loans from financial institutions	1,000	1,000	900	0
Total	**1,000**	**1,000**	**900**	**0**

16. Current liabilities

(EUR 1,000)	2020	2019
Current liabilities		
Liabilities to Group companies		
Trade payables to Group companies	6,812	5,480
Accrued liabilities to Group companies	5,106	7,727
Total	**11,918**	**13,208**
Other current liabilities		
Loans from financial institutions	6,000	5,743
Advances received	461	2,533
Trade payables	7,096	8,101
Other current liabilities	4,798	2,180
Accrued liabilities	3,931	4,297
Total	**22,285**	**22,854**
Current liabilities, total	**34,203**	**36,061**

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

Essential items of accrued liabilities	2020	2019
Personnel expenses	2,303	2,261
Interest and financing accruals	170	124
Royalties	127	159
Residual expenses	1,331	1,753
Accrued liabilities, total	**3,931**	**4,297**

17. Pledges granted and contingent liabilities

(EUR 1,000)	2020	2019
Debts secured by mortgages		
Bank loans	**8,900**	**8,829**
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	395	321
Guarantees given on behalf of Group companies	1,598	1,834
Total	**1,992**	**2,155**
Other liabilities		
Residual value liabilities related to the service business	813	301
Total	**813**	**301**
Leasing commitments		
Falling due within 12 months	796	365
Falling due after 12 months	1,098	214
Total	**1,894**	**579**
Rent commitments	**3,013**	**3,447**

Auditor's report

(TRANSLATION OF THE FINNISH ORIGINAL)

To the Annual General Meeting of Martela Oyj

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Martela Oyj (business identity code 0114891-2) for the year ended 31 December, 2020. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its 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 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.

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.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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.

Key Audit Matter	How our audit addressed the Key Audit Matter
REVENUE RECOGNITION **We refer to the Group's accounting policies and the note 1** Revenue recognition is considered as a key audit matter because revenues are a key performance measure which could create an incentive for revenue to be recognized prematurely. Revenue recognition was determined to be a key audit matter and a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).	Our audit procedures to address the risk of material misstatement in respect of revenue recognition included among others: · We assessed the appropriateness of the group's accounting policies over revenue recognition compared to IFRS standards. · We assessed the group's processes and controls over timing of revenue recognition. · We tested the correct timing of revenue recognition by using analytical procedures and transaction level testing. Our procedures included data analytics, obtaining external confirmations and transaction level testing before and after the balance sheet date as well as inspection of credit notes prepared after the balance sheet date. · We considered the appropriateness of the group's disclosures in respect of revenues.
VALUATION OF SUBSIDIARY SHARES AND RECEIVABLE AND GOODWILL IN PARENT COMPANY'S BALANCE SHEET **We refer to parent company's accounting policies and notes 7, 10 and 12** As of balance sheet date December 31, 2020 the subsidiary shares and receivable amounted to 12,5 M€ and goodwill to 6,4 M€. Together these compose 29 % of parent company's total assets and 71 % of parent company's equity. The management of the parent company prepares annually impairment calculation for balance sheet value of the investments and goodwill based on their value in use. These calculations include significant management judgements, like forecasted revenue growth, EBITDA and discount rate used in discounting cash flows. Based on the calculation an impairment loss of 3,0 M€ was recognized on the loan receivable of Martela AS. This matter was also determined to be a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).	Our audit procedures to address the risk of material misstatement in respect of valuation of subsidiary shares and receivable and goodwill included among others: · We assessed the basis and appropriateness of the forecasts used in the impairment calculations, like revenue growth, EBITDA and discount rate. · We tested the mathematical accuracy of the calculations. · We involved our valuation specialists to assist us in evaluating the methodologies and assumptions in relation to market and industry information.

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

As part of an audit in accordance with good auditing practice, we exercise professional 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 by the Annual General Meeting on March 12, 2020.

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 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 5.2.2021

Ernst & Young Oy	Osmo Valovirta
Authorized Public Accountant Firm	Authorized Public Accountant

Corporate governance statement 2020

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 2020 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 2020 The Group was organised in units as:

- Sales and Marketing (SM), which is responsible for customer relationships, sales, workplace services and marketing.
- The Innovation to Market (ITM), which is responsible for the company's brand and the development and management of the product portfolio.
- The Customer Supply Management (CSM), which is responsible for after-sales activities, including sourcing, production, removal services, product development, quality assurance, the research laboratory, planning of material flows and logistics 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 2020 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

Following persons are members of the Board:

- Heikki Martela, b. 1956, KTM, Board member, direct ownership 130,942 A shares and 52,122 K shares and indirectly 232,574 A shares ja 292,000 K shares
- Minna Andersson, b. 1973, MEng, Head of Sales and Marketing Canter Oy, ownership 49,200 K shares
- Eero Martela, b. 1984, DI, General Manager Columbia Road Oy, ownership 6,710 A shares and 400 K shares
- Jan Mattson, b. 1966, M Sc. Architecture, CEO Tengbom Ab
- Katarina Mellström, b. 1962, KTM, IMM Consulting Ab owner
- Johan Mild, b. 1974, KTM, CEO Remeo Oy
- Anni Vepsäläinen, b. 1963, DI, CEO Suomen Messut Osuuskunta, ownership 2,000 A shares

The Board convened sixteen times during the financial year. Members of the Board attended the meetings following way:

	Present	Absent
Heikki Martela	16	0
Eero Martela	16	0
Johan Mild (from March 12)	15	0
Eero Leskinen (until March 12)	1	0
Minna Andersson	15	1
Anni Vepsäläinen	14	2
Jan Mattsson	16	0
Katarina Mellström	16	0

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 Martela, Heikki Martela, Jan Mattsson, Katarina Mellström, Johan Mild and Anni Vepsäläinen are independent of the company. Of the company's largest shareholders Jan Mattsson, Katarina Mellström, Johan Mild 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.

The committee convened four times during the financial year. Members of committee attended the meetings following way:

	Present	Absent
Heikki Martela	4	0
Katarina Mellström	4	0
Jan Mattsson	4	0

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 Martela, Johan Mild and Anni Vepsäläinen.

The committee convened five times during the financial year. Members of committee attended the meetings following way:

	Present	Absent
Johan Mild	4	0
Eero Leskinen	1	0
Eero Martela	5	0
Anni Vepsäläinen	3	2

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.

- CEO Artti Aurasmaa, b. 1975, M Econ, does not own Martela shares

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.

Following persons are members of the Group Management team:

- Kristiina Hoppu, b.1966, M Laws, People & Communication
- Kalle Lehtonen, b. 1974, M Econ., Group Finance and IR, indirect ownership 5,000 A shares
- Ville Taipale, b. 1971, M S. Technology, Customer Supply Management
- Johan Westerlund, b. 1975, M Econ., Sales and Marketing

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 Ernst & Young, with Osmo Valovirta, Authorised Public Accountant, as the principally responsible auditor. All the auditors of the Group's companies are in the Ernst & Young chain.

In year 2020 audit fees were EUR 73 thousand and other advisory services EUR 7 thousand.

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 2020, 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 insider people 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 2020 there were no material related party transactions.

Board of Directors

Heikki Martela

CHAIRMAN OF THE BOARD

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, Marfort Oy
Member of the Board, Lappset Group Oy, Net-control Oy, and Filosofian Akatemia Oy

Owns 130,942 Martela Oyj A shares and 52,122 K shares.

Minna Andersson

BOARD MEMBER

Born in 1973, MEng, MKT (Marketing Degree)
Member of the Board of Martela Oyj since 2017.
Marketing and Responsibility Director of Martela Oyj, 2011–2017

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.

Eero Martela

BOARD MEMBER

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

Other key duties:
General Manager, Finland, Columbia Road Oy

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

Jan Mattsson

BOARD MEMBER

Born in 1966, M.Sc. (Architecture), KHT Royal Institute of Technology
Member of the Board of Martela Oyj since 2019.

Other key duties:
CEO and partner, Tengbomgruppen AB
Chairman of the Board, Tovatt Architects & planners AB
Member of the Board, Svenska Innovationsföretagen

Johan Mild

BOARD MEMBER

Born in 1974, M.Sc. (Accounting)
Member of the Board of Martela Oyj since 2020.

Other key duties:
CEO, Remeo Oy
Member of the Board, Ympäristöteollisuus ja -palvelut YTP ry

Anni Vepsäläinen

BOARD MEMBER

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

Other key duties:
Member of the Board, Cinia Oy
Managing Director, Finnish Fair Corporation
Chairman of the Board, Helsinki Region Chamber of Commerce
Member of the Board, Finnish Chamber of Commerce

Owns 2,000 Martela Oyj A shares

Katarina Mellström

BOARD MEMBER

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

Management team

Artti Aurasmaa

CHIEF EXECUTIVE OFFICER (CEO)

Born in 1975, M.Sc. (Economy)

Area of responsibility: Martela Corporation CEO and member of the management team since 2020.

Other Key Duties:

Ropo Capital Oy, CEO, 2016–2020

Stella Care Oy, CEO, 2014–2016

3StepIT Oy, CEO, 2005–2014

Current Board Memberships:

Ropo Capital Oy, member of the Board, 2020–

Bookers Group Oy, Chairman of the Board, 2020–

Vincit Oyj, Chairman of the Board, 2019–

Yleinen työttömyyskassa YTK, member of the Board, 2015–

Kristiina Hoppu

CHIEF PEOPLE OFFICER

Born in 1966, Master of Laws

Area of responsibility: Group HR

Joint the company in 2019, member of the management team since 2020.

Other Key Duties:

CGI Suomi Oy, Leadership roles in human resources, 2010–2018

Pohjolan Voima Oy, VP, Human Resources and Legal Affairs, 2007–2008

Tecnotree Oyj, Leadership roles in legal and human resources, 1998–2007

Kalle Lehtonen

CHIEF FINANCIAL OFFICER (CFO)

Born in 1974, M.Sc (Econ.)

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

CFO and member of the management team since 2018.

Other Key Duties:

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.

Mikko Mäkelä

VP, INNOVATION TO MARKET

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

Ville Taipale

VP, CUSTOMER SUPPLY MANAGEMENT

VP, Customer Supply Management
Born in 1971, DI
Area of responsibility: Group Sourcing, Product Development, Quality Control, Sustainability, Production, Logistics and Removal Service.
Vice President and member of the management team since 2018.

Other Key Duties:
Patria Land Systems Oy, Vice President, Sourcing and Logistics 2015–2018
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

Johan Westerlund

VP, SALES & MARKETING

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.

Other Key Duties:
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

Information for shareholders

Annual General Meeting

The Annual General Meeting of Martela Oyj will be held on Thursday 18 March 2021 at 1 p.m. at Itämerentori 2, 00180 Helsinki. The names of shareholders wishing to attend the meeting should be entered in the shareholder register at Euroclear Finland Ltd no later than 8 March 2021 and the shareholder should register by email to agm@innovatics.fi, by post to Innovatics Oy, Yhtiökokous / Martela Oyj, Ratamestarinkatu 13 A, 00520 Helsinki, or on the internet site of the Corporation www.martela.com/about-us/about-martela/investors no later than March 12, 2021 at 4 p.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 2020–31 December 2020.

Publication of financial information

Martela Corporation's financial information in 2021 will be published as follows:

- January–March (Q1) Financial Review on Friday May 5, 2021
- January–June (H1) Half-Year Report on Friday August 13, 2021
- January–September (Q3) Financial Review on Friday November 5, 2021

Financial reports are available in Finnish and English on the company's website (www.martela.com/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 10 345 50
www.martela.com/fi

Kidex Oy
Savikontie 25
FI-82500 Kitee
tel. +358 10 345 7211
www.kidex.fi

Muuttopalvelu Grundell Oy
Tikkurilantie 146
FI-01530 Vantaa
tel. +358 10 480 4200
www.martela.com/services/implementation-of-interiors/removal-services

SWEDEN
Martela AB
Storgatan 49A
57132 Nässjö
tel. +46 380 37 19 00
www.martela.com/sv

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

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