2016 annual report

Inspiring spaces

Martela

Content

ANNUAL REPORT

FINANCIAL STATEMENTS

MARTELA IN BRIEF

Martela creates user-centric workplaces and learning environments. We offer our customers a single point of contact for the entire life cycle of the workplace from specifying needs to optimised maintenance. The company was founded in 1945 and it is one of the biggest in its field in the Nordic countries.

Read more about Martela company on our netpages.

CEO's Review

My warmest thank you to my colleagues at Martela for your amazing performance and to our customers and partners for our successful year in 2016. In addition to sales figures, last year's achievements include better profitability and increased investor confidence in our business.

We have worked hard for this success. We continued the savings programmes announced earlier and completed them. Some of the gains made by cutting costs are already evident in the 2016 financial statements and the rest will become evident during this year. We are now even more focused on the Nordic countries after discontinuing our own sales operations in Poland and Russia.

The Nordic countries are a natural market area for us. Knowledge work is very similar in Finland, Sweden and Norway: low hierarchy, active communications culture and awareness of the competitive advantages of agility and working together. The estimated size of the Nordic workplace market is one billion euros, which means that increasing our market share in the area is an entirely realistic target.

In autumn 2016 we refocused our Martela Lifecycle® strategy to match the ongoing change in working. Workplaces play an important role in improving profitability. A good workplace promotes interaction and improves wellbeing at work. In fact, a workplace can be considered an important management tool. In specialist companies, staff have an increasing responsibility for the productivity of their work while managers have become coaches instead of supervisors. The employer's role is to create conditions that enable competitive working.

Our new strategy is defined by our mission "Better Working" and our vision "People Centric Workplaces". Working together with our customers, we create people-centric workplaces where the users and their wellbeing are what matters most. Our updated strategy provides a clearer direction for our work, and we have adjusted our organisation accordingly. The changes in managerial responsibilities and operational structures accelerate implementation in a dynamic competitive environment.

All sales operations have now been concentrated in the Customers and Workplace Services unit. Customer Supply Management is responsible for sourcing, production and deliveries. With more streamlined operations we can ensure a good customer experience. Our focus on the customer drives all of our actions.

In 2017 our goal is to further improve our profitability. In addition, our goal is to achieve a level of 8 per cent in operating profit margin by the end of 2018 (excluding non-recurring items).

The workplace represents the corporate culture. It attracts employees and inspires innovation and an exchange of ideas. Workplaces must also be continuously developed and optimised. We believe that people-centric workplaces and learning environments designed to boost efficient working will improve the competitiveness of Nordic knowledge work.

Matti Rantaniemi
CEO

KEY FIGURES

		2016	2015
Revenue	MEUR	129.1	132.8
Change in revenue	%	-2.8	-2.3
Operating profit / loss	MEUR	6.2	4.1
- in relation to revenue	%	4.8	3.1
Profit / loss before taxes	MEUR	5.6	3.4
- in relation to revenue	%	4.4	2.5
Return on investment		18.2	12.1
Balance sheet, total	MEUR	56.2	56.0
Equity ratio	%	45.3	40.9
Earnings / share	eur	0.81	0.61
Equity / share	eur	6.13	5.54
Dividend per share*	eur	0.37	0,25
Capital expenditure	MEUR	2.9	0.7
Personnel in average		550	622

*Proposal of the Board of Directors

Martela Lifecycle® strategy

The Martela Lifecycle® strategy was updated in autumn 2016. The updated strategy anticipates the development of workplaces. Its workplace concepts and related services support new ways of working and their management in the best possible way.

The strategy update also refines Martela's identity and accelerates the change of methods. The new mission "Better Working" and vision "People Centric Workplaces" define our strategic direction. Martela supplies people-centric workplaces where the users and their wellbeing are what matters most.

THE KEY ASPECTS OF OUR UPDATED STRATEGY ARE:

- Martela provides people-centric workplaces
- Customers are offered all workplace services through a single point of contact
- Martela focuses on the Nordic markets

The goal is to achieve a level of 8 per cent in operating profit margin by the end of 2018 (excluding non-recurring items) with the renewed strategy.

PEOPLE AND IDEAS TOGETHER

The goal of the Martela Lifecycle® strategy is to support productivity in the workplace. Productivity grows by bringing ideas and people together. In creative problem-solving a person's contribution is built on the expertise of others. Both spontaneous and planned meetings can be steered with smart design.

A company's social capital can be deduced by looking at its workplace. The more attractive, activating and less hierarchical the workplace is, the higher the value of the work it produces.

Strategy and values

MISSION
Better Working

VISION
People Centric Workplaces

STRATEGY
Supporting Customer Business with Martela Lifecycle®

VALUES
Family business
Passion for innovations
User driven design
Finnish

Read more about Martela Lifecycle® model

Martela Lifecycle® model

Instead of individual changes, Martela Lifecycle® offers an approach that covers the entire lifecycle of a workplace. In the Martela Lifecycle® model the maintenance of premises and furniture is continuous and the workplace evolves with changing needs.

Specification

Thorough specification forms the basis for workplaces that support employees in their tasks and the strategic objectives of the company. Specification includes a measurement of utilization rate, workshops and a workplace survey and involving users in the change.

Design

Space and interior design optimises the use of space in the workplace and clarifies the company's visual image. At the design stage, people-centric design provides a plan for the space that is company-specific and can take into account existing furniture, recycling of excess furniture and opportunities for renting furniture.

Implementation

Careful advance planning and effective project management ensure excellent execution of change and maintenance. Martela will reliably carry out all measures from removals, installation and recycling of furniture, and final cleaning to personnel training on new work methods.

Maintenance

The maintenance stage includes a survey of the real need for developing premises that is based on a survey of user experiences and utilization rate measurement, and proposals for improvement drawn up on the basis of these. Maintenance reduces the need for major changes, reduces costs and ensures comfort and efficiency because the premises will continue to support work even when the organisation or work methods change.


Costs
Usage %
#TGIM
15
pax
25%
?
WORKPLACE
REPORT
105
m²

Innovation to Market

The Innovation to Market unit was set up in conjunction with the 2016 reorganisation to take responsibility for the company's brand and marketing, and the development and management of workplace services and the product portfolio. The unit employs just over 10 people.

MARTELA'S BRAND PROMISE – INSPIRING SPACES®

Martela's brand was renewed in 2010. Since then, Martela's employees have systematically built the brand in all markets. The brand promise Inspiring Spaces is a promise of inspiring workplaces and learning environments. For spaces to genuinely inspire their users, they must serve the users' needs and at the same time inspire them to work and learn.

Martela's brand promise is in evidence in every encounter. In marketing, the promise is ensured with a regularly updated content plan. The plan analyses all communications target groups and channels. Experts from different parts of Martela contribute to content production. The content of marketing communications aims to create added value for the target groups at the right time.

In 2016, a Social Selling training programme was organised at Martela. The training has taught Martela's staff to use the channels of social media, in particular, in the marketing and sales process. In 2016, content shared by Martela's staff reached more than two million people. Engaging the entire personnel in communications and marketing has clearly helped Martela to enhance its thought leadership in the Nordic countries.

The media has also shown increasing interest towards Martela. In Finland alone, journalistic media hits increased by 245 per cent on the previous year. There was also a 101 per cent increase in social media hits dealing with Martela compared with 2015.

In January, we launched the Thank god it's Monday programme under which all 2016 marketing activities were carried out. Marketing included the use of content in several channels. The most important single event was the workplace seminar organised in Helsinki in September that brought more than 200 people interested in workplaces to the Martela House.

WORKPLACES FOR HYBRID WORK

As work roles and duties become increasingly varied and hybrid, workplaces must also change. Planning workplaces for new ways of working is based on understanding the nature of the work carried out in the work community and its different work roles so that the space can function as a service. Martela's strength is in designing and implementing workplaces on the basis of the Martela Lifecycle® offering that match companies' strategic goals and the content of their work.

The Martela Lifecycle® offering has been improved to better cover the needs that a well-functioning, people-centric and inspiring workplace requires over its lifecycle. The comprehensive model enabled by Martela's broad selection of products and services makes it easier to manage premises and helps companies to function in a responsible and environmentally friendly way.

The change in ways of working and the benefits of technology provide an important opportunity to innovate new office space concepts that meet the particular needs of a company and change during their life cycle to match usage data.

ENGAGING AND SMART DESIGN

Creating home-like activity-based offices is a continuing and growing trend. Areas intended for casual encounters are becoming more common and the extensive Scoop sofa table collection designed by Iiro Viljanen was launched to support it. The collection includes many different options for table-top size, shape and height and the metal table-tops are available in Inspiring Colours. The tables can be combined with seating furniture, the bases of which use the same colour as the tables.

Martela has continued to actively develop the Martela Dynamic family of products that use smart technology. It includes smart furniture that support users' wellbeing, coping and performance, and booking, measurement and reporting tools that enable the efficient use of workplaces. Analyses combined with the Martela Lifecycle® service offering enable the continued development of people-centric workplaces.

Our Inspiring Workshops services support people-centric and engaging design, controlled implementation of changes and fluent introduction for the new type of workplaces. Engaging personnel is the best possible way to commit them to change and a positive approach, a sense of community and working together. Workshops familiarise employees with the new workplace concept and provide them with the opportunity to find out what it is like to work in an activity-based office in practice. Concerns related to the change are dealt with using group assignments and personnel are involved in a concrete way in the planning of the new facilities.

JUTEINIKESKUS CENTRE WAS CREATED ON THE BASIS OF REVERSE TENDERING AND LISTENING TO USERS.

*The Juteini school is in the unique Juteinikeskus centre in Hattula. Users voiced their opinions in workshops to create an open learning environment. "It was absolutely vital that we first discussed all the things that would take place at the premises and then considered various implementation solutions," says **Minna Kallio**, the principal.*

The Juteinikeskus project was based on reverse tendering where the customer specified the total budget and Martela focused in its tender on offering a solution that would take the users' wishes and needs in to account as well as possible.

***Marko Seppälä**, the principle in charge of tendering, applauds the benefits of reverse tendering. "The suppliers gave us their best visions of the functionalities that they could help us create with the selected budget. When making our selection, we could focus on the most important target: to create the best possible learning conditions for the pupils."*

"We are very happy with the results," Kallio and Seppälä say.

Customers and Workplace Service

With its new mission “Better Working” and vision “People Centric Workplaces” Martela also changed its organisation in the latter half of 2016. The Business Units were replaced with the Customers and Workplace Services unit, which is responsible for customer relationships, sales and workplace services in the Nordic countries, and the international dealer network.
The primary reason for the reorganisation was to be able to offer customers the Martela Lifecycle® overall service more efficiently from workplace specification to continuous maintenance. The Customers and Workplace Services unit employs some 150 people and its head is Ari-Matti Purhonen.

FOCUSING ON THE NORDIC COUNTRIES

Martela’s customers are companies and organisations that understand the importance of people-centric workplaces. A good workplace is an excellent tool for developing corporate culture and enhancing the attractiveness, competitiveness and productivity of the organisation. In a successful workplace the management has often understood the potential of the workplace as a management tool. The best workplaces also enable employees to give their best.

During 2016 Martela has concentrated its operations in the Nordic countries which share very similar working life values. Equality, low hierarchy and open communication are self-evident in Martela’s principal markets in Finland, Sweden and Norway. Organisations in these countries are pioneers in hybrid workplaces and learning environments. Hybrid spaces meet the need to do work that is increasingly varied, with employees working at the workplace and remotely, focusing on substance and with a strong sense of community.

Earlier, in June 2016, Martela announced that it would discontinue direct sales operations in Poland and Russia.

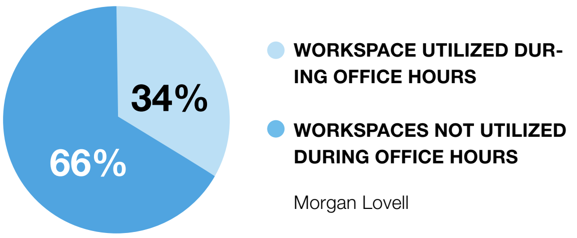
SUBSTANTIAL POTENTIAL

Martela estimates that the size of the Nordic workplace market is approximately one billion euros. In 2016, Martela succeeded in its service sales and signed Martela Lifecycle® comprehensive service agreements in all Nordic countries. In Sweden, revenue growth has been significant.

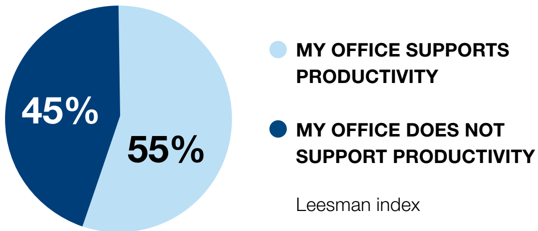
In Finland, many companies still need to adjust their business operations to a changed operating environment. The Martela Lifecycle® products and services make it possible to develop a workplace so that it is more functional even in challenging situations. Workplace specifications, plans and maintenance carried out in a customer-centric way are examples of key expertise. The positive result was further boosted by the continuing change in learning environments and the successful application of reverse tendering in public procurement.

The positive performance of the Swedish and Norwegian economies offers Martela an opportunity to increase its business in these countries. The Martela Lifecycle® model is very well suited to companies with a very strong culture of discussion and where specialist employees must be led with modern methods.

Even research indicates that there still is much to improve in workplaces.



Morgan Lovell



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SOLTEQ PLC LEADS WITH SPACE

In spring 2016, Martela created a full workplace transformation for the software company Solteq Oy in accordance with the Martela Lifecycle® model. Solteq's new 200-employee office in Vantaa was designed and implemented to meet the company's current needs and to support the mobile and social nature of the work.

The change process was launched with the specification stage in which the needs of the company and the goals of the change were specified. The specification included a workplace survey, workshop and interviews. A comprehensive report and a space plan were drawn up on their basis.

In the design stage Martela investigated the furniture demand and furniture. When the space and interior design plans were completed, a proposal was made on furniture. The workplace change implemented for Solteq Oy also included removals and furniture recycling.

The new workplace included a variety of solutions that take into account the different needs of different tasks. The result was a workplace with more than a hundred shared workstations. In the new environment, the employees can choose the space that feels best on a given day considering their tasks.

Solteq's Site Coordinator Anna Martevo says that "The new office and space concept have changed many things for the better. The number of encounters has grown immensely and communications are much simpler and more efficient."

Customer Supply Management

Martela's customer-centric supply chain is based on a streamlined process and the fewest possible intermediate stages in the order-to-delivery chain to ensure the best possible reliability and efficiency.

CONCENTRATION BRINGS EFFICIENCY AND RELIABILITY

The Customer Supply Management (CSM) unit has been systematically developed and built since 2014 for better efficiency and reliability. In 2016 the CSM unit was developed further so that the organisation would work more efficiently and transparently to support the Martela Lifecycle® strategy together with sales. Cooperation with subcontractors, production and logistics must be seamless in the sale of products and services that improve workplaces and the management of their full life cycle.

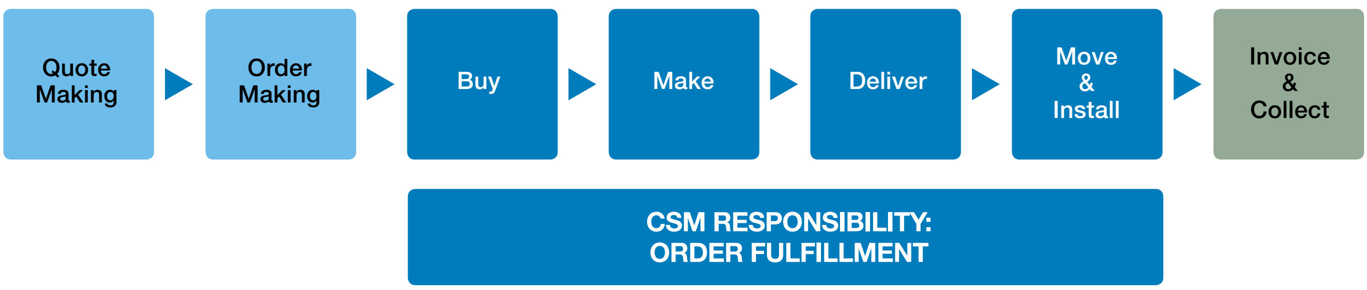
The product assembly network and distribution have been simplified to create an efficient and transparent chain from supplier to customer. In 2016, the Nordic supply chain was rebuilt to better support clients' needs, efficiency and high delivery reliability. The assembly work carried out at the logistics centre in Bodafors, Sweden, was concentrated at the production unit in Nummela and the supply terminal functions and delivery were transferred to a logistics partner. Swedish and Norwegian customer services moved to a new office in Nässjö.

At the end of 2016 the CSM unit was put in charge of measures following sales, including Martela's sourcing, production, removal services, product development, materials flows, logistics as well as IT functions, quality assurance and the accredited test laboratory. Factories have been concentrated at three locations: Nummela (final product assembly) and Kitee (manufacturing of melamine and laminate components), both in Finland, and Warsaw, Poland, (upholstery components).

MARTELA LIFECYCLE® STRATEGY IMPLEMENTED WITH REFORMS

The removal services were included under the CSM unit in 2016. Martela's IT operations were also included under CSM and an extensive New Business Platform project was launched to renew the Group's ERP, CRM and PLM systems and sales tools. This is the largest individual investment in the implementation of the Martela Lifecycle® strategy. The New Business Platform will seamlessly support the sales, deliveries and management of comprehensive solutions, and provides an opportunity to further develop the company's business with modern tools.

The unit is Martela's largest and employed approximately 400 people at the end of the year. **Petri Boman** is the head of the CSM unit.



ENFO'S GREAT WORKPLACE IN STOCKHOLM WAS MADE EVEN GREATER

"When the old office started to feel cramped, we had a vision of a flexible workplace that would be adapted to the way we work and promote our development," says ***Linda Liljewall****, Office Manager at Enfo in Stockholm.*

The new office's interior was implemented in accordance with the Martela Lifecycle® model. Martela also took responsibility for the logistics of the removals and the furniture of the old office. More than 80 per cent of the old furniture was either recycled or resold, which perfectly matches Enfo's environmental approach. Furniture rental and leasing services also helped Enfo to avoid high initial and continuous maintenance costs.

An Inspiring workshop by Martela was organised around the time of the office warming party to introduce the new office and ensure that the new workplace would work in the best possible way. "It provided us with a deeper understanding of how the workplace will affect the people working here and how it will make contacts easier and improve cooperation also between departments," Liljewall says.

The cooperation between Martela and Enfo will continue even after the new office has been taken into use. "Because our workplace will change in a continuous process, we will continue our close relationship with Martela to keep pace with the rapid development of working life and workplaces. We intend to retain Enfo's top placement in the Swedish Great Place to Work® ranking."

People & Communication

Martela creates people-centric workplaces where the users and their wellbeing are what matters most. For this reason, the wellbeing Martela creates for its personnel and customers is also at the core of its strategy.

At the end of 2016 the Human Resources unit became the People & Communication unit when human resources, communications and responsibility were combined. The change is based on Martela's refocused strategy and it is intended to draw attention to the wellbeing of Martela's employees, to enhance the company's communications and to move the focus of responsibility towards social responsibility in accordance with the strategy.

PERSONNEL

The heart and most important resource of Martela's success in implementing the Martela Lifecycle® strategy is its personnel. Meeting our goals demands versatile and changing expertise from everyone at Martela. Three important change projects were launched during last year.

Consistent HR processes

During the year, HR processes that span the employment life cycle were harmonised. The same core principles, processes and HR system are now in use in all operating countries.

Pilot of the Talent process

The competence profiles required by the Martela Lifecycle® strategy were surveyed in the pilot of the Talent process. The pilot included Martela's approximately 30 interior designers, whose job descriptions have changed considerably under the new strategy. The designers were previously in the background but the specification and design services have given them a more central role. The pilot successfully defined the Talent process, which will be implemented throughout Martela during 2017.

For the successful implementation of the Martela Lifecycle® strategy it is important to identify the core competences of the company and to improve its potential through personnel expertise and strengths in accordance with the strategy.

People Spirit employee satisfaction survey

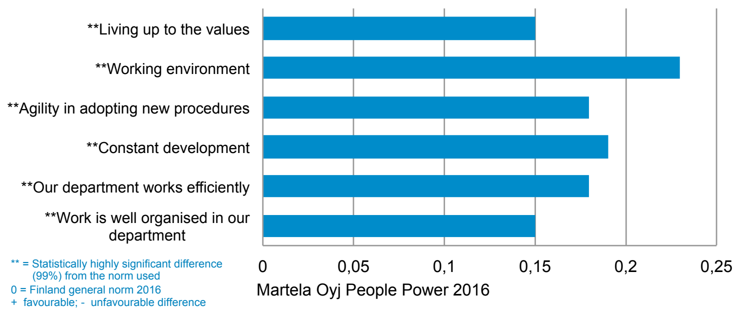
The company conducted a People Spirit employee satisfaction survey in which 85.6 per cent of all employees took part. According to the survey, the personnel is exceptionally satisfied with their working conditions, Martela's products, the recent development of the company and the clarity of its goals. Some of the areas that were felt to require improvement were competence development and change management. Based on the survey approximately 100 improvement measures on different levels of the organisation have been launched at Martela.

Personnel by region on average

	2016	2015	2014	2013	2012
Finland	428	469	559	620	637
Scandinavia	45	49	62	58	76
Poland	72	93	110	80	81
Russia	5	11	11	12	12

The refocusing of the business strategy and the reorganisation of the CSM unit, reduced Martela's personnel by 72 on average.

Agility and Effectiveness



All results of the Efficiency and Flexibility section of the PeoplePower® employee survey conducted at Martela in 2016 were above the general level in Finland.

The study was based on the People-Power® personnel survey concept which describes the engagement of a company on a seven-step scale: C is Poor and AAA is Excellent. Martela's level in the 2016 survey was AA+, in other words Good+. Martela's goal is to attain the Excellent level within three years.

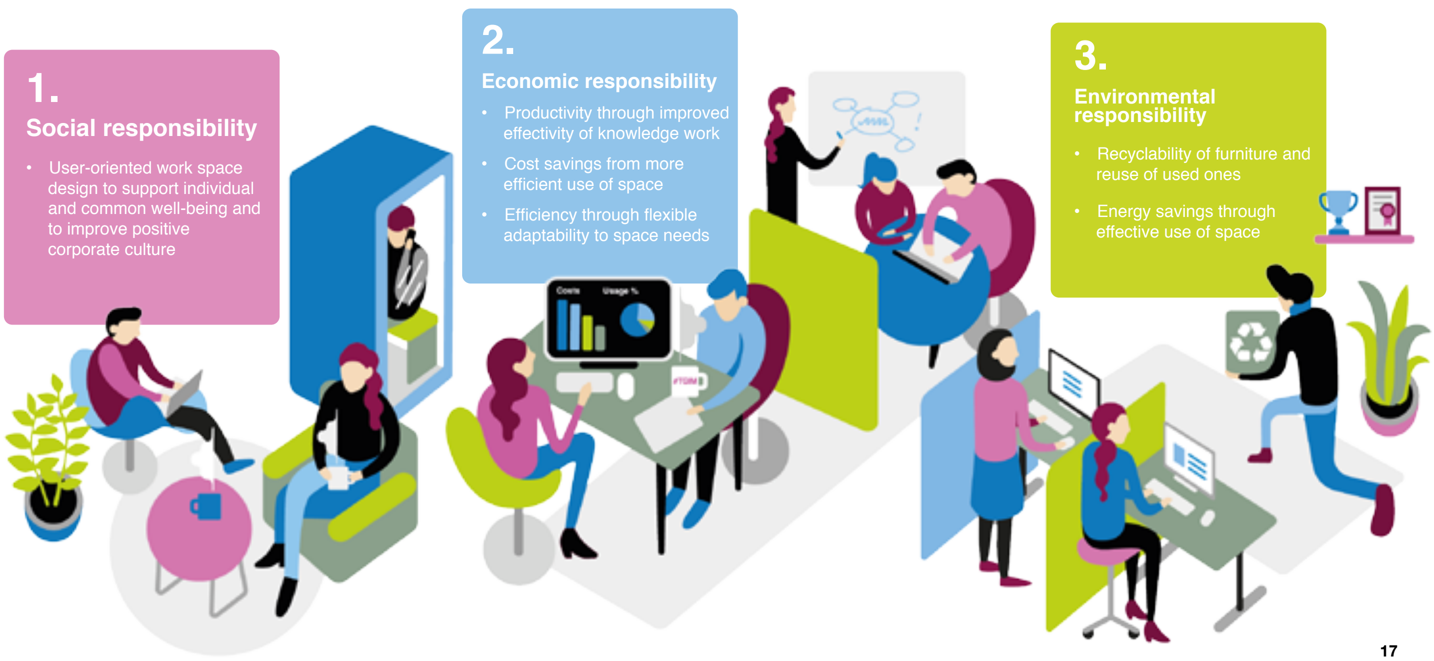
RESPONSIBILITY

Responsibility is an essential part of Martela's operations. As a member of the Global Compact Network Nordic, Martela is committed to international agreements on human rights, for example. Under the Martela Lifecycle® strategy Martela improves customers' wellbeing at work, enables a better corporate culture and guides product choices toward better materials.

The Board of Directors and the Management Team are committed to developing Martela responsibly and in the long-term to meet the expectations of shareholders, customers, employees and other stakeholders. A separate responsibility report on Martela's operations in 2016 is the seventh of its kind, an indication of the company's leadership in its sector in publishing information on the responsibility of its operations.

Martela's Responsibility Steering Group approved Martela's responsibility target programme for the 2016–2018 period at the beginning of 2016. The programme highlights the impact that the Martela Lifecycle® model has on the company's and its customers' operations. The model enables Martela to promote positive social, economic and environmental impacts also in its numerous customer companies.

At the beginning of 2016 Martela's Board of Directors approved changes to the Corporate Code of Conduct and the Management Team approved corresponding changes to Human Resources and Environmental Policies in accordance with the Martela Lifecycle® strategy. The Management Team also confirmed the original Purchasing Principles and the Social Requirements for Suppliers. All principles and policies dealing with responsibility are available on Martela's responsibility page: *www.martela.com/responsibility*. Quality and environmental system certificates issued by independent parties can also be found at the same address.



Corporate governance statement 2016

CORPORATE GOVERNANCE

Martela Corporation is a Finnish limited liability company that is governed in its decision-making and management by Finnish legislation, especially the Finnish Limited Liability Companies Act, by other regulations concerning public listed companies, and by its Articles of Association.

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

ORGANISATION

The Group is managed according to both its operational organisation and legal Group organisation. The Group's management is based primarily on an operational matrix organisation.

In 2016 sales operations and customer service were organised by business segment as follows:

- Business Unit Finland and Sweden
- Business Unit International

From the beginning of 2017 the Group's figures will be reported as one business segment.

Business Unit Finland and Sweden was responsible for sales, marketing and service production in Finland and Sweden. Martela has an extensive sales and service network which covers the whole of Finland. At the end of 2016 Swedish and Norwegian customer services moved from Bodafors to Nässjö. In Sweden, the unit has its own sales and showroom facilities in Stockholm.

The main market areas of Business Unit International were Norway, Poland and Russia. The unit was also responsible for sales to those countries where Martela does not have subsidiaries. In Norway, the Business Unit has its own sales and showroom facilities in Oslo.

During the financial year Martela discontinued its sales operations in Poland and Russia and closed the Bodafors plant and logistics centre in Sweden. The assembly work carried out at Bodafors has been concentrated at our Nummela production unit and the distribution to our logistics partner. The production and purchasing unit in Poland will continue its operations.

Changes were made to the company's organisation in the second half of 2016:

- The business units were replaced with a new Customers and Workplace Services unit, which is responsible for customer relationships, sales and workplace services.
- The Innovation to Market (ITM) unit was set up to take responsibility for the company's brand and marketing, and the development and management of workplace services and the product portfolio.
- The Customer Supply Management (CSM) unit was being developed further. CSM is responsible for after-sales activities, including Martela's sourcing, production, removal services, product development, materials flows and logistics as well as IT functions, quality assurance and test laboratory.

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, Poland (upholstery components).

- The Human Resources unit became the People & Communication unit when administration of human resources, communications and responsibility were combined.
- The Group's Finance and IR unit is responsible for the Group's financial planning and reporting, and investor relations and legal matters.

ANNUAL GENERAL MEETING

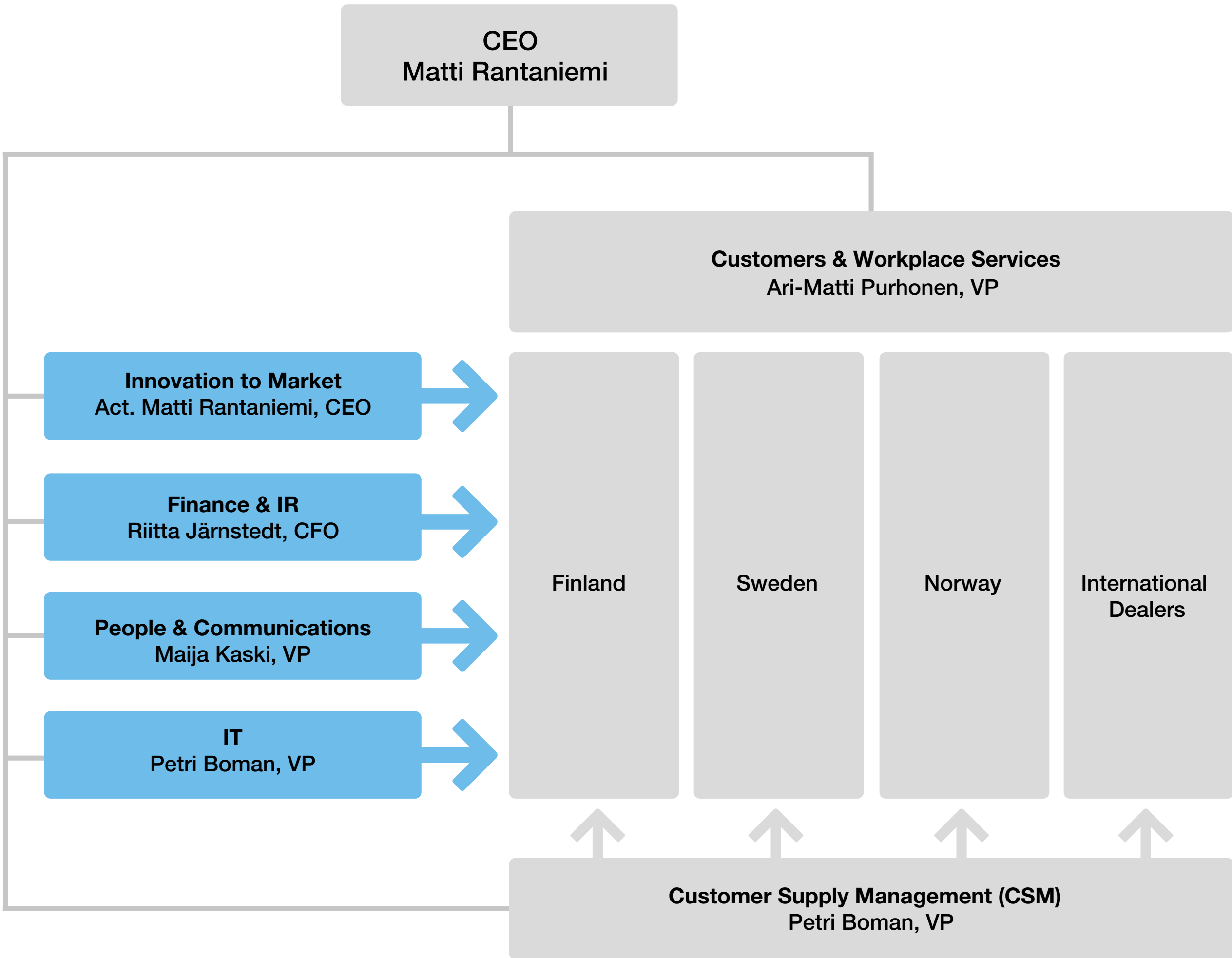
The General Meeting is the company's supreme decision-making body. The Annual General Meeting must be held within six months of the end of the financial year. The financial statements, Board of Directors' report and the auditor's report are presented at the Annual General Meeting. The Meeting decides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

SHARES

Martela has two share series ('K shares' and 'A shares'), with each K share entitling its holder to 20 votes at a General Meeting and each A share entitling its holder to one vote. The redeeming of K shares is referred to in the Articles of Association. Private owners of K shares have a valid shareholder agreement that restricts the sale of these shares to other than existing holders of K shares. The company's total share capital on 31 December 2016 was EUR 7 million.

In January – December 2016, a total of 2,067,817 (765,413) of the company's A shares were traded on the NASDAQ Helsinki exchange, corresponding to 58.2 per cent (21.6) of the total number of A shares.

The value of trading was EUR 14.0 million (2.4); the share price was EUR 12.84 at the end of 2016 and EUR 3.53 at the end of



2015. During January–December 2016 the share price was EUR 13.50 at its highest and EUR 3.29 at its lowest. At the end of December, equity per share was EUR 6.13 (5.54).

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.

More information on the composition of the Board and the background information concerning Board members can be found under Corporate Governance/Board of Directors. 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 accordance with the Charter, the matters dealt with by the Board of Directors include:

- Group and process strategies
- Group structure
- Financial statements, interim financial statements and interim reports
- Group operating plans, budgets and investments
- Business expansion and reduction, acquisitions and divestments
- Risk management policy and principles of internal control
- Treasury policy
- Appointment and discharge of the CEO
- Composition of the Group Management Team
- Management's bonus and incentive plans
- Approval and regular review of the principles and systems of corporate governance
- Appointment of committees and their reporting

In the picture from left to right Komi Kirsi, Närhinen Yrjö, Vepsäläinen Anni, Martela Heikki, Metsäranta Pinja, Leskinen Eero and Martela Eero.

The Board convened nine times during the financial year. The average attendance of Board members was 98 per cent.

The Board reviews its own activities annually, either by self-assessment or assessment made by an external consultant. In both cases a summary of the evaluations is jointly discussed at a Board meeting.

The Board has evaluated the independence of its members and determined that Kirsi Komi, Eero Leskinen, Eero Martela, Pinja Metsäranta, Yrjö Närhinen and Anni Vepsäläinen are independent of the company. Of the company's largest shareholders, Kirsi Komi, Eero Leskinen, Yrjö Närhinen and Anni Vepsäläinen are independent members of the Board.

The Board has formed from among its members a Compensation Committee, which also has a written Charter. According to the Charter, the key duties of the Compensation Committee include:

- deciding, with authorisation from the Board, the salaries and bonuses of the CEO and the Group Management Team
- preparing for the Board the criteria of the incentive plans for key personnel
- processing the appointments of the CEO and Group Management Team members, deputy arrangements and successor issues

The Board's Compensation Committee comprises Heikki Martela, Kirsi Komi and Anni Vepsäläinen.

The company has no separate audit committee. The Board of Directors sees to the audit committee duties as specified in the Corporate Governance Code. The Board is of the view that its members have the necessary and sufficient information on the company's operations, and the Board monitors the company's reporting at each meeting. The CFO is present at meetings of the Board of Directors and functions as Board secretary. The Chairman of the Board is in direct contact with the CFO as necessary. The Chairman of the Board is also regularly in contact with the Company's auditor.

CEO

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

GROUP MANAGEMENT TEAM

The Board of Directors and the CEO appoint the members of the Group Management Team. The CEO of Martela Corporation acts as the Chairman of the Group Management Team. The directors responsible for the main market areas and the Group's processes are also represented in the Group Management Team. The Group Management Team drafts and reviews strategies, budgets and investment proposals, monitors the financial situation of the Group and its business areas and processes, and the attainment of operational targets and plans. The Group Management Team meets once a month.

FINANCIAL REPORTING IN THE GROUP

Martela Corporation's Board of Directors is provided with monthly reports on the financial performance and forecasts of the Group. The reports and forecasts are also presented by the CEO at Board meetings, where they are reviewed. For the purposes of reviewing the interim and half-year reports and annual financial statements, the Board of Directors receives the financial statement information and analyses in advance.

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

MEMBERS OF THE BOARD

CHAIRMAN OF THE BOARD
Martela Heikki Born in 1956, M.Sc. (Econ), MBA
Member of the Board of Martela Oyj since 1986, Chairman of the Board of Martela Oyj 2000–2002 and again starting 2015.
CEO of Martela Oyj 2002–2015.
Other key duties: Chairman of the Board of Marfort Oy and Vice Chairman of the Board of Meritaito Oy. Member of the Board of the Association of Finnish Furniture and Joinery Industries, Lappset Group Oy and Filosofian Akatemia Oy.
Owns 130,942 Martela Oyj A shares and 52,122 Martela Oyj K shares.

VICE CHAIRMAN OF THE BOARD
Leskinen Eero Born in 1956, M.Sc. (Tech.)
Member of the Board of Martela Oyj since 2014.
Other key duties: Chairman of the Board of Merame Oy, Arme Oy, Citec Group Oy, Treston Group Oy and Ursviken Group Oy. Member of the Board of Nanso Group Oy, Sisco Oy, Terrawise Oy, Limestone Platform AS.
Owns 19,750 Martela Oyj A shares.

Komi Kirsi Born in 1963, LL.M.
Member of the Board of Martela Oyj since 2013.
Other key duties: Member of the Board of Finnvera, Citycon Oyj, Metsä Board Oyj, Bittium Oy. Chairman of the Board of Blood Service of the Finnish Red Cross and Docrates Oy.
Owns no Martela Oyj shares.

Martela Eero Born in 1984, M.Sc. (Tech)
Member of the Board of Martela Oyj since 2015.
Senior Consultant, Columbia Road 2016–.
Technology Strategy Analyst, Accenture 2012–2016.
Owns 6,710 Martela Oyj A shares and 400 Martela Oyj K shares.

Metsäranta Pinja Born in 1975, M.A.
Member of the Board of Martela since 2010.
Head of Academic Affairs, Academy of Fine Arts, University of the Arts Helsinki.
Owns 4,000 Martela Oyj A shares and 380 Martela Oyj K shares.

Närhinen Yrjö Born in 1969, BBA
Member of the Board of Martela Oyj since 2012.
CEO of Terveystalo Oy since 2010.
Other key duties: Board member of Hyvinvointialan liitto ry (Wellfare Association), Lääkäripalveluyritykset ry and Peurunka Foundation.
Owns no Martela Oyj shares.

Vepsäläinen Anni Born in 1963, M.SC. (eng.)
Member of the Board since 2016.
CEO of Finnish Fare and Exhibition Centre since 2014.
Other key duties: Member of the Board in Berggren Oy and The Helsinki Region Chamber of Commerce.
Owns no Martela Oyj shares.

AUDITING

The auditing of Group companies is carried out in accordance with the valid laws in each country and each company's articles of association. The principally responsible auditor of the parent company co-ordinates the auditing of the Group's subsidiaries together with the Group's CEO and CFO. The auditors of Martela Corporation and the Group are the authorised public accountants KPMG, with Ari Eskelinen, Authorised Public Accountant, as the principally responsible auditor. All the auditors of the Group's companies are in the KPMG chain. In 2016, a total of EUR 85,000 (114,000) was paid in fees for the Group's auditing, while EUR 16,000 (24,000) was paid for other services.

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. The CEO heads the Group Management Team, the members of which comprise the directors responsible for the business areas and processes. The Group Management Team drafts and reviews strategies, annual operating plans and investment proposals, monitors the status of the Group and its legal units and processes, and the attainment of targets and plans. The Group Management Team meets once a month.

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.

MEMBERS OF GROUP MANAGEMENT TEAM

CHIEF EXECUTIVE OFFICER (CEO)
Rantaniemi Matti Born in 1973, Engineer, MBA
At Martela since 2015 and member of the management team since 2015.
Working experience:
Otis Oy, Carrier Oy, Managing Director, Kidde Finland Oy, UTC Building & Industrial Systems Finland, 2011–2015.
Halton Putzair Oy, COO/CEO, 2010–2011.
Infosto Group, Various management positions, 2000–2010.
Owns no Martela Oyj shares.

VICE PRESIDENT, CUSTOMER SUPPLY MANAGEMENT
Boman Petri Born in 1966, M.Sc. (Tech.)
Area of responsibility: Group sourcing, Production, Removal services, Product development, Logistics, IT functions, Quality assurance and Test laboratory.
At Martela and member of the management team since 2013.
Working experience:
Content Group Oy, Partner, Management consulting, 2011–2013.
Kemira Oyj, Executive Vice President, Supply Chain Management, 2007–2010.
Tikkurila Oyj, Group Vice President, Supply Chain, 2005–2006.
Nokia Oyj, Senior Supply Line Manager, 1997–2005.
Vaisala Oyj, Mechanical Designer, 1993–1996.
Owns 12.167 Martela Oyj A shares.

VICE PRESIDENT, PEOPLE AND COMMUNICATION
Kaski Maija Born in 1967, MA (ed.)
Area responsibility: Human resources, coordination of Corporate Communication and Corporate Responsibility.
At Martela and member of the management team since 2015.
Working experience:
Talvivaara Mining Plc, Chief HR Officer, 2012–2015.
Nokia Oyj, Senior Manager, HR, 2006–2012.
Elcoteq SE, HR Director, various HR positions, 1995–2006.
Owns no Martela Oyj shares.

CHIEF FINANCIAL OFFICER (CFO)
Järnstedt Riitta Born in 1968, M.Sc. (Econ)
Area of responsibility: Finance, Investor Relations and Legal affairs.
At Martela and member of the management team since 8/2016.
Working experience:
Efore Oyj, CFO 2014–2016.
Norpe Oy, CFO 2010–2014.
Tecnotree Oyj, CFO and other management positions in Finland and abroad, 1995–2010.
Owns no Martela Oyj shares.

VICE PRESIDENT, CUSTOMERS AND WORKPLACE SERVICES
Purhonen Ari-Matti Born in 1971, M.Sc. (Tech.)
Area of responsibility: Customer interface and Sales in Finland, Sweden, Norway and International dealer network and Workplace services.
At Martela and member of the management team since 2013
Working experience:
Hewlett-Packard, General Manager, Finland and Baltics, Scandic, 2010–2013.
Canon Oy, Director, Strategy, marketing and product management, Finland and Baltics, 2008–2010.
IBX Oy, Managing Director 2004–2008.
TDC, Management positions in business unit, sales and product management, 1999–2004.
Owns 15.396 Martela Oyj A shares.

In the picture from left to right Kaski Maija, Boman Petri, Järnstedt Riitta, Rantaniemi Matti and Purhonen Ari-Matti.


Any space, anyone and anything

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 2016, internal control focused on sales functions and especially the processes concerning the 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. She also monitors the reliability of financial reporting.

The Board of Directors approves Martela's strategy and annual operating plans. It also approves the principles and rules of risk management, and monitors on a regular basis the effectiveness and sufficiency of 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.

The forming of a separate internal audit function has not been deemed appropriate. Instead, internal control is carried out in the form of ordinary business processes and the controls within them.

RISKS

It is estimated that the greatest risk to profit performance is related 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.

The New Business Platform IT reform that will take place in the first half of 2017 may pose operating challenges that may impact business operations in the short term. Risks are being minimised by conducting sufficient testing and ensuring sufficient resources and by implementing standard features of the systems.

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 is based on customer orders, which means that there is no need for large-scale warehousing. Risks of damage are covered by appropriate insurance policies providing comprehensive coverage for property, business interruption, supplier interruption loss and loss liability risks. The services of an external insurance broker to manage insurance matters. The services of an external partners are also used in legal matters.

No particular responsibility risks have been observed in Martela's operations. The responsibility perspectives regarding the supply chain are discussed as part of the operations of the Customer Supply Management unit.

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

MANAGEMENT REMUNERATION, BENEFITS AND INCENTIVE PLANS

The fees paid to the Chairman and to the members of the Board in 2016 totalled EUR 24,000 and EUR 108,000, respectively. However, no fees are paid to Board members employed by the company.

Martela Corporation gained a new CEO on 1 October 2015. The total salaries and other benefits paid to Martela Corporation's CEOs in 2016 were EUR 232,000 (309,000). In addition, a total of EUR 149,000 in share bonuses for the CEO was entered as a reserve in the financial statements in 2016. Martela's previous CEO Heikki Martela retired when he reached the age of 60 in spring 2016. For the current CEO, the period of notice of termination of contract is six months for both the CEO and the company. If the company gives notice of termination of contract, the CEO is entitled to one-off compensation equivalent to 6 months' salary.

Bonus and incentive plans based on annual or shorter-term performance are in place in the Group to promote the achievement of short-term objectives. The amount of the incentive is influenced mainly by performance indicators.

The remuneration of the CEO and the Group Management Team consists of a fixed basic salary, annual performance pay and a long-term share-based incentive scheme. The Board of Directors decides on the annual performance pay of the CEO and other key personnel of the Group as well as the terms and conditions of the long-term share-based incentive plan on the basis of a proposal by the Compensation Committee. The amount of performance pay for the CEO and the members of the Group Management Team is based not only on personal results but also on the financial performance of the entire Group and the unit. The annual performance pay of the CEO and the Group Management Team may be no more than 30–45 per cent of their annual taxable earnings excluding performance pay. The principle of one-over-one approval is observed within the Group, which means that all pay-related terms and conditions require approval from the supervisor or manager who appointed the person in question.

At the end of the financial year on 31 December 2016, the Group had two long-term share-based incentive plans. In the older plan the earning period is the calendar years 2014–2016 separately and cumulatively and in the newer plan the calendar years 2017–2018 cumulatively and the calendar years 2019–2020 cumulatively.

The maximum total bonus in the older programme is 160,000 Martela Corporation A shares and an amount of cash that will cover taxes and similar charges, estimated at approximately the value of the shares to be paid. The Board of Directors will decide the earning criteria and the goals for each criteria of the newer programme, adopted on 15 December 2016, at the beginning of the earning period. Bonuses paid for the 2017–2018 earning period correspond to a maximum total of approximately 100,000 Martela Corporation series A shares and also includes the cash portion.

In the earning periods 2014–2016 and 2017–2018 the target group of the programmes is the members of the Group Management Team. For the 2016 calendar year the targets were met and 41,777 shares will be distributed as bonuses.

See the notes to the financial statements for information on the effect of management remuneration and the share-based incentive plan on the result for the year.

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.

Martela's public insider register was terminated on 2 July 2016 due to the entry into force of the Market Abuse Regulation (EU No 596/2014 "MAR") on 3 July 2016. The company has defined as permanent insiders persons who work at Martela Group and who have access to all inside information concerning Martela due to their position or task. The information in the permanent insider list is not public. In addition to the permanent insider list, non-public project-specific insider lists shall be established, if necessary, as defined in Nasdaq Helsinki Ltd's Guidelines for Insiders. Permanent insiders are not entered into the project-specific insider lists.

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

Martela discloses inside information that directly concerns Martela or its financial instrument as soon as possible, unless the conditions for delay of disclosure of inside information are met. Martela has defined an internal process in order to evaluate and disclose the inside information, and to monitor and evaluate the duration and the conditions for the delay. Martela continuously monitors the situation to ensure that the conditions for the delay are met and 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 2016 there were no material related party transactions.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Financial statements

Information for shareholders

ANNUAL GENERAL MEETING

The Annual General Meeting of Martela Oyj will be held on Tuesday 14 March 2017 at 3 p.m. at Takkatie 1, 00370 Helsinki. The names of shareholders wishing to attend the meeting should be entered in the shareholder register at Euroclear Finland Ltd no later than 2 March 2017 and the shareholder should register at the Company's head office tel. +358(0)10 345 5337, or by email IR@martela.com, or by post to Martela Oyj, Investor Relations, PL 44, 00371 Helsinki, no later than 9 March 2017 at 10 a.m.

PAYMENT OF DIVIDENDS

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.37 per share be paid for the financial year 1 January 2016 – 31 December 2016. The dividend will be paid to the shareholders that are registered to the shareholders' register of the Company held by Euroclear Finland Ltd on the record date 16 March 2017. The Board of Directors proposes that the dividend would be paid on 23 March 2017.

PUBLICATION OF FINANCIAL INFORMATION

Martela will publish two interim reports and one half year report in 2017:

- January – March (Q 1) on Friday 28 April 2017
- January – June (H 1) on Wednesday 9 August 2017
- January – September (Q 3) on Thursday 2 November 2017

Financial reports are available in Finnish and English on the company's website (www.martela.fi and www.martela.com). Annual reports are also available on the company's website on pdf-format.

Stock exchange releases are after published available on the company's website, where you can find all of them in a chronological order.

Board of Directors' report

KEY FIGURES

The Group's revenue for the financial year was EUR 129.1 (132.8) million. The operating result for the year was EUR 6.2 (4.1) million and the comparable operating result EUR 6.9 million (4.1). Earnings per share were EUR 0.81 (0.61). Cash flows from operating activities totalled EUR 11.7 (3.9) million. The equity-to-assets ratio was 45.3 per cent (40.9) and gearing was -18.9 per cent (16.6). The return on investment for the year was 18.2 per cent (12.1).

MARKET

There were no material changes in the market during the fourth quarter compared with the previous quarters. The demand for Martela's products and services is fundamentally affected by the general economic situation and by the extent to which companies and the public sector need to use their space more efficiently and make their workplaces more effective management tools.

The annual change in a country's gross domestic product (GDP) can be regarded as an indicator of general economic development. GDP is estimated to have grown at least somewhat in all of Martela's main markets in 2016 and this development will continue in 2017.

The need to boost efficiency often leads to office alteration projects, which in turn generate demand for Martela. What is more, an increasing number of workplaces and learning environments have understood that the environment itself plays an important role in improving productivity. The Martela Lifecycle model responds well to such needs to develop workplaces of businesses and the public sector, and to this end, we have focused on our competence in workplace specification, planning and maintenance services.

The estimated size of the Nordic workplace market is approximately one billion euros. In Sweden the market relevant to Martela is more than twice the size of what it is in Finland, and the Norwegian market is close in size to its Finnish counterpart.

GROUP STRUCTURE

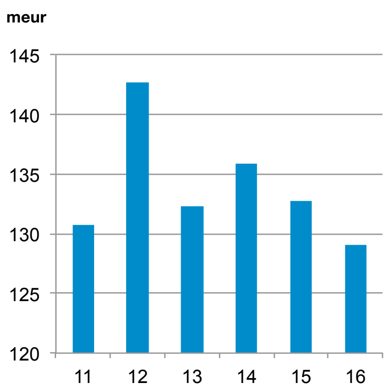
There were no changes in Group structure during the review period. We expect the documents concerning the discontinuation of our Russian subsidiary to be approved by the authorities during the first half of 2017.

SEGMENT REPORTING

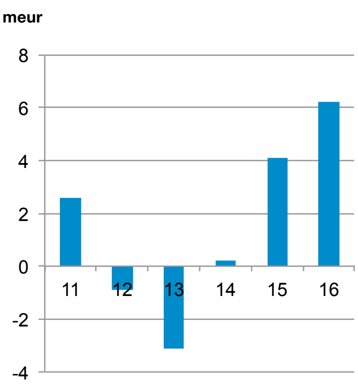
The business segments are based on the Group's operating structure and internal financial reporting. The segment results presented are their operating results, as tax items and financial items are not allocated by segment. The Group's assets and liabilities are not allocated or monitored by segment in the internal financial reporting.

The Business Unit Finland & Sweden was responsible for sales, marketing and service production in Finland and Sweden. The Business Unit International consisted of Martela's sales operations in Norway, Poland and Russia as well as exports. The most important export countries are Denmark, Estonia, France and the United Arab Emirates (UAE). The item Other segments included the business operations of

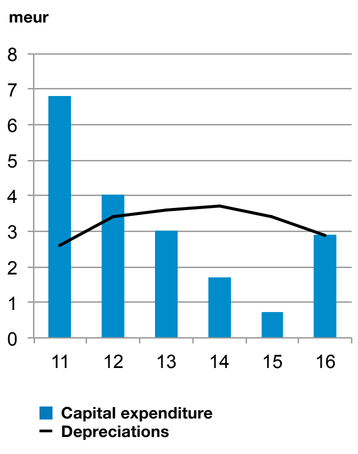
Revenue



Operating profit



Capital expenditure and depreciations



Kidex Oy, non-allocated Group functions, production units and non-recurring sales gains and losses. The Group's Supply Chain Management unit carries out production and procurement for the business units.

CHANGES IN SEGMENT REPORTING FROM 1 JANUARY 2017

As a result of harmonising and combining processes, the organisation, reporting and systems, the company will report consolidated figures as a single business unit as of 2017. Revenue will be reported by Finland, Sweden, Norway and other areas.

REVENUE AND OPERATING RESULT

Revenue for January-December was EUR 129.1 million, which is at the previous year's level (132.8). The revenue of the Business Unit Finland & Sweden grew by 2.5% on the previous year. Finnish revenue for the period was on last year's level while in Sweden the corresponding figure improved year-on-year. The revenue of the Business Unit International declined by 32.7% on the previous year. In Poland and Norway, revenue declined while in Russia and other international operations it grew.

The discontinuation of Martela's own sales operations in Poland and Russia, announced in June, has been completed. The Warsaw production and purchasing unit will continue operations and is an integral part of Martela's Customer Supply Management organisation. The closure of the Bodafors plant and logistics centre, which was announced earlier, has also been completed. The EUR 4 million savings programme for variable and fixed costs launched in 2015 has been completed in full and it will have full effect in 2017. At the same time, however, the Group will continue to invest in implementing and further developing its Martela Lifecycle strategy, which will increase fixed costs somewhat, preventing the Group's cost level from being reduced by the full amount of the savings referred to above.

The comparable consolidated operating result for the January–December period was EUR 6.9 million (4.1), which is 68.7% higher than in the comparison period. EUR 0.7 million was recorded in the period in costs affecting comparability, which arose from the discontinuation of the Polish and Russian sales operations. As a result, the January–December IFRS operating result was EUR 6.2 million (4.1), which is 51.1% better than in the comparison period.

The January–December result before taxes was EUR 5.6 million (3.4), an increase of 65.9%. The increase in taxes recorded for the period was due to improvement in the parent company's result. Profit for the January-December period was EUR 3.3 million (2.5), and growth was 33.5%.

FINANCIAL POSITION

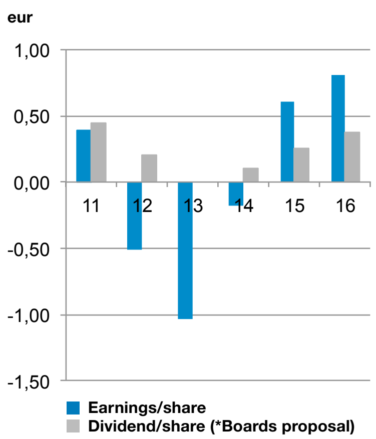
The Group's financial position has improved significantly and is stable. The cash flow from operating activities in January-December was EUR 11.7 million (3.9). The cash flow was strengthened by an improved EBITDA and a decrease in capital tied up in inventories.

At the end of the period, interest-bearing liabilities stood at EUR 8.6 million (11.5) and net liabilities were EUR -4.8 million (3.8). The gearing ratio at the end of the period was -18.9 per cent (16.6), and the equity ratio was 45.3 per cent (40.9). Financial income and expenses were EUR -0.5 million (-0.7).

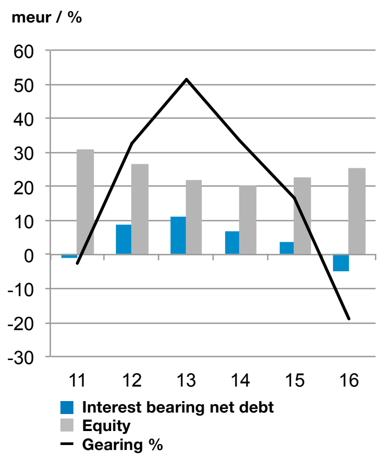
Financing arrangements include covenant clauses in which the ratio between the Group's net liabilities and EBITDA and the Group's equity ratio are calculated. The key figures calculated at the end of the review period fulfilled the covenant clauses.

The balance sheet total stood at EUR 56.2 million (56.0) at the end of the period.

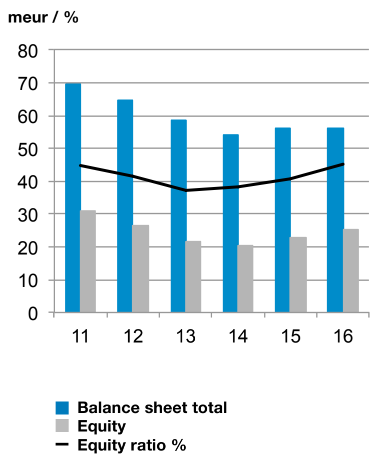
Earnings/share and dividends



Gearing



Equity ratio %



CAPITAL EXPENDITURE

The Group's gross capital expenditure for January–December came to EUR 2.9 million (0.7). The majority of the investments, EUR 2.2 million, concerned the IT system development project (NBP).

PERSONNEL

The Group employed an average of 550 people (622), which represents a decrease of 72 persons or 11.6%. The number of employees in the Group was 506 (575) at the end of the review period.

The responsibilities of the Management Team's members have been reassigned and Martela's organisation changed to match strategy. All business units were concentrated in the Customers and Workplace Services unit, and the removals service and IT service were added to the Customer Supply Management unit, in addition to sourcing, production, product development, logistics, quality assurance and test laboratory which have been part of the unit for a longer time. The Innovation to Market unit was set up to take responsibility for the company's brand and marketing, and the development and management of workplace services and the product portfolio.The Human Resources unit became the People & Communication unit, when human resources, communications and responsibility were combined. The Finance and IR unit is responsible for financial and legal matters, and investor relations.

Riitta Järnstedt started as the company's new Chief Financial Officer on 19 August 2016, and Veli-Matti Savo, the head of the ITM organisation, left the company on 17 November 2016.

Personnel costs in 2016 totalled EUR 29.7 million (32.3).

MARTELA'S OFFERING AND PRODUCT DEVELOPMENT

Instead of individual changes, Martela Lifecycle® offers an approach that covers the entire lifecycle of a workplace. In the Martela Lifecycle® model the maintenance of premises and furniture is continuous and the workplace evolves with changing needs.

Specification

Thorough specification forms the basis for workplaces that support employees in their tasks and the company's strategic goals. In addition to collecting information, involving users in the change and introducing them to new ways of working is an important part of the specification stage. Specification includes a measurement of utilization rate, workshops and a workplace survey.

Planning

Space and interior design optimises the use of space in the workplace and clarifies the company's visual image. User-centric planning ensures efficient and comfortable premises. The planning stage provides a plan for the space that is company-specific and can take into account existing furniture, recycling of excess furniture and cost-efficient opportunities for renting furniture. The management and monitoring of premises is easy with Martela Dynamic solutions.

Implementation

Careful advance planning and effective project management ensure excellent execution of change and maintenance. Martela will reliably carry out all measures, from removals, installation and recycling of furniture, to final cleaning. The services offered also include personnel training to support the transition to a new way of working and the implementation of the change as soon as the premises have been completed.

Maintenance

Workplaces require constant maintenance and optimisation. The maintenance stage includes a survey of the real need for developing premises that is based on a survey of user experiences and utilization rate measurement, and proposals for improvement drawn up on the basis of these. As a result, the premises can provide ideal support for work during their entire life cycle, even when the organisation or the way it works changes. Maintenance reduces the need for major changes, reduces costs and ensures employee comfort and efficiency.

Research and development expenses

EUR -1.8 (-2.1) million has been entered in the Group profit and loss statement as research and development expenses.

CORPORATE RESPONSIBILITY AND QUALITY

Responsibility forms an integral part of Martela's strategy and daily operations. We support the responsibility of our customer companies by offering sustainable solutions for the workplace throughout its entire life cycle and by ensuring the responsible recycling of any furniture that is no longer needed. The Martela Lifecycle® model takes into account the entire life cycle of the workplace. To ensure the quality of our operations and take environmental matters into consideration in all operations, the Group's units have certified quality and environmental systems in place.

The Martela Group distributes more than two thirds of its financial value to producers of products and services and focuses on final assembly and the services business. Roughly a quarter of the financial value is made up of salaries and social security contributions. Local production and employment are important to Martela, and as the share of our service business grows, we create an increasing number of jobs where our markets are.

Martela has not produced energy by itself since the beginning of 2014 when Nummela, as the last Martela unit to do so, started using district heating to heat its facilities. Electrical power and heat are the main forms of purchased energy. According to a 2015 energy audit, direct use of energy mainly consists of electrical power (approx. 6 GWh), district heat (approx. 5 GWH) and fuel used in own transportation (approx. 5 GWh). The energy audit did not discover any significant opportunities for reducing costs that could be implement with less than 5-year payback. The Martela Group's production processes do not use water and hence water consumption is not used as an environmental indicator.

Martela sources some 12 million kg in materials each year, approximately half of which are wood-based and a quarter metal-based. In addition, through its recycling business Martela processes approximately 4 million kg of recycled material from customers and its recovery rate is roughly 90%. Martela's logistics centres generate approximately 2 million kg of waste, almost all of which can be recovered as the share of hazardous waste is only approximately 1%.

The focus of the Martela Group's direct climate impact has moved from purchased and produced energy to own transportation. At the beginning of the decade, purchased energy and energy produced by Martela were the main sources of climate impact, while in recent years own transportation has surpassed these as the climate impact of energy has significantly declined.

VOC emissions monitored in responsibility reporting have declined significantly from the beginning of this decade when they were at two tonnes as surface finishing stages in production have been gradually outsourced. The Group's environmental expenses are mostly related to energy and waste processing charges and the processing of materials from the recycling service.

SHARES

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 a 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 2,067,817 (765,413) of the company's series A shares were traded on the NASDAQ OMX Helsinki exchange, corresponding to 58.2% (21.6) of the total number of series A shares. The value of trading turnover was EUR 14.0 (2.4) million, and the share price was EUR 12.84 at the end of 2016. During January – December the share price was EUR 13.5 at its highest and EUR 3.29 at its lowest. At the end of December 2016, equity per share was EUR 6.13 (5.54).

Disclosure notifications

The holding in Martela Corporation of a mutual fund managed by OP-Fund Management Company Ltd fell under the 5% disclosure notification limit on 27 September 2016 and was 4.97% of shares and 1.32% of votes (206,337 shares and votes).

More information on the Martela Corporation shares and shareholders can be found under note 28 of the Notes to the financial statements.

Treasury shares

Martela did not purchase any of its own shares in January-December. On 31 December 2016, Martela owned a total of 47,146 Martela A shares, purchased at an average price of EUR 10.65. Martela's holding of treasury shares amounts to 1.1 per cent of all shares and 0.3 per cent of all votes. Of the Martela A shares held by the company, a total of 16,001 shares were transferred to recipients of incentives in accordance with the terms of the share-based incentive scheme. Martela has decided to distribute a total of 41,777 shares on the basis of the 2016 financial year. Management of the share-based incentive scheme has been outsourced to an external service provider.

Share-based incentive programme

At the end of the review period on 31 December 2016, the Group had two long-term share-based incentive programmes. The earnings period of the older programme consists of the calendar years 2014 – 2016 and in the newer programme, announced on 15 December 2016, there are two earning periods, which are 2017 – 2018 and 2019 – 2020. In the earning periods 2014 – 2016 and 2017 – 2018 the target group of the programmes is the Group Management Team.

The maximum bonus for the older programme is 160,000 Martela Corporation A shares and an amount of cash that will cover taxes and similar charges, estimated at approximately the value of the shares to be paid. A total of 59,201 shares have been distributed based on the 2014 – 2015 results and 41,777 shares have been decided to be distributed based on the result of the 2016 financial year.

In the newer programme the Board of Directors will decide the earning criteria and the goals for each criteria of the earning period in the beginning of the earning period. Fees paid on the 2017 – 2018 earning period correspond to a maximum total of approximately 100,000 Martela Corporation series A shares and also include the cash portion.

2016 ANNUAL GENERAL MEETING

Martela Corporation's Annual General Meeting was held on 8 March 2016. The AGM approved the financial statements for 2015 and discharged the members of the Board of Directors and the CEO from liability.
The AGM decided, in accordance with the Board of Directors' proposal, to distribute a dividend of EUR 0.25 per share. The dividend was paid on 17 March 2016
The number of members on the Board of Directors was confirmed as seven. Kirsi Komi, Eero Leskinen, Eero Martela, Heikki Martela, Pinja Metsäranta and Yrjö Närhinen were re-elected to the Board, and Anni Vepsäläinen was elected as a new member.
KPMG Oy Ab, Authorised Public Accountants, was reappointed as the company's auditor. The AGM approved the Board of Directors' proposals, detailed in the meeting notice, to authorise the Board to acquire and/or dispose of Martela shares. The new Board of Directors convened after the AGM and elected from its members Heikki

Martela as Chairman and Eero Leskinen as Vice Chairman.

ADMINISTRATION

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

More information on Martela's governance can be found on the company's website.

RISKS

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

In accordance with Martela's risk management model, the risks are classified and are guarded against in different ways. At Martela's production plants, product assembly is automated and based on component subcontracting, with the assembly carried out by Martela. Production control is based on orders placed by customers, which means that there is no need for any extensive warehousing. 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 also used in insurance matters. The services of an external partner are also used in legal matters.

No particular responsibility risks have been observed in Martela's operations. The responsibility perspectives regarding the supply chain are discussed as part of the operations of the Customer Supply Management unit.

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

Short-term risks

The New Business Platform IT reform that will take place in the first half of 2017 may pose operating challenges that may impact business operations in the short term. Risks are being minimised by conducting sufficient testing and ensuring sufficient resources and by implementing standard features of the systems.

EVENTS AFTER THE END OF THE FINANCIAL YEAR

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

OUTLOOK FOR 2017

The Martela Group anticipates that its 2017 revenue and IFRS operating result will remain on the 2016 level. Due to normal seasonal variations, the Group's operating result accumulates mainly during the second half of the year.

PROPOSAL OF THE BOARD OF DIRECTORS FOR DISTRIBUTION OF PROFIT

The Board of Directors will propose to the AGM that a dividend of EUR 0.37 per share be distributed for 2016.

ANNUAL GENERAL MEETING

Martela Corporation's AGM will be held on 14 March 2017 at 3 p.m. in Martela House, Helsinki. The notice of Annual General Meeting will be published in a separate stock exchange release.

Revenue by segment

(meur)	Business Unit Finland and Sweden	Business Unit International	Other segments	Total
1.1.2016–31.12.2016				
Revenue	114 311	13 555	1 261	129 127
1.1.2015–31.12.2015				
Revenue	111 505	20 131	1 184	132 820
Revenue, change %	2.5%	-32.7%	6.7%	-2.8%

Year 2015 information has been recalculated to match year 2016 business unit organisation. More information about segments in note 1.

Personnel on average by area

	2016	2015
Finland	428	469
Scandinavia	45	49
Poland	72	93
Russia	5	11
Group total	**550**	**622**

Consolidated comprehensive income statement

(EUR 1,000)	Note	1.1.–31.12.2016	1.1.–31.12.2015
Revenue	1	**129 127**	**132 820**
Other operating income	2	464	395
Changes of inventories of finished goods and work in progress		-129	-725
Raw material and consumables used		-72 469	-73 668
Production for own use		23	68
Employee benefits expenses	3	-29 672	-32 277
Other operating expenses	4	-18 278	-19 121
Depreciation and impairment	5	-2 908	-3 417
Operating profit (-loss)		**6 158**	**4 075**
Financial income	7	29	21
Financial expenses	7	-570	-710
Profit (-loss) before taxes		**5 618**	**3 386**
Income taxes	8	-2 302	-903
Profit (-loss) for the financial year		**3 316**	**2 483**
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		43	253
Taxes from items that will not later be recognised through profit or loss		-41	-32
Items that may later be recognised through profit or loss			
Other changes		-35	
Translation differences		161	-41
Total comprehensive income		**3 444**	**2 663**
Allocation of profit (-loss) for the financial year			
Equity holders of the parent		3 316	2 483
Allocation of total comprehensive income			
Equity holders of the parent		3 444	2 663
Earnings per share of the profit attributable to the equity holders of the parent			
Basic earnings/share, EUR	9	0.81	0.61
Diluted earnigns/share, EUR	9	0.81	0.61

Consolidated balance sheet

(EUR 1,000)	Note	31.12.2016	31.12.2015
ASSETS			
Non-current assets			
Intangible assets	10	6 321	4 733
Tangible assets	11	6 632	8 524
Available-for-sale financial assets		55	55
Investment properties	12	600	600
Deferred tax assets	14	144	381
Non-current assets, total		**13 752**	**14 293**
Current assets			
Inventories	15	7 709	10 655
Trade receivables	13, 16	20 296	21 543
Loan receivables	13, 16	1	69
Accured income and prepaid expenses	13, 16	1 054	1 702
Cash and cash equivalents		13 425	7 724
Current assets, total		**42 485**	**41 693**
Assets, total		**56 238**	**55 986**

CONSOLIDATED FINANCIAL STATEMENTS, IFRS

(EUR 1,000)	Note	31.12.2016	31.12.2015
EQUITY AND LIABILITIES			
Equity attributable to holders of the parent	17		
Share capital		7 000	7 000
Share premium account		1 116	1 116
Other reserves		-9	-9
Treasury shares*		-502	-673
Translation differences		-579	-740
Retained earnings		18 148	15 968
Equity, total		**25 174**	**22 662**
Non-current liabilities			
Deferred tax liabilities	14	577	758
Pension obligations	20	371	574
Financial liabilities	13, 19	6 283	8 388
Non-current liabilities, total		**7 231**	**9 720**
Current liabilities			
Financial liabilities	13, 19	2 005	2 517
Interest-bearing current liabilities, total		**2 005**	**2 517**
Advances received	13, 21	611	595
Trade payables	13, 21	8 238	8 044
Accured liabilities and prepaid income	13, 21	8 851	7 373
Other current liablilities	13, 21	4 128	5 075
Non-interest-bearing current liabilities, total		**21 828**	**21 087**
Liabilities, total		**31 064**	**33 324**
Equity and liabilities, total		**56 238**	**55 986**

*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.–31.12.2016	1.1.–31.12.2015
Cash flows from operating activities		
Cash flow from sales	129 899	129 489
Cash flow from other operating income	317	354
Payments on operating costs	-116 265	-125 229
Net cash from operating activities before finanical items and taxes	13 951	4 614
Interest paid	-375	-422
Interest received	5	10
Other financial items	-193	-273
Dividends received	18	0
Taxes paid	-1 743	-55
Net cash from operating activities (A)	**11 662**	**3 874**
Cash flows from investing activities		
Capital expendigure on tangible and intangible assets	-2 580	-626
Proceeds from sale of tangible and intangible assets	147	41
Net cash used in investing activities (B)	**-2 433**	**-585**
Cash flows form financing activities		
Proceeds from short-term loans	0	11 932
Repayments of short-term loans	-2 410	-15 262
Proceeeds from long-term loans	0	4 000
Repayments of long-term loans	-206	-2 231
Dividends paid and other profit distribution	-1 023	-405
Net cash used in financing activities (C)	**-3 639**	**-1 966**
Change in cash and cash equivalents (A+B+C), increase +, decrease -	**5 590**	**1 323**
Cash and cash equivalents at the beginning of year	**7 724**	**6 407**
Translation differences	110	-6
Cash and cash equivalents at the end of year	**13 425**	**7 724**

Statement of changes in equity

(EUR 1,000)

Equity attributable to equity holders of the parent	Share capital	Share premium account	Other reserves	Tresury shares	Translation diff.	Retained earnings	Equity total
Equity 1.1.2015	**7 000**	**1 116**	**-9**	**-1 050**	**-699**	**13 962**	**20 320**
Other comprehensive income							
Profit (-loss) for the financial year						2 483	2 483
Other items of comprehensive income adjusted by tax effects							
Translation differences					-41		-41
Items resulting from remeasurement of the net debt related to defined benefit plans (incl. Deferred taxes)						221	221
Total comprehensive income					**-41**	**2 704**	**2 663**
Share-based incentives				377		-293	84
Business transactions with owners							
Dividends						-354	-354
Withholding tax on dividends						-51	-51
Business transactions with owners, total						-405	-405
Equity 31.12.2015	**7 000**	**1 116**	**-9**	**-673**	**-740**	**15 968**	**22 662**
Equity 1.1.2016	**7 000**	**1 116**	**-9**	**-673**	**-740**	**15 968**	**22 662**
Other comprehensive income							
Profit (-loss) for the financial year						3 316	3 316
Other items of comprehensive income adjusted by tax effects							
Translation differences					161		161
Items resulting from remeasurement of the net debt related to defined benefit plans (incl. Deferred taxes)						2	2
Other changes						-35	-35
Total comprehensive income					**161**	**3 283**	**3 444**
Share-based incentives				171		-79	92
Business transactions with owners							
Dividends						-884	-884
Withholding tax on dividends						-139	-139
Business transactiosn with owners, total						-1 023	-1 023
Equity 31.12.2016	**7 000**	**1 116**	**-9**	**-502**	**-579**	**18 149**	**25 174**

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

Accounting principles for the consolidated financial statements

MARTELA GROUP

Martela creates user-centric workplaces and learning environments. We offer our customers a single point of contact for the entire lifecycle of the workplace, from specifying need to optimised maintenance. The company was founded in 1945 and it is one of the biggest in its field in the Nordic countries.

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 authorized for issue by the Board of Directors of Martela Oyj on February 2nd 2016. 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. 2016. As referred to in the Finnish Accounting Act and in ordinances issued pursuant to the provisions of this Act, the International Financial Reporting Standards refer to the standards and their interpretations adopted in accordance with the procedure laid down in Regulation (EC) No 1606/2002 of the EU. The notes to the consolidated financial statements also conform with additional requirements of the Finnish accounting and company legislation.

The consolidated financial statements are presented in thousands of euros and have been prepared on the historical cost basis except as disclosed in the accounting policies. All presented figures have been rounded, which is why the sum of individual figures might deviate from the presented sum. The key financial indicators have been calculated using exact figures. Martela's consolidated financial statements cover the full calendar year, and this represents the financial period for the parent company and the Group companies.

Martela Group has applied as from 1 January 2016 the following new and amended standards that have come into effect.

- Annual Improvements to IFRSs (2012–2014 cycle) (effective for financial years beginning on or after 1 January 2016): The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The cycle contains amendments to four standards. Their impacts vary standard by standard but are not significant.
- Amendment to IAS 1 Presentation of Financial Statements: Disclosure Initiative (effective for financial years beginning on or after 1 January 2016). The amendments clarify the guidance in IAS 1 in relation to applying the materiality concept, disaggregating line items in the balance sheet and in the statement of profit or loss, presenting subtotals and to the structure and accounting policies in the financial statement. The amendments have had a minor impact on presentation in Martela's consolidated financial statements

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

USE OF ESTIMATES

The preparation of the financial statements in conformity with IFRS requires Group management to make certain estimates and to use judgement when applying accounting policies. The section "Accounting policies requiring management's judgement and key sources of estimation uncertainty" refers to the judgements made by management and those financial statement items on which judgements have a significant effect.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the parent company, Martela Oyj, and all the subsidiaries in which the parent company controls, directly or indirectly, more than 50 per cent of the voting power of the shares, or otherwise has control. Martela is considered to be in control of a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Subsidiaries are included in the consolidated financial statements by using the acquisition method. The intra-group transactions, unrealised margins on intra-group deliveries, intra-group receivables and liabilities and profit distribution are eliminated.

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

ITEMS DENOMINATED IN FOREIGN CURRENCY

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

The statements of comprehensive income and cash flows of foreign subsidiaries for the period are translated into euros at the average rates for the financial year, and the balance sheets at the average rates of the European Central Bank at the end of the reporting period. The translation of the profit or loss and comprehensive income for the period at different exchange rates in the statement of comprehensive income and in the balance sheet causes a translation difference which is recognised in other comprehensive income. The exchange rate differences arising from the elimination of the cost of the foreign subsidiaries and the exchange rate differences arising from the translation of post-acquisition equity are also recognised in other comprehensive income. Similar treatment is applied to intragroup non-current loans which in substance are equity and form a part of the net investment in the operation in question. When a subsidiary is disposed of, all or in part, the accumulated translation differences are reclassified to profit and loss as part of the gain or loss on disposal.

GOVERNMENT GRANTS

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

REVENUE RECOGNITION PRINCIPLES

Revenue from sales of goods is recognised when the significant risks and rewards of ownership of the sold goods have been transferred to the buyer. In general, revenue is recognised at the time of delivery of the goods in compliance with contract terms. Revenue from the services rendered is recognised when the service has been performed and it is probable that the economic benefits associated with the transaction will flow to the seller. Leases in which substantially all the risks and rewards incidental to ownership of an asset remain with the lessor are classified as other lease contracts and recognised as revenue in the statement of comprehensive income on a straight-line basis over the lease term.

EMPLOYEE BENEFITS

Pension liabilities

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

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

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

Share-based payments

In the Group's share-based incentive system, with vesting periods 2014 – 2016, payments are made in a combination of shares and cash. Share rewards are measured at fair value at the grant date and recognised as expenses over the vesting period. The vesting conditions are taken into account in the number of shares which are expected to vest by the end of the validity period. Measurements are adjusted at the end of each reporting period. The determination of the fair value of the reward takes place in two parts under IFRS 2: a part settled as shares and a part settled as cash. The part settled as shares is recognised under equity and the cash share under liabilities. The expense determined at the time of granting the share-based incentives is based on the Group's estimate of the number of shares which are expected to vest by the end of the vesting period. The assumed vesting takes account of the maximum incentive, the assumed achievement of non-market based earnings targets and the reduction of persons participating the plan. The Group updates the estimate of the final number of shares at the end of each reporting period. Their impact on profit or loss is presented in the statement of comprehensive income under employment benefits expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OPERATING PROFIT

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

INCOME TAXES

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

Deferred tax assets and liabilities are recognised on temporary differences between the tax bases and IFRS carrying values of assets and liabilities in the financial statements. A deferred tax asset is recognised only to the extent that it is probable that taxable profit will be available against which it can be used. Deferred tax liabilities are most often recognised to the full extent in the balance sheet. The main temporary differences arise in the measurement of buildings at fair value in accordance with the exemption permitted by the IFRS 1 transition standard (1.1.2014). Deferred taxes are measured by using the tax rates enacted or substantively enacted by the end of the reporting period.

INTANGIBLE ASSETS

Goodwill

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

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

Research and development

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

Other intangible assets

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

The useful lives of intangible assets are as follows:

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

Amortisation is recognised using the straight-line method.

TANGIBLE ASSETS

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

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

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

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

The residual values and useful lives of tangible assets are reviewed at least at each financial year-end and, if necessary, are adjusted to reflect changes in the expected future economic benefits.

Gains and losses from the sale or disposal of tangible assets are recognised in profit and loss and presented under other operating income or other operating expenses.

Investment properties

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

Impairment of tangible and intangible assets

The carrying amounts of assets are assessed at the end of each reporting period to observe whether there are any indications that an asset may be impaired. If such indications exist, the recoverable amount of the asset will be estimated at the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised if the balance sheet value of an asset or a cash-generating unit exceeds the recoverable amount of it. Impairment losses are recognised in the statement of comprehensive income.

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

LEASES

Leases in which the Group has substantially all the risks and rewards incidental to ownership are classified as finance leases. Assets acquired under finance leases, less accumulated depreciation, are carried under tangible assets. These assets are depreciated over the shorter of the useful lives of the tangible assets and the lease term. Lease obligations are included in interest-bearing financial liabilities.

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

INVENTORIES

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

Inventory value includes adjustments caused by obsolescence.

FINANCIAL ASSETS

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

Derivatives and investments in mutual fund units are classified as financial assets at fair value through profit or loss. Investments in mutual fund units are measured at fair value on the basis of published price quotations in an active market, and changes in the fair value are recognised in profit or loss in the year in which they arise. Derivatives to which hedge accounting is not applied are classified as being held for trading purposes. The fair values of derivatives are based on share market prices at the end of the reporting period and the changes in the fair values are recognised in profit or loss for the period in which they arise. Martela Group has not applied hedge accounting in the financial years 2016 or 2015.

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market or are not held by the Group for trading purposes. They are originally recognised at fair value and subsequently measured at amortised cost. These assets are included in either current or non-current financial assets (they are included in the latter if they mature over 12 months later). In addition to loan receivables, the category includes trade and other receivables.

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

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

Impairment of financial assets

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

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

Financial liabilities

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

Financial liabilities are initially recognised at fair value and are subsequently measured either at amortised cost or at fair value, based on the classification made. 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. If it is possible to receive compensation for part of the obligation from a third party, the compensation is recognised as a separate asset, but only when receipt of the compensation is virtually certain.

ACCOUNTING POLICIES REQUIRING MANAGEMENT'S JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Impairment testing

The carrying amounts of non-current assets are assessed at the end of each reporting period to observe whether there are any indications that an 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. (Note10)

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

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

The value of sales receivables that are overdue for more than 180 days are written down unless it is highly likely to receive payments for such receivables.

DEFERRED TAX RECEIVABLES

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

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

APPLICATION OF NEW AND REVISED IFRS'S AND IFRIC INTERPRETATIONS

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

* = not yet endorsed for use by the European Union as of 31 December 2016

- IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018): The new standard replaces current IAS 18 and IAS 11 -standards and related interpretations. In IFRS 15 a five-step model is applied to determine when to recognise revenue, and at what amount. Revenue is recognised when (or as) a company transfers control of goods or services to a customer either over time or at a point in time. The standard introduces also extensive new disclosure requirements.
- Martela has assessed the impacts of the implementation of the standard for different revenue streams and has come to the solution that the impact will not be significant. The assessment was made by analyzing customer contracts and their deliverables. Martela's customer agreements consist mainly of one-off product or service deliveries, combinations of services and products and continuous services. Additionally Martela has frame agreements with customers. The customer deliveries are usually short projects in which the deliverables and their transaction prices are identifiable and to which the new standard is not going to cause changes in the time of revenue recognition compared to earlier. The transaction prices in Martela's customer agreements do not include variable pricing or financing components in a significant magnitude. IFRS 15 standard requires that additional expenses for gaining of customer agreements and fulfilling the agreements to be activated into the balance sheet. The Group has not recognised any such additional expenses. The disclosure requirements of the standard will increase the disclosed information of revenue from customer agreements in the notes of the annual report. Martela will continue the analysis on a more detailed level during 2017.
- Amendments to IFRS 15 – Clarifications to IFRS 15 Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2018). The amendments include clarifications and further examples on how to apply certain aspects of the five-step recognition model. The impact assessment of the clarifications has been included in the IFRS 15 impact assessment described above.
- IFRS 9 Financial Instruments* (effective for financial years beginning on or after 1 January 2018): IFRS 9 replaces the existing guidance in IAS 39. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The impacts of IFRS 9 on Martela's consolidated financial statements have been assessed and the expect impacts are not significant.
- IFRS 16 Leases* (effective for financial years beginning on or after 1 January 2019): The new standard replaces the current IAS 17 –standard and related interpretations. IFRS 16 requires the lessees to recognise the lease agreements on the balance sheet as a right-of-use assets and lease liabilities. The accounting model is similar to current finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short term contacts in which the lease term is 12 months or less, or to low value items i.e. assets of value USD 5 000 or less. The lessor accounting remains mostly similar to current IAS 17 accounting. The preliminary impact assessment of the standard has been started in the group. The standard has an impact on Martela's consolidated balance sheet and key figures. The lease liabilities are presented in note 23.
- Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative* (effective for financial years beginning on or after 1 January 2017). The changes were made to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments have an impact on the disclosures in Martela's consolidated financial statements.
- Annual Improvements to IFRSs (2014-2016 cycle)* (effective for financial years beginning on or after 1 January 2017 for IFRS 12 and on or after 1 January 2018 for IFRS 1 and IAS 28). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The cycle contains amendments to three standards. Their impacts vary standard by standard but are not significant.

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

1. Segment reporting

The business segments are based on the Group's operating structure and internal financial reporting. The segment results presented are their operating results, as tax items and financial items are not allocated by segments. The Group's assets and liabilities are not allocated or monitored by segment in the internal reporiting.

The Business Unit Finland & Sweden was responsible for sales and marketing and for service production. The Business Unit International consisted of Martela's sales operations in Norway, Poland and Russiaas well as exports. The most important export countries are Denmark, Estonia, France and the United Arab Emirates (UAE). The item Other segments included the business operations of Kidex Oy, non-allocated Gruop functions, production units and non-recurring sales gains and losses.The Group's Customer Supply Management unit carries out production and procurement of the business units.

In 2016 Sweden was consolidated as one business unit together with Finland and Norja was consolidated into International. As a result of harmonising and combining processes, the organisation, reporting and systems, the company will report consolidated figures as a single business unit as of 2017. Revenue will be reported by Finland, Sweden, Norway and other areas.

(EUR 1,000)

Segment revenue	**1.1.–31.12.2016**	**1.1.–31.12.2015**
Business Unit Finland & Sweden		
External revenue	114 311	111 505
Internal revenue	8 049	8 214
Businss Unit International		
External revenue	13 555	20 131
Internal revenue	0	398
Other segments		
External revenue	1 260	1 184
Internal revenue	19 183	17 663
Total external revenue	**129 127**	**132 820**

	1.1.–31.12.2016	**1.1.–31.12.2015**
Income from the sale of goods	113 988	117 539
Income from the sale of services	15 140	15 281
Total	**129 127**	**132 820**

Segment operating profit/(-loss)	**1.1.–31.12.2016**	**1.1.–31.12.2015**
Business Unit Sweden & Finland	8 367	7 744
Business Unit International	-2 639	-2 707
Other segments	430	-962
Total operating profit/(-loss)	**6 158**	**4 075**

Information about geographical regions

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

Non-current assets	**Intangible assets 31.12.2015**	**Tangible assets 31.12.2015**
Finland	4 731	7 756
Sweden	0	202
Other regions	2	566
Total	**4 733**	**8 524**

2. Other operating income

(EUR 1,000)	**1.1.–31.12.2016**	**1.1.–31.12.2015**
Gains on sale of tangible assets	147	41
Rental income	56	39
Public subsidies	154	185
Other income from operations	108	130
Total	**464**	**395**

3. Employee benefits expenses

(EUR 1,000)	1.1.–31.12.2016	1.1.–31.12.2015
Salaries and wages	-23 261	-25 539
Pension expenses, defined contribution plans	-3 552	-4 012
Pension expenses, defined benefit plans	-261	-367
Part paid as share-based incentives	-508	-203
Other salary-related expenses	-2 091	-2 156
Personnel expenses in the income statement	-29 672	-32 277
Other fringe benefits	-381	-471
Total	**-30 053**	**-32 748**

A total of EUR -2,191 thousand for 2016 and EUR -2,151 thousand from 2015 were recognised in the result from the incentives and salary-related expenses associated with the incentive scheme. Salaries and fees and share-based payments are presented in more detail under Note 25 Related-party transactions.

Personnel	2016	2015
Personnel on average, workers	285	304
Personnel on average, officials	266	318
Personnel on average, total	**550**	**622**
Personnel at year end	**506**	**575**
Personnel on average in Finland	428	469
Personnel on average in Sweden	37	42
Personnel on average in Norway	8	7
Personnel on average in Poland	72	93
Personnel on average in Russia	5	11
Total	**550**	**622**

4. Other operating expenses

Other operating expenses are reported by type of expense.

(EUR 1,000)	1.1–31.12.2016	1.1–31.12.2015
Freight	-1 859	-1 909
Travel	-1 211	-1 340
Administration	-2 036	-1 731
IT	-2 557	-2 631
Marketing	-1 764	-1 585
Vehicles	-667	-861
Real estate	-4 412	-4 621
Other	-3 772	-4 443
Total	**-18 278**	**-19 121**

Auditors' fees	1.1–31.12.2016	1.1–31.12.2015
Auditing	-85	-114
Other services	-16	-24
Total	**-101**	**-138**

Auditors' fees are included in administration expenses.

5. Depreciation and impairment

(EUR 1,000)	1.1.–31.12.2016	1.1.–31.12.2015
Depreciation		
Intangible assets	-675	-796
Tangible assets		
Buildings and structures	-769	-818
Machinery and equipment	-1 464	-1 803
Depreciation, total	**-2 908**	**-3 417**

6. Research and development expenses

The income statement includes research and development expenses of EUR -1,855 (-2,074) thousand.

7. Financial income and expenses

(EUR 1,000)	1.1.–31.12.2016	1.1.–31.12.2015
Financial income		
Interest income on loans and other receivables	5	10
Foreign exchange gain on loans and other receivables	6	11
Other financial income	19	0
Total	**29**	**21**
Financial expenses		
Interest expenses from financial liabilities measured at amortised cost	-370	-425
Foreign exchange losses on loans and other receivables	-51	-10
Other financial expenses	-149	-275
Total	**-570**	**-710**
Financial income and expenses, total	**-541**	**-689**
Total exchange rate differences affecting profit and loss are as follows:		
Exchange rate differencies, sales (included in revenue)	-71	-488
Exchange rate differences, purchases (included in adj.of purchases)	-222	-18
Exchange rate differencies, financial items	-45	1
Exchange rate differencies, total	**-337**	**-505**

8. Income taxes

(EUR 1,000)	1.1.–31.12.2016	1.1.–31.12.2015
Income taxes, year 2016	-2 289	-887
Taxes for previous years	0	7
Change in deferred tax liabilities and assets	-13	-23
Total	**-2 302**	**-903**

Reconsiliation between the income statement's tax expense and the income tax expense calculated using the Martela Group's domestic corporation tax rate 20.0% for 2016 (20.0% for 2015).

Profit before taxes	5 618	3 386
Taxes calculated using the domestic corporation tax rate	1 124	677
Different tax rates of subsidiaries abroad	-9	-27
Taxes for previous years	0	7
Recognition of unused tax losses not booked earlier	-17	-211
Tax-exempt income	0	-3
Non-deductible expenses	496	123
Unbooked deferred tax assets on losses in taxation	708	337
Income taxes for the year in the p/l (+ = expense, - = profit)	**2 302**	**903**

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 os shares outstanding during the year.

(EUR 1,000)	1.1.–31.12.2016	1.1.–31.12.2015
Profit attributable to equity holders of the parent	3 316	2 483
Weighted average number of shares (1000)	4 108	4 092
Basic earnings per share (eur/share)	**0.81**	**0.61**

The company has no diluting instruments 31.12.2016 or 31.12.2015.

10. Intangible assets

(1 000 eur)				1.1.–31.12.2016				1.1.–31.12.2015
	Intangible assets	Goodwill	Work in progress	Total	Intangible assets	Goodwill	Work in progress	Total
Acquisition cost 1.1.	9 268	883	0	10 151	9 219	883	0	10 102
Increases	37	0	2 204	2 241	49	0	0	49
Decreases	-14	0	0	-14	0	0	0	0
Acquisition cost 31.12.	**9 292**	**883**	**2 204**	**12 378**	**9 268**	**883**	**0**	**10 151**
Accumulated depreciation 1.1.	-5 418	0	0	-5 418	-4 621	0	0	-4 621
Accumulated depreciation, decreases	13	0	0	13	0	0	0	0
Depreciation for the year 1.1.–31.12.	-652	0	0	-652	-796	0	0	-796
Exchange rate differencies	0	0	0	0	-1	0	0	-1
Accumulated depreciation 31.12.	**-6 057**	**0**	**0**	**-6 057**	**-5 418**	**0**	**0**	**-5 418**
Carrying amount 1.1.	3 850	883	0	4 733	4 598	883	0	5 481
Carrying amount 31.12.	**3 235**	**883**	**2 204**	**6 321**	**3 850**	**883**	**0**	**4 733**

GOODWILL

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

IMPAIRMENT TESTING

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

In impairment testing the average growth is estimated to be 1.5% and profitability 2.0%. The use of testing model requires makingmaking estimates and assumptions concerning market growth and general interest rate level.

The used pre-tax discount rate is 12.4% (11.1%) 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 2.2 million higher than the book value accoring to the performed impairment test. The rise in discount rate by 7% or the actual operating profit (EBIT) level on the terminal year to be 1% lower than estimated would cause that the recoverable amount of the cash generating units would be the same as the book value.

11. Tangible assets

(EUR 1,000)

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

1.1.2015–31.12.2015	Land areas	Buildings	Machinery and equipment	Other tangible assets	Work in progress	Total
Acquisition cost 1.1.	65	24 083	33 322	34	0	57 504
Increases	0	160	504	0	14	678
Decreases	0	0	-229	0	-5	-234
Exchange rate differences	0	25	-174	0	0	-149
Acquisition cost 31.12.	**65**	**24 268**	**33 423**	**34**	**9**	**57 799**
Accumulated depreciation 1.1.	0	-19 431	-27 575	0	0	-47 006
Accumulated depreciation, decreases	0	0	177	0	0	177
Depreciation for the year 1.1.–31.12.	0	-818	-1 803	0	0	-2 621
Exchange rate differences	0	-6	181	0	0	175
Accumulated depreciation 31.12.	**0**	**-20 255**	**-29 020**	**0**	**0**	**-49 275**
Carrying amount 1.1.	65	4 652	5 747	34	0	10 499
Carrying amount 31.12.	**65**	**4 013**	**4 403**	**34**	**9**	**8 524**

	31.12.2016	31.12.2015
Carrying amount of machinery and equipment of production.	**1 650**	**2 069**

Tangible assets, finance leases.
Tangible assets include assets acquired through finance leases as follows:

			1.1.2016–31.12.2016			**1.1.2015–31.12.2015**
	Machinery and equipment	**Buildings**	**Total**	**Machinery and equipment**	**Buildings**	**Total**
Acquisition cost 1.1.	3 881	680	4 561	3 748	666	4 414
Increases	183	0	183	133	0	133
Decreases	-5	0	-5	0	0	0
Exchange rate differences	0	-26	-26	0	14	14
Acquisition cost 31.12.	**4 059**	**654**	**4 713**	**3 881**	**680**	**4 561**
Accumulated depreciation 1.1.	-3 717	-594	-4 311	-3 510	-518	-4 028
Depreciation for the year 1.1.–31.12.	-146	-82	-228	-207	-67	-274
Exchange rate differences	-1	22	21	0	-9	-9
Accumulated depreciation 31.12.	**-3 864**	**-654**	**-4 518**	**-3 717**	**-594**	**-4 311**
Carrying amount 1.1.	164	86	250	238	148	386
Carrying amount 31.12.	**195**	**0**	**195**	**164**	**86**	**250**

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

12. Investment properties

The land belonging to Kiinteistö Oy Ylähanka has been classified as investment property. The fair value of the land belonging to Kiinteistö Oy Ylähanka was EUR 600 (600) thousand at the end of the financial year 2016.

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

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

13. Book values of financial assets and liabilities by group

(EUR 1,000)	Loans and other receiva-bles	Available for sale financial assets	Financial liabili-ties recognised at amortised acquisition cost	Book values of balance sheet items	Fair value	Hierarchy level	Note
2016 balance sheet items							
Non-current financial assets							
Other financial assets		55		55	55	2	
Current financial assets							
Trade and other receivables	20 297			20 297	20 297	2	16
Book value by group	20 297	55		20 352	20 352		
Non-current financial liabilities							
Interest-bearing liabilities			6 283	6 283	6 283	2	19
Current financial liabilities							
Interest-bearing liabilities			2 005	2 005	2 005	2	19
Trade payables and other liabilities			12 383	12 383	12 383	2	21
Book value by group			**20 671**	**20 671**	**20 671**		
2015 balance sheet items							
Non-current financial assets							
Other financial assets		55		55	55		
Current financial assets							
Trade and other receivables	21 612			21 612	21 612		16
Book value by group	21 612	55		21 667	21 667		
Non-current financial liabilities							
Interest-bearing liabilities			8 388	8 388	8 388	2	19
Current financial liabilities							
Interest-bearing liabilities			2 517	2 517	2 517	2	19
Trade payables and other liabilities			13 142	13 142	13 142	2	21
Book value by group			**24 047**	**24 047**	**24 047**		

Available-for-sale financial assets include investments in unlisted equities. They have been measured at acquisition cost as fair value cannot be assessed reliably.

The book values of trade receivables and receivables other than those based on derivatives are estimated to essentially correspond to their fair values due to the short maturity of the receivables.

The book values of debts are estimated to correspond to their fair values. Interest rate level has no material effect.

The book values of trade and other non-interest bearing liabilities are also estimated to correspond to their fair values. Discounting has no material effect.

Fair values of each financial asset and liability group are presented in more detail under the note indicated in the table above.

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

The three levels are:

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

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

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

14. Deferred tax assets and liabilities

(EUR 1 000)

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

Changes in deferred taxes during 2015	1.1.2015	Recognised in the income statement	Recognised in the other comprehen-sive income	Exchange rate differences	31.12.2015
Deferred tax assets					
Pension obligations	148	0	-32	0	116
Other temporary differences	348	-78	0	-5	265
Total	**496**	**-78**	**-32**	**-5**	**381**
Deferred tax liabilities					
On buldings measured at the fair value of the transition date	594	-66	0	0	528
Other temporary differences	219	11	0	0	230
Total	**813**	**-55**	**0**	**0**	**758**
Deferred tax assets and liabilites, total	**-317**	**-23**	**-32**	**-5**	**-377**

Deferred tax assets have not been recognised on unused tax losses that probably cannot be utilised in the future against taxable income.
These losses, including 2016 results, total about EUR 21.9 (20.2) million. These losses have no expiry date accoring to knowledge available today.

15. Inventories

(EUR 1,000)	31.12.2016	31.12.2015
Raw materials and consumables	5 415	6 872
Work in progress	847	958
Finished goods	1 447	2 825
Total	**7 709**	**10 655**

The value of inventories has been written down by EUR -1,457 (-1,549) thousand due to obsolesence.

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.

16. Current trade receivables and other receivables

(EUR 1,000)	31.12.2016	31.12.2015
Trade receivables	**20 296**	**21 543**
Loan receivables	**1**	**69**
Accured income and prepaid expenses of		
Personnel expenses	533	569
Royalties	0	3
Advances	522	1 130
Accured income and prepaid expenses total	1 054	1 702
Total	**21 351**	**23 314**

17. 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.

Changes in share capital	Number of shares	Share capital	Share premium account	Treasury shares	Treasury shares, share-based incentive-system	Total
1.1.2015	**4 049 253**	**7 000**	**1 116**	**-721**	**-329**	**7 066**
Acg.of shares for share-based incentive system*						
Shares given*	43 200			48	329	377
Shares returned						
Share issue						
31.12.2015	**4 092 453**	**7 000**	**1 116**	**-673**	**0**	**7 443**
Acg.of shares for share-based incentive system*						
Shares given*	16 001			171		171
Shares returned						
Share issue						
31.12.2016	**4 108 454**	**7 000**	**1 116**	**-502**	**0**	**7 614**

Martela Oyj owns 47,146 A-shares purchased at an average price of 10.65. The number of treasury shares is equivalent to 1.1% of all shares and 0.3% of all votes.

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

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

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

The acquisition cost of treasury shares is deducted from shareholders' equity (including the related transaction costs).

The parent company's distributable equity was EUR 27,447 thousand on 31.12.2016.

18. Share-based payments

At the end of the review period on 31 December 2016, the Group had two long-term share-based incentive programmes. The earnings period of the older programme consists of the calendar years 2014–2016, and in the newer programme, announced on 15 December 2016, there are two earning periods, which are 2017–2018 and 2019–2020. The target group for the 2014–2016 and the 2017–2018 periods is the Group's Management Team.

The maximum bonus for the older programme is 160,000 Martela Corporation A shares and an amount of cash that will cover taxes and similar charges, estimated at approximately the value of the shares to be paid. A total of 59,201 shares have been distributed based on the 2014–2015 results and it has been decided to distribute 41,777 shares based on the result of the 2016 financial year.

The Board of Directors will decide at the beginning of the earning period the earning criteria and the goals for each criterion of the newer programme. Fees to be paid of the 2017–2018 earning period correspond to a maximum total of approximately 100,000 Martela Corporation series A shares and also include the cash portion.

The details of the share-based incentive schemes are in the tables below:

Share-based incentives during the reporting period 1.1.2016–31.12.2016

Program		**Share-based incentive scheme 2014–2016**		**Total**
Type		**Share**		
Instrument	**Earning period 2014**	**Earning period 2014–2015**	**Earning period 2014–2016**	**Total**
Issuing date	3.2.2014	3.2.2014	3.2.2014	
Maximum amount, pcs	47 998	56 001	56 001	160 000
Dividend adjustment	No	No	No	
Grant date	3.2.2014	3.2.2014	3.2.2014	
Beginning of earning period	1.1.2014	1.1.2014	1.1.2014	
End of earning period	31.12.2014	31.12.2015	31.12.2016	
End of restriction period	15.4.2015	15.4.2016	14.4.2017	
Vesting conditions	Group operating profit	Group operating profit	Group operating profit	
Maximum contractual life, yrs	1.3	2.3	3.3	2.3
Remaining contractual life, yrs	0.0	0.0	0.3	0.1
Number of persons at the end of reporting year	7	6	4	
Payment method	Cash & Equity	Cash & Equity	Cash & Equity	

Changes during the period 2016	**Earning period 2014**	**Earning period 2014–2015**	**Earning period 2014–2016**	**Total**
1.1.2016				
Outstanding at the beginning of the reporting period, pcs	43 200	50 400	50 400	144 000
Changes during the period				
Granted	0	0	20 445	20 445
Forfeited	0	0	63 467	63 467
Shares given	43 200	16 001	0	59 201
Outstanding at the end of the period	0	34 399	7 378	41 777

Effect of share-based incentive schme 2014–2016 on the result and financial position during the period	
Expenses for the financial year, share-based payments	467 856
Expenses for the financial year, share-based payments, equity settled	92 258
Liabilities arising from share-based payments on 31.12.2016	467 856

Programme	**Share-based incentive scheme 2017–2018, 2019–2020**	
Type		**Share**
Instrument	**Earning period 2017–2018**	**Earning period 2019–2020**
Issuing date	**15.12.2016**	
Maximum amount, pcs	100 000	
Dividend adjustment	No	
Grant date	15.12.2016	
Beginning of earning period	1.1.2017	1.1.2019
End of earning period	31.12.2018	31.12.2020
End of restriction period	30.4.2020	
Vesting conditions	Group operating profit	
Maximum contractual life, yrs	2.3	2.3
Remaining contractual life, yrs	2.3	2.3
Number of persons at the end of reporting year	5	
Payment method	Cash & Equity	Cash & Equity

The share-based incentive scheme of 2017–2018, 2019–2020 did not have effect on the year 2016 result and financial standing.

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

19. Financial liabilities

(EUR 1,000)	31.12.2016	31.12.2015
Non-current		
Bank loans	6 203	7 295
Pension loans	0	1 000
Finance leases	81	93
Total	**6 283**	**8 388**
Current		
Bank loans	886	1 015
Pension loans	1 000	1 000
Bank overdrafts used	0	321
Finance leases	119	181
Total	**2 005**	**2 517**

The Group's bank loans have either variable or fixed interest rates. The Group's average interest rate is 2.60% (2.88%). The current portions of debt are presented more in detail under Note 22 Management of financial risks.

A covenant linked to net debt to EBITDA-ratio and the Group's equity ratio was attached to a part of the Group's bank loans in the end of year 2014. The net debt to EBITDA-ratio can be at maximum 4.0 and the equity ratio 30% at minimum. When calculating these figures, the net debt is the average of the net debt from four preceding quarters, and the EBITDA is the sum of the four preceding quarter EBITDA. If Martela breaches this covenant, the loans will fall due immediatedly unless Martela manages to recover the ratio during the following quarter or the lender gives a waiver. The total value of loans submitted to this covenant was EUR 7.0 million on 31.12.2016. The covenants were met on 31.12.2016.

Mortgages and guarantees given by credit institutions and, to a minor degree, pledged shares in housing corporations owned by the company are used as collateral for bank and pension loans.

More information in Note 24 Pledges granted and contingent liabilities.

Finance lease liabilities are payable as follows:	31.12.2016	31.12.2015
Finance leases - total amount of minimum lease payments		
No later than one year	127	193
Later than one year and no later than five years	84	97
Later than five years	0	0
Total	**210**	**289**
Finance leases - present value of minimum lease payments		
No later than one year	119	181
Later than one year and no later than five years	81	93
Later than five years	0	0
Total	**200**	**273**
Unearned finance expense	**11**	**16**

The average interest of financial leases was 3.5% in 2016 and 4.5% in 2015.

20. Pension obligations

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

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

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

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

	Present value of the defined benefit liability		Fair value of the funds included in the plan		Net debt of the defined benefit liability	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
1.1.	3 781	3 951	-3 207	-3 214	574	737
Recognised in profit or loss						
Service cost in the period	175	248			175	248
Past service cost						
Interest expense or income	87	99	-79	-84	8	15
	262	**346**	**-79**	**-84**	**183**	**263**
Recognised in other comprehensive income						
Items resulting from remeasurement:						
Gains (-) or losses (+) resulting from changes in demographical assumptions	0	165			0	165
Actuarial gain (-) and losses (+) resulting from changes in financial assumptions	403	-59			403	-59
Experience based profits (-) or losses (+)	-260	-623			-260	-623
Return on the funds included in the plan, excluding items in interest expenses or income (+/-)			-171	264	-171	264
	143	-516	-171	264	-27	-252
Other items						
Employer's payments (+)	-149		-210	-173	-359	-173
	-149	0	-210	-173	-359	-173
31.12.	**4 037**	**3 781**	**-3 667**	**-3 207**	**371**	**574**

The Group anticipates thta it will pay a total of EUR 175 thousand to defined benefit pension plans in the financial period of 2017.

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	The assumption is growing	The assumption is growing
Discount rate (0.5% change)	-8.4%	-8.4%	-7.6%	-7.5%
Increase in salaries (0.5% change)	N/A	2.2%	N/A	0.0%
Morality rate (a change of 5% points)	-0.8%	N/A	-0.6%	N/A

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

21. Current liabilities

(EUR 1,000)	31.12.2016	31.12.2015
Advances received	611	595
Trade payables	8 238	8 044
Total	**8 849**	**8 639**
Accured liabilities and prepaid income of		
Personnel expenses	3 995	4 263
Interests	18	23
Royalties	123	1
Residual expenses	4 698	3 069
Other	18	17
Total	**8 851**	**7 373**
Other current liabilities	4 128	5 075
Other	**4 128**	**5 075**
Current liabilities	**21 828**	**21 087**

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 tha practical implemantation 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. The Group does not apply hedge accounting as in IAS 39.

CURRENCY RISKS

The Group has operations in Finland, Sweden, Norway and Poland and it is therefore exposed to currency that arise in intra-group transactions, exports and imports, the financing of foreign subsidiaries and equity that is denominated in foreign currencies. Translation risks result from incoming cash flows denominated in foreign currencies. Translation risk arise when the value of the capital invested in the parent company's foreign subsidiaries, annual profits and loans change as a result of exchange rate fluctuations.

TRANSACTION RISKS

Martela's major trading currencies are the EUR, SEK, NOK, DKK and PLN. The SEK, NOK, DKK 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 when needed. Hedging instruments used are mainly currency forwards for the next 3–12 months. The Group does not apply hedge accounting. The Group has not hedged against transaction risks during the financial periods of 2015 and 2016.

TRANSLATION RISKS

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

Hedging decisions are based on the estimated effect of each currency on the Group's result, cash flow and equity and on the heding cost.

The following table presents currency risks per instrument and currency.

Transaction risks per instrument and currency 31.12.2016 (EUR thousand)

	EUR	SEK	PLN	NOK
Trade receivables	2	4 364	1 171	1083
Trade payables	-357	-512	-146	-401
Total	**-356**	**3852**	**1024**	**682**

Transaction risks per instrument and currency 31.12.2015 (EUR thousand)

	EUR	SEK	PLN	NOK
Trade receivables	27	688	744	879
Trade payables	-754	-620	-189	-113
Total	**-727**	**68**	**555**	**766**

The impact of other currencies is minor.

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Analysis of sensitivity to transaction risk

The following table presents teh average impact of 10 per cent change in exchange rates on 31 December on the company's financial result before taxes and capital for 2016 (2015). The estimates are based on the assumption that no other variables change.

Analysis of sensitivity to tranaction risk (thousands)	Impact on shareholders' equity.	Impact on result
31.12.2016		
EUR	0	+/- 36
SEK	0	+/- 385
PLN	0	+/- 102
NOK	0	+/- 68
DKK	0	+/- 0

Analysis of sensitivity to tranaction risk (thousands)	Impact on shareholders' equity.	Impact on result
31.12.2015		
EUR	0	+/- 73
SEK	0	+/- 7
PLN	0	+/- 56
NOK	0	+/- 77
DKK	0	+/- 0

INTEREST RATE RISKS

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

The Group invests excess funds in short-term bank deposits at partner banks and in liquid, low-risk fixed income funds based on government treasury bills and commercial papers.

The Group can invest in fixed income funds, the value of which is determined on the basis of price quotations published in active markets. Changes in fair value are recognised in the income statement in the financia statements.

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

Financial instruments (EUR 1,000)	31.12.2016	31.12.2015
Fixed rate		
Financial liabilities	200	274
Variable rate		
Financial liabilities	8 089	10 631
Total	**8 288**	**10 905**

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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 (teur)	Impact on shareholders' equity	Impact on result
31.12.2016		
Financial liabilities		
Variable rate financial instruments	0	-81

Analysis of sensitivity to interest rate risks (teur)	Impact on shareholders' equity	Impact on result
31.12.2015		
Financial liabilities		
Variable rate financial instruments	0	-106

PRICE RISK

Available-for-sale shares included in financial assets are not deemed subject to resale price risk. Their book value is their original acquisition cost and their current sale price is estimated to be higher than their acquisition price. The shares are unlisted and they are not measured at fair value.

CREDIT RISK

Credit risk arises from the possibility that a counterparty will not meet its contractual payment obligations. Hence the seriousness of the risk is determined on the basis of the counterparty's creditworthiness. The objective of credit risk management is to minimise the losses that would arise should the counterparty not meet its obligations.

The Group's financial policy determines the investment policy and the credit rating requirements of customers and counterparties in investment transactions and derivative contracts. The turnover and maturity structure of Group's companies trade receivables are reported monthly and are monitored by the parent company's financial management.

The principles of credit risk management are confirmed by Martela's Board of Directors. Risk management is based on the authorisations given to the organisation.

Credit risks related to the company's trade and other receivables are minimised by using short terms of payment, effective collection measures and accounting for the counterparty's creditworthiness. Supply agreements are used when the customer company is unknown and the available credit information is insufficient. In this context a supply agreement is an agreement which secures 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 reqularly on the basis of payment history and credit rating.

Collateral may be required from certain customers based on their creditworthiness and in the case of exports, for example, Martela may use confirmed irrevocable Letters of Credit.

The book value of financial assets correspond to the maximum amount of the credit risk.

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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 (teur)	**2016**	**2015**
Available-for-sale financial assets	55	55
Loans and other receivables	20 297	21 612
Cash and cash equivalents	13 425	7 724
Total	**33 777**	**29 391**

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 (teur)	**2016**	**2015**
Unmatured	17 574	17 171
Matured 1 – 30 days	1 611	3 531
Matured 30 – 60 days	495	294
Matured over 60 days	616	547
Total	**20 296**	**21 543**

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

Distribution of trade receivables by country or region (teur)	**2016**	**2015**
Finland	14 681	15 795
Scandinavia	4 444	3 216
Other European countries	817	2 194
Other regions	354	338
Total	**20 296**	**21 543**

Credit risks from trade receivables are not concentrated.
In 2016 EUR -148 (-281) thousand in credit losses has been recognised as expenses and presented in other operating expenses.

LIQUIDITY RISKS

The Group strives to assess and monitor the amount of funding required by business operations so that there are sufficient liquid assets for operating expenses and repayment of maturing loans. In addition, the Group continually maintains sufficient liquidity by means of effective cash management solutions such as cash reserves and overdrafts. The refinancing risk is managed by balancing the maturity schedules of loans and bank overdrafts according to forecast cash flows and by using several banks in financial operations.

Cash and cash equivalent at the year 2016 end were EUR 13,425 thousand and unused credit limits EUR 9,522 thousand.

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

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

Cash and cash equivalent at the year 2015 end were EUR 7,724 thousand and unused credit limits EUR 9,263 thousand.

Contractual cash flows mature as follows (EUR 1,000):	2016	2017	2018	2019	2020	Later	Total	Balance sheet value
Bank loans	1 015	5 206	876	813	400	0	8 310	8 310
Pension loans	1 000	1 000	0	0	0	0	2 000	2 000
Financial leases	181	93	0	0	0	0	274	274
Trade payables	8 044	0	0	0	0	0	8 044	8 044
Bank overdrafts, used	321	0	0	0	0	0	321	321
Loan interest and gurantee fees	183	177	74	40	8	0	482	
Total	**10 744**	**6 476**	**950**	**853**	**408**	**0**	**19 431**	
Guarantees given*	175	27	0	0	0	0	202	
Total	**10 919**	**6 503**	**950**	**853**	**408**	**0**	**19 633**	

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

MANAGEMENT OF CAPITAL STRUCTURE

It is the Gruop'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	31.12.2016	31.12.2015
Shareholders' equity	25 174	22 662
Balance sheet total – advance payments	55 627	55 390
Equity to assets ratio %	**45.3**	**40.9**

23. Operating leases

(EUR 1,000)	31.12.2016	31.12.2015
Minimum lease payments under non-cancellable operating leases are as follows:		
No later than one year	3 112	3 157
Later than one year and not later than five years	4 816	5 219
Later than five years	0	0
Total	**7 929**	**8 376**

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

The income statement for 2016 includes rents paid on the basis of operating leases totalling EUR -3,719 (-4,170) thousand.

24. Pledges granted and contingent liabilities

(EUR 1,000)	31.12.2016	31.12.2015
Debts secured by mortgages		
Bank and pension loans	8 089	10 631
Property mortgages	11 768	11 768
Corporate mortgages	15 009	15 133
Shares pledged	4	4
Total mortgages	**26 781**	**26 905**
Other pledges		
Guarantees as security for rents	281	376
Garantees on behalf of others	48	221

25. Related party transactions

Martela Group's related party transactions comprise the CEO, members of the Board and the Group's management team. Members of the Board hold a total of 5.2% of the share capital and 7.8% of the votes. The CEO had no Martela shares as at 31st December, 2016.

Group structure	Domicile	Holding (%) 31.12.2016	Of Votes (%) 31.12.2016	Sales company	Production company
Parent company					
Martela Oyj	Finland			x	x
Susidiaries					
Kidex Oy	Finland	100	100	x	x
Grundell Muuttopalvelut	Finland	100	100	x	
Kiinteistö Oy Ylähanka	Finland	100	100		
Martela AB, Bodafors	Sweden	100	100	x	x
Aski Avvecklingsbolag AB, Malmö	Sweden	100	100		
Martela AS, Oslo	Norway	100	100	x	
Martela Sp.z o.o., Warsaw	Poland	100	100	x	x
OOO Martela, Moscow	Russia	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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)	2016	2015
Management employee benefits		
Salaries and other short-term employee benefits	-1 609	-1 390
Benefits following end of employment	0	0
Share-based benefits	-508	-203
Total	**-2 117**	**-1 593**

Salaries and fees	2016	2015
Board members	-132	-122
CEO	-232	-309
Management team members (excl. CEO)	-1 245	-1 162
Total	**-1 609**	**-1 593**

Fees paid to Board members:	2016	2015
Ala-Ilkka Heikki **	-4,5	-31.5
Komi Kirsi	-18	-18
Leskinen Eero	-18	-18
Martela Eero ***	-18	-13.5
Martela Heikki	-24	
Martela Pekka *		-4.5
Metsäranta Pinja	-18	-18
Närhinen Yrjö	-18	-18
Vepsäläinen Anni ****	-13.5	
Total	**-132.0**	**-121.5**

* in Board until Q1 2015 ** in Board until Q1 2016
*** new member from Q2 2015 **** new member from Q2 2016
Fees based on board membership are not paid to members employed by the company.

Salaries, fees and pension commitment to CEO	2016	2015
Salaries and fees*	-232	-309
Voluntary pension plans	0	-63
Statutory earnings-related pension payment (TyEL) on salaries	-58	-74

Salaries include also share-based incentives.

Martela's previous CEO Heikki Martela used his right to retire in spring 2016 when he reached the age of 60. Retirement benefit was included in pension expenses, defined benefits plans, in 2015 that are presented in Note 3. 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 equal to his salary for 6 months. The maximum bonus for the older programme is 160,000 Martela Corporation A shares and an amount of cash that will cover taxes and similar charges, estimated at approximately the value of the shares to be paid. A total of 59,201 shares have been distributed based on the 2014–2015 results and it has been decided to distribute 41,777 shares based on the result of the 2016 financial year. The profit and loss 2016 includes reservations related to this scheme and CEO, EUR -149 (0) thousand as salaries and fees and for the other management team members total of EUR -319 (-203) thousand.

More information in Note 18 Sharebased payments.

26. Key financial indicators for the Group

Martela Group 2012–2016		2016	2015	2014	2013	2012
Revenue	EUR million	129.1	132.8	135.9	132.3	142.7
Change in revenue	%	-2.8	-2.3	2.7	-7.3	9.2
Export and operations outside Finland	EUR million	33.1	35.9	47.8	39.9	41.2
In relation to revenue	%	25.6	27.0	35.1	30.1	28.8
Exports from Finland	EUR million	16.5	11.1	14.3	10.2	10.4
Gross capital expenditure	EUR million	2.9	0.7	1.7	3.0	4.0
In relation to revenue	%	2.2	0.5	1.3	2.3	2.8
Depreciation	EUR million	2.9	3.4	3.7	3.6	3.4
Research and development	EUR million	1.9	2.1	2.8	2.4	2.7
In relation to revenue	%	1.5	1.6	2.1	1.8	1.9
Personnel on average		550	622	742	770	806
Change in personnel	%	-11.6	-16.2	-3.6	-4.5	26.5
Personnel at the end of year		506	575	670	767	801
of which in Finland		435	430	505	618	634
Profitability						
Operating profit	EUR million	6.2	4.1	0.2	-3.1	-0.9
In relation to revenue	%	4.8	3.1	0.1	-2.4	-0.6
Profite before taxes	EUR million	5.6	3.4	-0.6	-4.6	-1.8
In relation to revenue	%	4.4	2.5	-0.4	-3.5	-1.3
Profit for the year *	EUR million	3.3	2.5	-0.7	-4.2	-2.1
In relation to revenue	%	2.6	1.9	-0.5	-3.2	-1.4
Revenue / employee	EUR thousand	234.7	213.5	183.2	171.8	177.0
Return on equity	%	13.9	11.6	-3.4	-17.4	-7.2
Return on investment	%	18.2	12.1	0.5	-8.4	-2.7
Finance and financial position						
Balance sheet total	EUR million	56.2	56.0	54.2	58.6	64.6
Equity	EUR million	25.2	22.7	20.3	21.6	26.4
Interest-bearing net liabilities	EUR million	-4.8	3.8	6.8	11.2	8.7
In relation to revenue	%	-3.7	2.8	5.0	8.4	5.4
Equity ratio	%	45.3	40.9	38.1	37.2	41.4
Gearing	%	-18.9	16.6	33.4	51.7	32.8
Net cash flow from operations	EUR million	11.7	3.9	6.2	-0.1	0
Dividends paid	EUR million	1.0	0.4	0.0	0.8	1.8

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

27. Key share-related figures

		2016	2015	2014	2013	2012
Earnings per share	EUR	0.81	0.61	-0.18	-1.03	-0.51
Earnings per share (diluted)	EUR	0.81	0.61	-0.18	-1.03	-0.51
Share par value	EUR	1.68	1.68	1.68	1.68	1.70
Dividend *)	EUR	0.37	0.25	0.10	0.00	0.20
Dividend/earnings per share	%	45.80	41.00	-55.60	-	-39.20
Effective dividend yield	%	2.90	7.10	3.40	-	4.00
Equity per share	EUR	6.13	5.54	5.02	5.33	6.51
Price of A-share 31.12.	EUR	12.84	3.53	2.91	3.35	5.02
Share issue-adjusted number of shares	tkpl	4 155.60	4 155.60	4 155.60	4 155.60	4 155.60
Average share-issue adjusted number of shares	tkpl	4 155.60	4 155.60	4 155.60	4 155.60	4 155.60
Price/earnings ratio		15.90	5.80	-16.20	-3.30	-9.80
Market value of shares **)	MEUR	52.75	14.40	11.90	13.56	20.30

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

28. Shares and shareholders

SHARE CAPITAL

The number of registered Martela Oyj shares on 31.12.2016 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. Martela Oyj has made a liquidity providing (LP) market-making agreement with S-Pankki Oy.

Distribution of shares 31.12.2016	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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The largest shareholders by number of shares 31.12.2016	K series shares	A series shares	Total number of shares	%	Number of votes	% of total votes
Marfort Oy	292 000	232 574	524 574	12.6	6 072 574	38.8
Ilmarinen Mutual Pension Insurance Company	0	335 400	335 400	8.1	335 400	2.1
Martela Heikki	52 122	130 942	183 064	4.4	1 173 382	7.5
OP-Suomi Arvo	0	166 337	166 337	4.0	166 337	1.1
Palsanen Leena	4 486	131 148	135 634	3.3	220 868	1.4
Palsanen Jaakko	1 600	132 140	133 740	3.2	164 140	1.0
OP-Vakuutus Oy	0	117 982	117 982	2.8	117 982	0.8
AC Invest Oy	0	116 000	116 000	2.8	116 000	0.7
Martela Matti Tapio	58 256	56 982	115 238	2.8	1 222 102	7.8
Meissa-Capital Oy	0	83 750	83 750	2.0	83 750	0.5
Lindholm Tuija	43 122	28 221	71 343	1.7	890 661	5.7
Martela Pekka	69 274	8	69 282	1.7	1 385 488	8.9
Nordea Bank Ab, Finland branch, nominee reg.	0	54 759	54 759	1.3	54 759	0.3
Andersson Minna	49 200	0	49 200	1.2	984 000	6.3
Martela Oyj	0	47 146	47 146	1.1	47 146	0.3
Sijoitusrahasto Nordea Nordic Small Cap	0	40 044	40 044	1.0	40 044	0.3
Sijoitusrahasto Nordea Suomi Small Cap	0	39 711	39 711	1.0	39 711	0.3
Other shareholders	34 740	1 837 656	1 872 396	45.1	2 532 456	16.2
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 5.2% of shares and 7.8% of votes.

Martela Oyj owns 47,146 pcs A shares purchased at the average price of EUR 10.65.
The number of treasury shares is equivalent to 1.1% of all shares and 0.3% of all votes.

The Annual General Meeting has in 2015 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Breakdown of share ownership by number of shares held 31.12.2016

Shares. pcs	Number of shareholders	% of total shareholders	Number of shares	%	Number of votes	% of Votes
1–500	2 005	75.6	336 374	8.1	347 014	2.2
501–1000	326	12.3	254 164	6.1	257 964	1.6
1001–5000	241	9.1	514 465	12.4	662 285	4.2
Over 5000	81	3.1	3 049 551	73.4	14 378 491	91.9
Total	**2 653**	**100.0**	**4 154 554**	**100.0**	**15 645 754**	**100.0**
of which nominiee-registered	7		132 716	3.2	132 716	
In the waiting list and collective account	0		1 046	0.0	1 046	0.0
Total			**4 155 600**	**100.0**	**15 646 800**	**100.0**

Breakdown of shareholding by sector 31.12.2016

	Number of shareholders	% of total shareholders	Number of shares	%	Number of votes	% of Votes
Private companies	113	4.3	919 735	22.1	6 467 735	41.3
Financial and insurance institutions	17	0.6	517 467	12.5	517 467	3.3
Public corporations	1	0.0	335 400	8.1	335 400	2.1
Non-profit entities	10	0.4	17 782	0.4	17 782	0.1
Households	2 507	94.5	2 314 537	55.7	8 257 737	52.8
Foreign investors	5	0.2	49 633	1.2	49 633	0.3
Total	**2 653**	**100.0**	**4 154 554**	**100.0**	**15 645 754**	**100.0**
of which nominee-registered	7		132 716	3.2	132 716	
In the waiting list and collective account			1 046	0.0	1 046	0.0
Total			**4 155 600**	**100.0**	**15 646 800**	**100.0**

Parent Company Income Statement

(EUR 1,000)	Note	1.1.–31.12.2016	1.1.–31.12.2015
Revenue	1	**99 234**	**93 591**
Change in inventories of finished goods and work in progress		-1 005	1 346
Production for own use		24	68
Other operating income	2	736	349
Materials and services	3	-60 432	-61 247
Personnel expenses	4	-16 824	-17 943
Other operating expenses		-10 424	-10 785
Depreciation and impairment	5	-3 922	-6 282
Operating profit (-loss)		**7 386**	**-903**
Finanical income and expenses	6	42	-416
Profit (-loss) before appropriations and taxes		**7 429**	**-884**
Depreciation difference	7	148	198
Group contributions	7	0	435
Depreciation difference and Group contributions	7	148	633
Income taxes	8	-2 138	-849
Profit (-loss) for the financial year		**5 438**	**-1 535**

Parent Company Balance Sheet

(EUR 1,000)	Note	31.12.2016	31.12.2015
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	9		
Intangible rights		154	225
Other long-term expenditure		3 250	3 812
		5 607	**4 037**
Tangible assets	10		
Land and water areas		80	80
Buildings and structures		2 083	2 167
Machinery and equipment		870	1 228
Other tangible assets		23	23
		3 056	**3 498**
Investments	11		
Share is subsidiaries		7 677	7 677
Receivables from subsidiaries		6 940	9 571
Other shares and participations		15	15
		14 632	**17 263**
CURRENT ASSETS			
Inventories			
Materials and supplies		4 305	4 716
Work in progress		733	768
Finished goods		1 432	2 402
Advances paid to suppliers		793	468
		7 262	**8 354**
Non-current receivables	12		
Trade receivables		20 955	16 622
Loan receivables		602	2 526
Accured income and prepaid expenses		935	1 110
		22 493	**20 258**
Cash and cash equivalents		**7 640**	**3 476**
		60 689	**56 886**

PARENT COMPANY FINANCIAL STATEMENTS, FAS

(EUR 1,000)	Viite	31.12.2016	31.12.2015
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Shareholders' equity	13		
Share capital		7 000	7 000
Share premium account		1 116	1 116
Reserve fund		11	11
Retained earnings		22 009	24 567
Profit for the year		5 438	-1 535
Total		**35 574**	**31 159**
Appropriations			
Accumulated depreciation difference	14	**12**	**159**
LIABILITIES			
Non-current	15		
Loans from financial institutions		6 114	7 000
Pension loans		0	1 000
Accured liabilities and prepaid income		0	111
		6 114	**8 111**
Current	16		
Loans from financial institutions		**886**	**800**
Pension loans		1 000	1 000
		1 886	1 800
Advances received		**242**	**199**
Trade payables		**6 514**	**6 873**
Accured liabilities and prepaid income		7 126	4 667
Other current liabilities		3 221	3 918
		17 104	15 657
Liabilities, total		**25 104**	**25 568**
EQUITY AND LIABILITIES TOTAL		**60 689**	**56 886**

Parent Company's Cash Flow Statement

(EUR 1,000)	1.1.–31.12.2016	1.1.–31.12.2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows from sales	94 893	91 363
Cash flow from other operating income	740	348
Pyaments on operating costs	-86 491	-89 130
Net cash from operating activities before financial items and taxes	**9 143**	**2 581**
Interests paid and other financial payments	-297	-412
Dividends received	316	
Taxes paid	-1 716	8
Net cash from operating activities (A)	**7 445**	**2 177**
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure on tangible and intangible assets	-2 396	-348
Proceeds from sale of tangible and intangible assets	14	1
Loans granted	-16	-16
Repayments of loan receivables	1 940	1 116
Net Cash used in investing activities (B)	**-458**	**753**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from current loans	0	7 400
Repayments of current loans	-1 800	-11 600
Proceeds from non-current loans	0	3 600
Repayments of non-current loans	0	-1 000
Dividends and other profit distribution	-1 023	-405
Net cash used in investing activities (B)	**-2 823**	**-2 005**
CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C) (+ increase, - decrease)	**4 164**	**926**
Cash and cash equivalent at the beginning of financial year	**3 476**	**2 550**
Cash and cash equivalent at the end of financial year	**7 640**	**3 476**

Accounting policies for parent company financial statements

Martela Oyj's financial statements have been prepared in accordance with Finnish Accounting Standards (FAS). Items in the financial statements have been recognised at cost. No assets have been recorded to appreciated values, unless separately mentioned.

ITEMS DENOMINATED IN FOREIGN CURRENCY

Transactions denominated in foreign currencies are recognised at the rate of exchange on the date of their occurrence. Receivables and liabilities in the balance sheet are translated at the average rate on the balance sheet date. Exchange rate differences arising from trade receivables are recognised in revenue and those of trade payables in adjustment items for purchases. Exchange rate differences arising from balance sheet financial items, such as loans, are recognised in exchange rate differences of finance.

Shareholders loans denominated in foreign currency to subsidaries 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 depreciated according to their estimated useful life in 3–10 years.

TANGIBLE ASSETS

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

DEPRECIATION PERIODS FOR TANGIBLE ASSETS

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

INVESTMENTS

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

INVENTORIES

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

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

DERIVATIVES

The company held no derivatives on 31.12.2016 or 31.12.2015.

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

INCOME TAX

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

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 treated as rent expenses.

PENSION PLANS

The company former CEO, current Chairman of the Board, has used his right to transfer to a full pension after reaching the age of 60 years in spring 2016. The pension benefit was included in the costs of defined benefit plans in 2015 and is disclosed in note 3.

SHARE-BASED PAYMENTS

In the company's has share-based incentive system with vesting periods 2014–2016 thee 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. The valuations are adjusted at the end of each reporting period. The determination of the fair value of the reward takes place in two parts: a part settled as shares and a part settled as cash. The part settled as shares is recognised under equity and the cash share under liabilities.

TREASURY SHARES

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

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

	2016	2015
Finland	84	90
Scandinavia	11	7
Other	5	3
Total	**100**	**100**

2. Other operating income

(EUR 1,000)	**2016**	**2015**
Gains on sale of fixed assets	14	1
Rental income	61	76
Public subsidies	154	185
Other operating income	27	87
Other operating income	480	0
Total	**736**	**349**

3. Materials and services

(EUR 1,000)	2016	2015
Purchasing during the financial year	-52 779	-53 787
Change in inventories of materials and suppliers	412	708
External services	-8 064	-8 169
Materials and supplies, total	**-60 432**	**-61 247**
Auditor's fees		
Auditing	-44	-48
Tax services	0	-1
Other services	-8	-23
Auditor's fees, total	**-52**	**-72**

4. Personnel expenses and number of personnel

(EUR 1,000)	2016	2015
Salaries, CEO	-232	-309
Salaries of Board and directors	-132	-122
Salaries of Board and directors and CEO, total	-364	-431
Other salaries	-13 062	-13 882
Pension expenses	-2 576	-2 854
Other salary-related expenses	-822	-776
Personnel expenses in the income statement	-16 824	-17 943
Fringe benefits	-322	-407
Total	**-17 146**	**-18 349**
Personnel		
Personnel on average, workers	92	98
Personnel on average, officials	168	185
Personnel on average, total	**260**	**283**
Personnel at the year end	**264**	**263**

5. Depreciation and write-down

(EUR 1,000)	2016	2015
Depreciation according to plan		
Intangible assets	-768	-841
Tangible assets		
Buildings and structures	-84	-89
Machinery and equipment	-440	-559
Depreciation according to plan, total	**-1 291**	**-1 489**
Impairments	-2 631	-4 793
Depreciations and impairments, total	**-3 922**	**-6 282**

Impairments 2015 include Martela Ab shareholder loan write off.
Impairments 2016 include Martela SP z.o.o. and Martela Ab shareholder loan write offs.

6. Financial income and expenses

(EUR 1,000)	2016	2015
Financial income and expenses		
Dividend income from Group companies	316	0
Interest income from short-term investments	20	2
Interest income from short-term investments from Group companies	76	127
Foreign exchange gains	6	7
Interest expenses	-250	-311
Losses on foreign exchange	-2	-7
Other financial expenses	-124	-234
Total	**42**	**-416**

7. Depreciations and Group contributions

(EUR 1,000)	2016	2015
Appropriations		
Depreciation difference	148	198
Group contributions, received	0	740
Group contributions, given	0	-305
Group contributions, total	0	435
Appropriations, total	**148**	**633**

8. Income taxes

(EUR 1,000)	2016	2015
Income taxes from operations	-2 138	-857
Taxes from previous years	0	7
Total	**-2 138**	**-849**

Deferred tax liabilities and assets have not been included into income statement nor balance sheet.
There were no deferred tax asset related to periodisizing differences nor losses in 2015 and 2016.

9. Intangible assets

(EUR 1,000)

1.1.2016–31.12.2016	Intangible rights	Other long-term expenses	Work in progress	Intangible assets total
Acquisition cost 1.1.	3 179	8 183	0	11 362
Increases	37	90	2 203	2 330
Acquisition cost 31.12.	**3 215**	**8 273**	**2 203**	**13 692**
Accumulated depreciation 1.1.	-2 955	-4 370	0	-7 325
Depreciation for the year 1.1.–31.12.	-107	-653	0	-760
Accumulated depreciation 31.12.	**-3 062**	**-5 023**	**0**	**-8 085**
Carrying amount 1.1.	224	3 812	0	4 037
Carrying amount 31.12.	**154**	**3 250**	**2 203**	**5 606**

1.1.2015–31.12.2015	Intangible rights	Other long-term expenses	Work in progress	Intangible assets total
Acquisition cost 1.1.	3 130	8 039	0	11 168
Increases	49	144	0	193
Decreases	0	0	0	0
Acquisition cost 31.12.	**3 179**	**8 183**	**0**	**11 361**
Accumulated depreciation 1.1.	-2 813	-3 683	0	-6 496
Depreciation for the year 1.1.–31.12.	-142	-688	0	-830
Accumulated depreciation 31.12.	**-2 955**	**-4 370**	**0**	**-7 325**
Carrying amount 1.1.	317	4 356	0	4 673
Carrying amount 31.12.	**224**	**3 812**	**0**	**4 037**

10. Tangible assets

(EUR 1,000)

1.1.2016–31.12.2016	**Land areas**	**Buildings**	**Machinery and equipment**	**Other tangible assets**	**Work in progress**	**Total**
Acquisition cost 1.1.	80	10 617	11 362	23	0	22 082
Increases	0	0	90	0	0	90
Acquisition cost 31.12.	**80**	**10 617**	**11 452**	**23**	**0**	**22 172**
Accumulated depreciation 1.1.	0	-8 450	-10 134	0	0	-18 584
Depreciation for the year 1.1.–31.12.	0	-84	-448	0	0	-532
Accumulated depreciation 31.12.	**0**	**-8 534**	**-10 582**	**0**	**0**	**-19 116**
Carrying amount 1.1.	80	2 167	1 228	23	0	3 498
Carrying amount 31.12.	**80**	**2 083**	**870**	**23**	**0**	**3 056**

1.1.2015–31.12.2015	**Land areas**	**Buildings**	**Machinery and equipment**	**Other tangible assets**	**Work in progress**	**Total**
Acquisition cost 1.1.	80	10 612	11 214	23	0	21 928
Increases	0	5	151	0	0	156
Decreases	0	0	-2	0	0	-2
Acquisition cost 31.12.	**80**	**10 617**	**11 362**	**23**	**0**	**22 082**
Accumulated depreciation 1.1.	0	-8 362	-9 562	0	0	-17 925
Depreciation for the year 1.1.–31.12.	0	-88	-572	0	0	-659
Accumulated depreciation 31.12.	**0**	**-8 450**	**-10 134**	**0**	**0**	**-18 584**
Carrying amount 1.1.	80	2 250	1 651	23	0	4 004
Carrying amount 31.12.	**80**	**2 167**	**1 228**	**23**	**0**	**3 498**

Revaluations included in buildings 2016 total EUR 1,850 (1,850) thousand.
Carrying amount of production machinery and equipment in 2016 was EUR 562 (806) thousand.

11. Investments

(EUR 1,000)

1.1.2016–31.12.2016	Subsidiary shares	Shares in associated undertakings	Other shares and partici-pations	Shareholder loan receivables	Total
Balance sheet value at beginning of year	7 677	0	15	9 571	17 263
Decreases	0	0	0	-2 631	-2 631
Balance sheet value at end of year	**7 677**	**0**	**15**	**6 940**	**14 632**

1.1.2015–31.12.2015	Subsidiary shares	Shares in associated undertakings	Other shares and partici-pations	Shareholder loan receivables	Total
Balance sheet value at beginning of year	7 677	0	15	14 364	22 056
Decreases	0	0	0	-4793	-4 793
Balance sheet value at end of year	**7 677**	**0**	**15**	**9 571**	**17 263**

Subsidiary shares:		Parent company's holding %	% of total votes	Number of shares	Par value	Book value
Kidex Oy	Finland	100	100	200	2 208 teur	2 208
Muuttopalvelu Grundell Oy	Finland	100	100	100	8 teur	4 440
Kiinteistö Oy Ylähanka	Finland	100	100	510	9 teur	8
Martela AB, Bodafors	Sweden	100	100	50 000	5 000 tsek	550
Aski avvecklingsbolag AB, Malmö	Sweden	100	100	12 500	1 250 tsek	132
Martela AS, Oslo	Norway	100	100	200	200 tnok	24
Martela Sp.z o.o., Warsaw	Poland	100	100	3 483	3 483 tpln	135
OOO Martela, Moscow	Russia	100	100		7 400 trub	180
Total						**7 677**
Other shares and participations						**15**

12. Receivables

(EUR 1,000)	2016	2015
Current receivables		
Receivables from Group companies		
Trade receivables	7 704	1 554
Loan receivables	602	2 526
Accured income and prepaid expenses	81	70
Receivables from others		
Trade receivables	13 252	15 067
Accured income and prepaid expenses	854	1 040
Current receivables, total	**22 493**	**20 258**

Accured income and prepaid expenses include prepaid expenses as well as personnel expenses and other assorted prepayments.

13. Changes in shareholders' equity

Distribution of shares 31.12.2016	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	47 146				
Number of shares outstanding	**4 108 454**				

Shareholders' equity	2016	2015
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.	**23 032**	**25 301**
Dividends	-1 023	-405
Profit (-loss) for the year	5 438	-1 535
Distributed shares based on share-based incentive system*	0	-329
Retained earnings 31.12.	**27 447**	**23 032**
Shareholders' equity total	**35 575**	**31 159**

The distributable equity of the parent company is EUR 27,447 (23,032) thousand in 2016.

Treasury shares held by Martela Oyj are reported as a deduction from retained earnings.
Martela Oyj owns 47,146 (63,147) A shares and those were purchased at an average price of EUR 10.65.
Market value of treasury shares on 31.12.2016 was EUR 12.84 (3.53) per share, total EUR 605.4 (222.9) thousand.

* In the parent company balance sheet, the loan issued for the acquisition of shares has been treated as a loan receivable and for the assigned shares, the acquisition cost has been recognised as a reduction in receivables and removed from equity. The acquisition cost of shares for the incentive scheme has been treated in the IFRS consolidated financial statement as an item comparable to treasury shares.

14. Accumulated depreciation difference

(EUR 1,000)	2016	2015
Appropriations		
Accumulated depreciation difference	12	159
Total	**12**	**159**

15. Non-current liabilities

(EUR 1,000)	2016	2015
Loans from financial institutions	6 114	7 000
Pension loans	0	1 000
Accured expenses	0	111
Total	**6 114**	**8 111**

Changes and repayments of non-current liabilities	2016	2015
Loans from financial institutions		
Loans 1.1.	7 000	4 200
Proceeds	0	3 600
Repayments	-886	-800
Loans 31.12.	**6 114**	**7 000**
Pension loans		
Loans 1.1.	1 000	2 000
Repayments	-1 000	-1 000
Loans 31.12.	**0**	**1 000**

Repayments	2017	2018	2019	2020	2021
Loans from financial institutions	886	1 143	1 143	743	3 086
Pension loans	0	0	0	0	0
Total	**886**	**1 143**	**1 143**	**743**	**3 086**

16. Current liabilities

(EUR 1,000)	2016	2015
Current liabilities		
Liabilities to Group companies		
Trade payables to Group companies	804	2 490
Accured liabilities to Group companies	1 622	186
Other liabilities to Group companies	0	305
Total	**2 425**	**2 981**
Other current liabilities		
Loans from financial institutions	886	800
Pension loans	1 000	1 000
Advances received	242	199
Trade payables	5 710	4 382
Other current liabilities	3 221	3 613
Accured liabilities	5 504	4 482
Total	**16 564**	**14 476**
Current liabilities, total	**18 989**	**17 457**

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

Essential items of accured liabilities	2016	2015
Personnel expenses	2 282	2 397
Interest and financing accruals	18	23
Royalties	123	0
Taxes from accounting period	1 278	857
Residual expenses	1 804	1 206
Other accured liabilities	0	0
Accured liabilities, total	**5 504**	**4 482**

17. Pledges granted and contingent liabilities

(EUR 1,000)	2016	2015
Debts secured by mortgages		
Bank loans	**7 000**	**7 800**
Property mortgages	7 565	4 505
Corporate mortgages	11 368	10 359
Shares pledged	4	4
Pension loans	**1 000**	**2 000**
Property mortgages	4 204	4 204
Total mortgages	**23 137**	**19 068**
Other pledges		
Guarantees as security for rents	281	266
Guarantees given on behalf of Group companies	362	990
Total	**643**	**1 256**
Leasing commitments		
Falling due within 12 months	441	366
Falling due after 12 months	853	535
Total	**1 294**	**901**
Rent commitments	**4 911**	**6 113**

Formulas to key figures

Earnings / share

$$= \frac{\text{Profit attributable to the equity holders of the parent}}{\text{Average share issue-adjusted number of shares}}$$

Price / earnings multiple (P/E)

$$= \frac{\text{Share issue-adjusted share price at year end}}{\text{Earnings / share}}$$

Equity / share, EUR

$$= \frac{\text{Equity attributable to the equity holders of the parent}}{\text{Share issue-adjusted number of shares at year end}}$$

Dividend / share, EUR

$$= \frac{\text{Dividend for the financial year}}{\text{Share issue-adjusted number of shares at year end}}$$

Dividend / earnings, %

$$= \frac{\text{Dividend / share}}{\text{Earnings / share}} \times 100$$

Effective dividend yield, %

$$= \frac{\text{Share issue-adjusted dividend / share}}{\text{Share issue-adjusted share price at year end}} \times 100$$

Market value of shares outstanding, EUR

= Total number of shares at year end x share price on the balance sheet date

Return on equity, %

$$= \frac{\text{Profit/loss for the financial year}}{\text{Equity (average during the year)}} \times 100$$

Return on investment, %

$$= \frac{\text{(Pre-tax profit/loss + interest expenses + other financial expenses)}}{\text{Balance sheet total - Non-interest-bearing liabilities (average during year)}} \times 100$$

Equity ratio, %

$$= \frac{\text{Equity}}{\text{Balance sheet total - advances received}} \times 100$$

Gearing, %

$$= \frac{\text{Interest-bearing liabilities - cash and cash equivalents and liquid asset securities}}{\text{Equity}} \times 100$$

Personnel on average

= Month-end average calculation of the number of personnel in active employment

Interest-bearing net debt

= Interest-bearing debt - cash and other liquid financial assets

Board of directors' proposal for the distribution of profit

The parent company's distributable funds are EUR 27,447,434.10 of which the profit for the financial year is EUR 5,438,441.10.
The Board of Directors proposes to the Annual General Meeting that the distributable funds be used as follows:
Distribution of dividends 0.37 eur per outstanding share, totaling EUR 1,520,127.98.
To be left in shareholders' equity EUR 25,927,306.12.

Helsinki 2nd February 2017
The Board of Directors' Report and the Financial Statements are signed by:

Heikki Martela
Chairman of the Board

Eero Leskinen
Vice Chairman

Matti Rantaniemi
CEO

Kirsi Komi

Eero Martela

Pinja Metsäranta

Yrjö Närhinen

Anni Vepsäläinen

We have today issued a report on the audit performed by us.

Helsinki 13. February 2017
KPMG Oy Ab
Ari Eskelinen

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

Auditor's report

TO THE ANNUAL GENERAL MEETING OF MARTELA OYJ

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Martela Oyj (business identity code 0114891-2) for the year ended 31 December, 2016. The financial statements comprise the consolidated balance sheet, comprehensive income statement, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement and notes.

IN OUR OPINION

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

BASIS FOR OPINION

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

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

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

MATERIALITY

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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.

ACCURACY OF INVENTORIES € 7,7 MILLION

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

The key audit matter

- Inventories represent approximately 14% of the consolidated total assets as at 31 December 2016.
- Inventory measurement as well as the inventory tracking system can be subject to the risk of inherent misstatement.
- Application of the inventory measurement principles involves management judgements as the assessment of the inventory obsolescence is based on the circulating stocktaking carried out during the year and turnover analyses on which management compiles the total estimation of the need for possible write downs.

How the matter was addressed in the audit

- Our audit procedures included testing the internal controls over the inventories as well as substantive testing of quantity and price components affecting the inventory value.
- We assessed the company's stock taking processes and attended the inventory count at the central warehouse during the financial year. In addition, we performed a recalculation of the major inventory balances at the year end. We also inspected the company's inventory count rate reports relating to inventory coverage and analyzed inventory differences in order to detect possible deviations.
- We analyzed, among others, negative balances and slow-moving items using data analyses at the year end.
- In addition, we considered the principles for accounting the inventory write-downs and adequacy of the write-downs recognised in the financial statements.

REVENUE RECOGNITION € 129,1 MILLION

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

The key audit matter

- Martela Lifecycle business model includes selling of products as well as rendering of services. The amount and timing of revenue recognition is dependent on the contents of various projects and specific customer contract terms.

How the matter was addressed in the audit

- Our audit procedures included evaluating the sales process related to the business model and testing the internal controls over revenue recognition.
- As part of our substantive procedures we considered the appropriateness of revenue recognition by testing, on a sample basis, that deliveries and related invoices were recorded in accordance with the contract terms to the appropriate accounting period.
- In addition, we conducted a data-analysis for sales invoicing, where we assessed actual monthly sales per customer, used terms of payment and delivery terms, VAT codes as well as invoicing delays in order to detect deviations.

IMPAIRMENT OF SUBSIDIARY SHARES AND RECEIVABLES FROM SUBSIDIARIES € 20,6 MILLION

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

The key audit matter

- The equity of the parent company is € 35.6 million as at 31 December 2016, of which the distributable equity amounts to € 27.4 million.
- The significant portion of the parent company's assets consist of investments in the subsidiaries (subsidiary shares), amounting to € 20.6 million as at 31 December 2016. The measurement of these investments has a material impact on calculation of the parent company's distributable equity.
- Management prepares annually impairment tests for the subsidiary shares and receivables from subsidiaries. The calculations involve management estimates. The company has recorded a write-down on subsidiary receivables, amounting to € 2.6 million, in its separate financial statements.

How the matter was addressed in the audit

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

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

Other Information

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

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

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

If, based on the work we have performed on the report of the Board of Directors, 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, 13 February 2017
KPMG Oy Ab

Ari Eskelinen
Authorized Public Accountant

Group Companies

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