exel
COMPOSITES

Annual Report 2019

FOR FORWARD THINKERS

CONTENTS

EXEL COMPOSITES IN BRIEF

Exel Composites, a global technology company headquartered in Finland, is the world's largest manufacturer of pultruded and pull-wound composite products. Our global manufacturing, R&D, and sales footprint serves customers across a broad range of industries and applications. With 60 years of composites experience and engineering expertise, we work closely with our customers to design and manufacture high quality composite products using carbon fiber, fiberglass, and other high-performance materials. Our composites help reduce weight, improve performance, and decrease total life cycle costs, all while helping increase energy efficiencies and supporting environmental sustainability.

Exel Composites employs approximately 650 innovative and customer-focused employees around the world and is listed on the Nasdaq Helsinki exchange. To find out more about our offering and company please visit www.exelcomposites.com.

INFORMATION TO SHAREHOLDERS

Annual General Meeting 2020

The Annual General Meeting will be held on Friday 20 March 2020 at 10:00 EET at Radisson Blu Royal Hotel at the address Runeberginkatu 2, Helsinki, Finland.

Dividend proposal

The Board of Directors proposes that a dividend of EUR 0.18 (0.18) per share be paid for the financial year 2019.

The dividends' record date is Tuesday 24 March 2020 and payment date Tuesday 31 March 2020.

Financial calendar 2020

Exel Composites publishes the following financial reports in 2020:

- Financial Statements Release 2019: 18 February 2020
- Business Review January-March: 6 May 2020
- Half-year Financial Report January-June: 21 July 2020
- Business Review January-September: 30 October 2020

The Annual Financial Report, Corporate Governance Statement and Remuneration Statement for 2019 are available in electronic format at the company's website www.exelcomposites.com.

CEO REVIEW

2019 was a year of profitable growth for Exel Composites. Alongside with order intake growth, Group revenue continued to increase in 2019. The Construction & Infrastructure customer segment drove revenue growth, strongly supported by wind power. Wind power is a growing market and it has rapidly become Exel's largest customer industry. Revenue in Other Applications developed well in 2019, driven by growth in defense applications. Exel has long experience in developing defense products such as camouflage support poles. The Industrial Applications customer segment, on the other hand, declined mainly due to lower business volumes in telecommunications.

Geographically, revenue increased in the region Rest of the World in 2019, supported by increased export from Exel's units in Europe and China to the North American market. Revenue both in the Asia-Pacific region and in Europe was approximately at last year's level.

"Adjusted operating profit improved significantly due to profitable growth in wind power and the Group's cost savings program."

Adjusted operating profit improved significantly in 2019, mainly due to profitable growth in wind power and due to the Group's cost savings program, which was completed in 2019 according to plan. The original target of the program was to achieve a total of EUR 3 million savings in 2020. In 2019 the cost savings program already had an estimated EUR 2 million positive impact on Group profit. The full profit impact of the program in 2020, compared to the 2018 cost structure, will be approximately EUR 3 million. The most important actions implemented under the program were the closure of the production plant in Germany, the cost restructuring in Exel USA as well as operational improvements and synergy savings in China.

Actions to improve profitability of Exel USA progressed, but breakeven was not yet achieved in 2019. Although the implemented structural savings improved profitability, lower volumes compared to the previous year had an opposite impact. The streamlining of the cost structure and organization during 2019, however, gives a good start for Exel USA going forward in 2020.

"Exel is well positioned as a leading player in the composites industry being the only pultrusion company with global presence."

In 2019, Exel Composites decided to expand its operations by investing in a new manufacturing facility in Austria. The capacity of the old facility has been limiting further growth in Central Europe and the considerable capacity increase will improve Exel's ability to meet customer needs. The construction of the new facility is expected to be completed by the end of 2020.

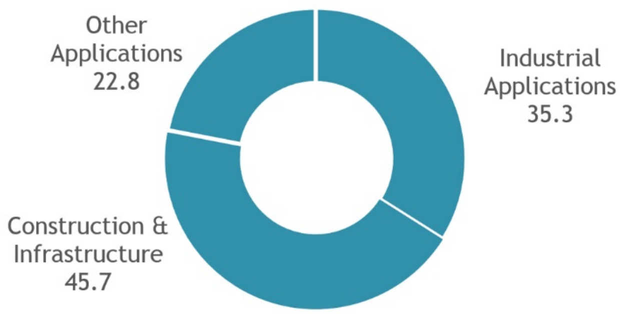
Exel is well positioned as a leading player in the composites industry being the only pultrusion company with global presence. Interest towards composite materials is steadily growing, supported by global megatrends such as urbanization, sustainability and total life cycle cost management. For example, increased energy efficiency requirements within the transportation industry and the increased utilization of anti-corrosive materials in the construction industry drive the use of composites. The composites market is expected to grow 2%-5% during 2018-2023, mostly in Asia and North America. Exel's ambition is to leverage on these trends and offer our customers attractive products fitting that demand.

I wish to thank Exel Composites' employees, customers and business partners, as well as shareholders for a good year and look forward to continued good cooperation in 2020!

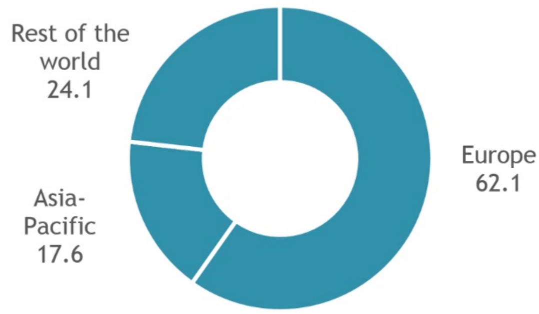
Riku Kytömäki
President and CEO

KEY FIGURES 2019

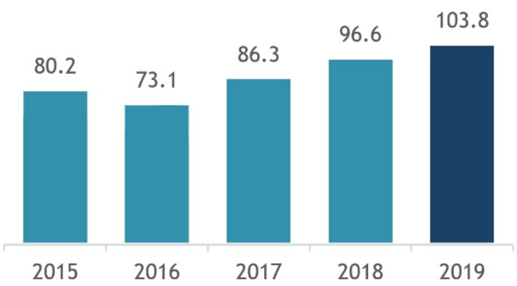
Revenue by customer segment, EUR million



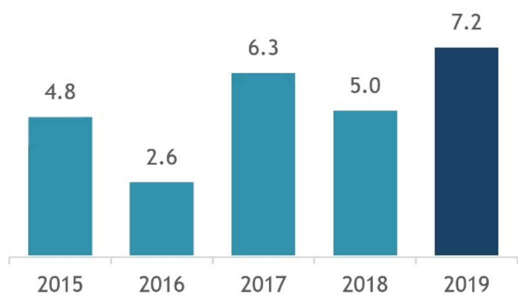
Revenue by region, EUR million



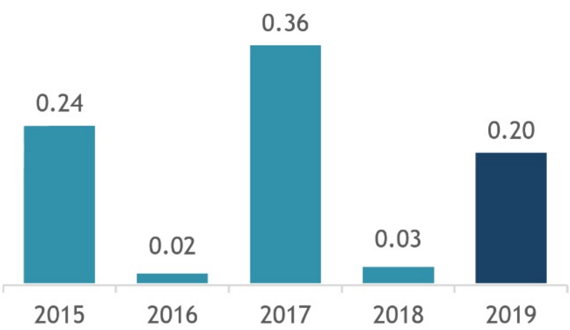
Revenue, EUR million



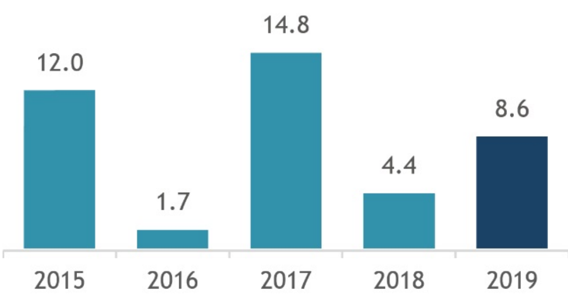
Adjusted operating profit, EUR million



Earnings per share, EUR



Return on capital employed, %



BOARD OF DIRECTORS’ REPORT

Business model

Exel Composites, a global technology company headquartered in Finland, is the world’s largest manufacturer of pultruded and pull-wound composite products.

The company works closely together with its customers to design and manufacture **composite products using carbon fiber, fiberglass** and other high performance materials. The qualities of composites help reduce weight, improve performance, and decrease total life cycle costs, all while helping increase energy efficiencies and supporting environmental sustainability.

Exel Composites has a global sales, R&D and manufacturing footprint that **serves customers across a broad range of industries**. Exel identifies three customer segments: 1) Industrial Applications, which comprises telecommunication, paper, electrical, machine and transportation customer industries, 2) Construction & Infrastructure, which comprises building, construction and infrastructure as well as energy customer industries including wind power, and 3) Other Applications, which comprises cleaning and maintenance, sports and leisure as well as other industries. Our customers are typically original equipment manufacturers (OEM’s), system integrators or distributors. Often the products produced by Exel are components that form a part of a customer’s end product. The product portfolio includes for example **profiles, tubes and laminates**, which are typically customer tailored. Exel also produces some complete end products and systems.

A high level of technology plays a major role in the company’s operations and the company has already 60 years of composites experience. Exel’s core expertise lies in chemistry, materials science as well as cost-efficient and repeatable manufacturing processes. The main manufacturing technology utilized by Exel is **pultrusion**, where resin-impregnated fibers are pulled through a mold and hardened with heat. Other most important methods include **pullwinding**, which is a combination of pultrusion and filament winding, as well as **continuous lamination**. In all these technologies production is continuous and the product gets its final shape in a mold. The final products are cut to a specified length or wound on a roll at the end of the production line. These manufacturing technologies are applicable to any shapes from poles and tubes to profiles with complex shapes and cavities. Exel also has **further processing capabilities** to supply complete composite solutions including machining and coating. The company’s strategy includes expanding into new and growing production technologies. The company also wants to expand into new and growing applications where composite materials can be used and where their unique characteristics are beneficial.

Exel Composites’ **global supply chain** sources its raw materials from multiple sources from various countries and continents. The main raw material categories are fiber reinforcements and matrix systems. Fiber reinforcements typically are carbon fiber and fiberglass. Matrix systems include for example polyester, epoxy and vinyl ester resins.

Market environment

The composites market is fragmented. Whereas Exel Composites is not a large company, it is nevertheless a leading player and the only pultrusion company with significant presence on all major markets: Europe, Asia and North America. This global presence differentiates Exel from other pultrusion companies and enables head to head competition with global suppliers of traditional materials. According to industry associations, such as JEC and Lucintel, composites represent only 1% of the global materials market, which is dominated by steel, plastic

Exel Composites in the value chain

Supply chain

- Raw material producers
- Suppliers of indirect materials
- Service providers

Example
A provider of fiberglass from which Exel buys reinforcement fibers necessary for the manufacturing of composites

Manufacturing

- Pultrusion
- Pullwinding
- Filament winding
- Continuous lamination

Further processing:
- Machining
- Painting
- Coating

Customer

- Original equipment manufacturers
- System integrators
- Distributors

Example
A machine builder that buys composite parts manufactured by Exel, installs them into a machine, which is then sold to a paper mill

End user

- User of the final product

Example
A forestry company that produces paper or cardboard in its factory

and aluminum. Furthermore, pultruded composites market, with an estimated size of 3 billion dollars, represents less than 5% of the total composites market. Exel Composites sees growth potential for composites as a material as well as for pultrusion as a production technology within the composites market.

Annual growth rate estimated for the global composites market vary, according to industrial segment, market area and source, between approximately 2%-5% during 2018-2023.

Exel Composites estimates that during 2019 the company's market position within the global pultrusion market has improved. Exel's revenue has increased particularly in the North American market where the company has been physically present since the acquisition of Diversified Structural Composites, DSC, in April 2018.

Exel Composites' strategy is to focus on high growth industries, such as wind power, transportation as well as building and construction industries. Transportation, including aerospace, is currently the largest market in terms of value, while energy industry shows the strongest growth.

Geographically, Asia is the largest and the fastest-growing market globally. China alone is expected to represent over half of the global growth. The North-American market is the second largest composites market globally in terms of value and growth. Growth is expected to be slower in the mature European market, which already today is behind Asia and North-America in size.

Interest towards composite materials is steadily growing, supported by global megatrends such as urbanization, sustainability and total life cycle cost management. For example, increased energy efficiency requirements within the transportation industry and the increased utilization of anti-corrosive materials in the construction industry drive the use of composites. Exel's ambition is to leverage on these trends by offering its customers attractive products that fit the demand.

Order intake and order backlog

Order intake for the financial year 2019 was EUR 110.7 million (100.8), which is an increase of 9.9% compared to 2018. The Group's order backlog on 31 December 2019 increased to EUR 30.4 million (23.7).

Exel Composites' customer segments and industries

Industrial Applications

- Telecommunication
- Paper industry
- Electrical industry
- Machine industry
- Transportation industry

Construction & Infrastructure

- Buildings, Construction and Infrastructure
- Energy industry, including wind power

Other Applications

- Cleaning & Maintenance
- Sports & Leisure
- Other industries

Revenue

Group revenue for the financial year 2019 amounted to EUR 103.8 million (96.6) and increased by 7.4% compared to previous year. Revenue was impacted by effects of delivery volumes by 2.1 %, sales mix by -0.1 %, acquisitions by 4.8 % and exchange rates by 0.6 %.

In 2019 revenue growth continued in the Construction & Infrastructure customer segment supported by wind power and increased by 24.0% to EUR 45.7 million (36.9). Also Other Applications grew by 14.8% to EUR 22.8 million (19.9) driven by growth in defense applications. Revenue in Industrial Applications declined by -11.6% to EUR 35.3 million (39.9) mainly due to lower business volumes in telecommunications. The share of Exel's largest customer, which represents wind power industry, increased in 2019 to 19.0%, of Group revenue.

Geographically, revenue increased during 2019 by 33.1% to EUR 24.1 million (18.1) in the region Rest of the World. Revenue growth was supported by increased export from Exel's units in Europe and China. Revenue in the Asia-Pacific region increased slightly by 1.0% to EUR 17.6 million (17.4). In Europe, revenue increased by 1.6% to EUR 62.1 million (61.1).

Revenue by customer segment

EUR thousand	2019	2018	Change, %
Industrial Applications	35,254	39,885	-11.6
Construction & Infrastructure	45,718	36,855	24.0
Other Applications	22,812	19,868	14.8
Total	**103,784**	**96,608**	**7.4**

Revenue by region

EUR thousand	2019	2018	Change, %
Europe	62,076	61,073	1.6
Asia-Pacific	17,600	17,430	1.0
Rest of world	24,108	18,106	33.1
Total	**103,784**	**96,608**	**7.4**

Operating profit

Operating profit during the financial year 2019 increased to EUR 5.1 million (2.2), 4.9% (2.3) of revenue. Adjusted operating profit* was EUR 7.2 million (5.0), 6.9% (5.2) of revenue. Adjusted operating profit improved significantly in 2019 mainly due to profitable growth in wind power as well as well as the cost savings program.

Items affecting comparability amounted to a total of EUR 2.1 (2.8) million. A one-time cost of EUR 1.0 million was related to the closing of production in Germany. EUR 0.7 million of the one-off costs related to the deferred variable component of the total purchase price of Nanjing Jianhui Composite Materials, acquired in 2017, and a further EUR 0.2 million to the layoffs in Finland.

Group's net financial expenses in 2019 were EUR -1.2 million (-0.5). Profit before taxes was EUR 3.9 million (1.7) and profit after taxes EUR 2.4 million (0.4).

Adjusted operating profit*

EUR thousand	2019	2018
Operating profit	**5,087**	**2,217**
Restructuring costs	1,259	10
Impairment losses and reversals	0	1,584
Costs related to planned or realized business acquisitions and disposals	814	1,206
Adjusted operating profit	**7,160**	**5,018**

* Excluding material items affecting comparability, such as restructuring costs, impairment losses and reversals, and costs related to planned or realized business acquisitions or disposals.

Financial position

Net cash flow from operating activities for 2019 was EUR 9.0 million (0.9). The capital expenditure on fixed assets amounted to EUR 6.3 million (9.6). Net cash flow from investing activities amounted to EUR -6.1 million (-12.8) and net cash flow before financing activities amounted to EUR 2.9 million (-11.9). EUR 1.0 million of the investments were related to the construction of the new manufacturing facility in Austria. At the end of the financial year, the Group's liquid assets stood at EUR 6.9 million (4.8). Total depreciation, amortization and impairment of non-current assets during the financial year amounted to EUR 5.6 million (5.5).

The Group's consolidated total assets at the end of the financial year were EUR 85.4 million (74.6). Interest-bearing liabilities, including lease liabilities, amounted to EUR 37.2 million (29.6). Net interest-bearing liabilities were EUR 30.2 million (24.8). Current interest-bearing liabilities totaled EUR 22.4 million, of which EUR 18 million were commercial papers. To secure the payment of commercial papers, the company had at the end of the financial year unused, non-current (over 12 months) revolving credit facilities for EUR 20 million.

Equity at the end of 2019 was EUR 26.3 million (25.8) and equity ratio 30.9% (34.7). Fully diluted total earnings per share were EUR 0.20 (0.03). Return on capital employed in 2019 was 8.6% (4.4). Return on equity was 9.2% (1.4).

Net gearing ratio was 114.9% (96.3). Exel Composites has applied the IFRS16 -standard since 1.1.2019 according to the model where the comparative information of previous periods is not adjusted. Comparable net gearing ratio, assuming IFRS-16 standard would not have been applied, is estimated to have been 96.7% (96.3).

The company paid total dividends of EUR 2.1 million (3.5) in 2019 for the financial year of 2018 calculated for the outstanding number of shares. Dividend per share for the financial year 2018 was EUR 0.18 (0.30), which was more than 40% of net income and thus in line with the dividend policy.

Exel Composites launched a EUR 50 million domestic commercial paper program in July 2019. Within the framework of the contract, the company may issue commercial papers with maturities of under one year.

Exel Composites also signed EUR 20 million worth of revolving credit facility agreements in September 2019.

Financial targets

In June 2019, the Board of Directors of Exel Composites confirmed the company's strategy for 2019-2022, which largely remained unchanged. At the same time Exel introduced net gearing as a long-term financial target, which was revised after the financial year on 18 February 2020.

Exel Composites' long-term financial targets are:

- **Growth:** Revenue growth exceeding twice the market growth
- **Profitability:** Adjusted operating profit margin exceeding 10%
- **Capital efficiency:** Return on capital employed exceeding 20%
- **Financial position:** Net gearing approximately at 80% (previously 60%) or below

Financial targets are considered over a business cycle. Potential acquisitions may impact the long-term financial targets. The dividend policy remained unchanged. Exel Composites' ambition is to distribute a minimum of 40% of net income in dividends, when permitted by the financial structure and growth opportunities.

Business development and strategy implementation

Exel Composites' strategy is based on five pillars:

- Protect and grow our stronghold customers
- Create true global footprint
- Build leadership in China
- Penetrate growing/ new applications
- Grow in new technologies

Exel Composites has decided to focus especially on **high growth industries** such as wind power, transportation, and building and construction. Focused growth initiatives in these areas continued during the year.

In addition to organic growth, Exel Composites seeks **growth through acquisitions**. M&A screening activities continued in 2019 in line with the company's strategy.

In 2019, Exel made **structural changes in its production network**. During the financial year, the production plant in Voerde, Germany, was closed.

In June 2019, Exel Composites announced the decision to expand its operation by **investing in a new manufacturing facility in Kapfenberg, Austria**. The capacity of the old facility has been limiting further growth in Central Europe and the considerable capacity increase will improve Exel's ability to meet customer needs. The new facility is expected to be completed by the end of second half of 2020. The leasing agreement of the current facility will terminate at the same time at the end of 2020. The total cost of the project is estimated to be EUR 7 million.

During 2019, Exel started the process to **consolidate production and organization in China**. At the end of the year, Exel started production at a new manufacturing location near the city of Nanjing, where both of the previous factories are located. The new leased site is better suited for composite production than the previous ones. There is enough space to accommodate, if need be, all production capacity of the old factories.

Exel Composites continued in 2019 its active development work for **new composites applications**, such as the carbon fiber based rope system designed to replace an elevator's steel cabling. This patented rope system for its manufacturing and design lasts longer and saves energy due to reduced weight, while also reducing the challenges presented by cable sway in long reach elevators.

In 2019, the rollout of the **Group-wide ERP system** continued according to plan to the company's unit in North America. The implementation continues in the Asia-Pacific region during 2020.

Exel Composites strategy

Vision

Differentiate with
world class operations, technology innovation and by delivering the best customer experience

Next level growth

Protect and grow strong-hold customers
- Multiply existing applications to new customers
- Gain knowledge and improve efficiency in focus applications

Create true global footprint
- Establish sales coverage in new areas
- Grow supply and service to new market areas
- Utilize global footprint as value add

Build leadership in China
- Grow sales to local and exporting customers
- Create value offering for mid-segment
- R&D and manufacturing capacity

Penetrate growing/ new applications
- Solutions for larger growth applications; wind power, transportation, building and construction
- Penetrate mid-segment
- Package key applications to ‘systems’

Growth in new technologies
- Further processing and vertical integration
- New composite technologies, other than pultrusion

Foundation built on company values

CUSTOMER FOCUSED • INTEGRITY • ONE EXEL • CARING • INNOVATIVE

Group-wide cost savings program

The Group’s cost savings program initiated in 2018, was completed according to plan during 2019.

The most important actions implemented under the program were the closure of the production plant in Germany, the cost restructuring in Exel USA as well as operational improvements and synergy savings in China. Actions to improve profitability of Exel USA progressed, but breakeven was not yet achieved in 2019. Although the implemented structural savings improved profitability, lower volumes compared to the previous year had an opposite impact. The streamlining of the cost structure and organization during 2019, however, gives a good start for Exel USA going forward in 2020.

The original target of the program was to achieve a total of EUR 3 million savings in 2020. In 2019 the cost savings program already had an estimated EUR 2 million positive impact on Group profit. The full profit impact of the program in 2020, compared to the 2018 cost structure, will be approximately EUR 3 million.

Research and development

Research and development costs for the financial year totaled EUR 2.9 million (2.8), representing 2.7% (2.9) of revenue.

Major near-term risks and uncertainties

Exel Composites’ most significant near-term business risk relates to the fact that a significant portion of revenue is generated from certain key clients and market segments, the negative development of which would deteriorate the company’s profitability. Specifically, the revenue generated from sales to the Group’s largest client, operating in the wind power industry, has increased rapidly to EUR 19.7 million in 2019, representing 19% of Group revenue. This has significantly increased the dependency on this business and the related downside risk. Furthermore, a rapid increase of raw material prices could in the short term negatively impact the company’s profitability, even if in the longer term it would improve the competitiveness of composite materials.

The company has made significant investments in the recent years, the most notable ones being the acquisitions of Nanjing Jianhui in China and Diversified Structural Composites, DSC, in the USA. The future estimates made at the time of these investments and acquisitions may not materialize as planned, which may trigger a need to adjust the values of the purchased assets in the company’s balance sheet.

The risk management and risks related to the operation of Exel Composites are described in more detail at the company’s website www.exelcomposites.com.

Incentive programs

Exel Composites' performance-based incentive program covers all employees. Office employees receive a monthly salary and an annual bonus tied to the achievement of annually established goals emphasizing growth and profitability. Production employees are also eligible for incentive compensation. Their annual bonus is mainly based on factory profitability and production related performance indicators.

The Group has long-term incentive programs for the President and CEO and the Group Management Team and selected key employees of the company. The aim of the programs is to combine the objectives of the shareholders and the executives in order to increase the value of the company, to commit the executives to the company and to offer the executives a competitive reward program. The Board of Directors makes the decision on the program annually.

In February 2019, Exel Composites announced the continuation of a share-based long-term incentive program for the top management of the company. The 2019 performance-based plan is part of the share-based long-term incentive program published on 4 May 2017. Similarly to the previous programs within this plan, the performance targets applied to the plan that commenced at the beginning of 2019 are adjusted operating profit (EBIT) and the total shareholder return of the company's share (TSR).

Exel Composites' Remuneration Policy, which will be presented to the Annual General Meeting on 20 March 2020, is available at www.exelcomposites.com.

Share and share performance

Exel Composites' share is listed on Nasdaq Helsinki Ltd in the Industrials sector.

On 31 December 2019, Exel Composites' share capital was EUR 2,141,431.74 and the number of shares was 11,896,843. There were no changes in the share capital during the financial year.

During the financial year, Exel Composites held a total of 77,000 of its own shares which are part of the share-based long-term incentive program for the top management.

On 31 December 2019, the share price closed at EUR 6.48. During the financial year, the average share price was EUR 4.54, the highest share price EUR 6.76 and the lowest share price EUR 3.92.

A total of 6,048,492 shares were traded at Nasdaq Helsinki Ltd., which represents 50.8% of the average number of shares. On 31 December 2019 Exel Composites' market capitalization was EUR 76.6 million (47.3). Total shareholder return (TSR) in 2019 was 69.2% (-36.1).

Shareholders and disclosures

Exel Composites had a total of 5,506 (3 723) shareholders on 31 December 2019.

On 31 December 2019, 0.84% (0.64) of the shares and votes of the Company were owned or controlled, directly or indirectly by the President and CEO and the members of the Board of Directors.

According to the company's shareholder register held by Euroclear Finland Oy, at the end of 2019 Exel Composites' two largest shareholders were nominee registers managed by Nordea Bank Abp (18.6%) and Skandinaviska Enskilda Banken AB (6.3%).

During the financial year Exel Composites received three flagging notifications in accordance with the Finnish Securities Market Act regarding changes in shareholdings as well as one incorrect flagging notification, which was subsequently reversed.

According to the notification received on 5 April 2019, the holding of Lannebo Fonder AB fell under the 5% threshold and amounted to 594,791 shares representing 4.99% of the shares and voting rights of Exel Composites Plc.

According to the notification received on 6 May 2019, the holding of Lazard Freres Gestion SAS (FCP Lazard Investissement Microcaps) exceeded the 5% threshold and amounted to 618,085 shares representing 5.20% of the shares and voting rights of Exel Composites Plc.

According to the notification received on 6 June 2019, the holding of the OP-Suomi Pienyhtiöt investment fund, administered by OP-Rahastoyhtiö Oy, exceeded the 5% threshold and amounted to 598,259 shares representing 5.03% of the shares and voting rights of Exel Composites Plc.

The flagging notification received on 22 November 2019 from Danske Bank A/S was reversed on 26 November 2019.

Information on the company's shareholders is available on the corporate website at www.exelcomposites.com.

Significant related-party transactions

In 2019 no significant related-party transactions were conducted between the Group and its related parties.

Governance and AGM 2019

The Annual General Meeting, AGM, of Exel Composites Plc held on 21 March 2019 approved the Board of Directors' proposal to distribute a dividend of EUR 0.18 per share for the financial year 2018. The dividend was paid on 1 April 2019.

The AGM authorized the Board of Directors to repurchase the Company's own shares by using unrestricted equity.

The maximum amount to be acquired is 600,000 shares. The authorization is valid until 30 June 2020.

The AGM authorized the Board of Directors to decide on the issuance of shares and special rights entitling to shares referred to in Chapter 10, Section 1 of the Companies Act. The amount of shares to be issued on the basis of the authorization may be a maximum of 1,189,684 new shares, which corresponds to approximately 10.0% of all shares in the company, and/or a maximum of 600,000 Company's own shares. The authorization is effective until 30 June 2022.

The AGM re-elected Petri Helsky, Reima Kerttula, Helena Nordman-Knutson and Jouko Peussa as members of the Board of Directors. Maija Strandberg was elected as a new member of the Board of Directors. The AGM re-elected Reima Kerttula as Chairman of the Board of Directors. Kai Kauto was member of the Board of Directors until AGM 2019.

In 2019 the Nomination Board comprised persons nominated by the four largest shareholders as of 30 September 2019 as well as the Chairman of the Board of Directors acting as expert member: Malin Björkmo (Handelsbanken Fonder), Rami Hakola (Danske Invest Fund Management), Kalle Saariaho (OP Fund Management Company), Magnus Skåninger (Swedbank Robur Fonder) and Reima Kerttula, Chairman of the Board of Directors, as expert member. The AGM of Exel Composites has elected a permanent Shareholders' Nomination Board, which purpose is to prepare proposals concerning the Board members and their remuneration for the General Meeting.

Ernst & Young, Authorized Public Accountants, with Johanna Winqvist-Ilkka, APA, as principal auditor, were elected to serve as company auditor in the AGM in 2019.

Mikko Rummukainen was appointed SVP Business Development and member of the Group Management Team as of 1 March 2019. He is responsible for the development and implementation of the corporate strategy, the execution of strategic initiatives, as well as for mergers, acquisitions and strategic partnerships.

At the end of 2019 the Group Management Team of Exel Composites consisted of the following persons: President and CEO Riku Kytömäki, CFO Mikko Kettunen, SVP Operations Callum Gough, SVP Human Resources Tiina Bies, SVP Exel Composites Americas Kari Loukola, SVP Business Development Mikko Rummukainen, SVP R&D and Technology Kim Sjödahl and SVP Sales and Marketing Olli Tevä.

Events after the reporting period

Exel Composites continues the long-term incentive program for top management

In February 2020, the Board of Directors of Exel Composites decided on the continuation of the share-based long-term incentive program for the top management of Exel Composites. The 2020 performance based plan is part of the share-based long-term incentive program published on 4 May 2017. Similarly to the previous programs within this plan, the performance targets applied to the plan commencing at the beginning of 2020 are adjusted operating profit (EBIT) and the total shareholder return of the company's share (TSR).

Exel Composites revises its target for net gearing

Exel Composites revises its long-term financial target for net gearing to be approximately at 80% or below. The new net gearing target takes into account the impact of IFRS 16-standard to Group net gearing. Previously the target was at approximately 60% or below.

Guidance for the full year 2020

Exel Composites expects revenue and adjusted operating profit to increase in 2020 compared to 2019.

Exel Composites has manufacturing in Nanjing, China. The coronavirus outbreak has delayed ramping up production to full capacity after the Chinese New Year. This will impact production volumes in China in the first quarter 2020. Currently, it is too early to estimate the impacts of the outbreak on the company's business and financial performance.

Board proposal for dividend distribution

According to Exel Composites' financial targets, the company's ambition is to distribute a minimum of 40% of net income in dividends, when permitted by the financial structure and growth opportunities.

On 31 December 2019, Exel Composites Plc's distributable funds totaled EUR 11.6 million, of which profit for the financial period accounted for EUR 2.3 million.

The Board has decided to propose to the Annual General Meeting that a dividend of EUR 0.18 (0.18) per share be paid for the financial year 2019, which is 88.8% of net income.

As a basis for its proposal, the Board of Directors has made an assessment of the Group's financial position and ability to meet its commitments, as well as the Group's outlook and investment requirements. The Board considers the proposed dividend well-balanced given the prospects, the capital requirements and the risks of the Group's business activities.

The Board of Directors has decided to propose the record date for dividends to be 24 March 2020. If the Annual General Meeting approves the Board's proposal, it is estimated that the dividend will be paid on 31 March 2020.

Sustainability and corporate responsibility

Exel is committed to responsible and sustainable operations through its core business values: customer focused, integrity, One Exel, caring and innovative. Sustainability is an important part of Exel Composites' business, both in relation with its own operations as well as through its products and solutions.

Exel Composites' material sustainability topics are the following:

- **Environmental responsibility:** Responsible products, responsible operations
- **Social responsibility:** Responsible employer, health and safety, diversity and non-discrimination, human rights in own operations and supply chain
- **Corporate** Governance: Corporate responsibility governance and compliance, anti-corruption and bribery

The company's currently valid material sustainability topics were defined in 2017 based on an internal materiality analysis. The material topics were determined based on a prioritization of topics after workshops and discussions with the management and representatives of different functions. The results were validated by the Group Management Team as well as the Board of Directors of the company. Exel's material sustainability topics are reviewed annually and revalidated as part of the regular process for reporting on financial and non-financial information.

Exel Composites uses the Nasdaq ESG (Environment, Social and Governance) Guide as reference for reporting non-financial information. The information is not assured by an external party, but reviewed by the auditors of the company for consistency as part of the Board of Directors' Report and the audit of the financial statements. In addition, Exel Composites is committed since many years to the Responsible care-program for the chemical industry. The main themes of the program are a sustainable use of natural resources, a sustainable and safety production and products, the work community's wellbeing, and an open interaction and cooperation. The results of the program are evaluted based on indicator data, which is collected annually.

Exel Composites is a global technology company and the world's largest manufacturer of pultruded and pull-wound composite products. The company serves customers across a broad range of industries. Exel's main stakeholders include customers, employees, business partners and suppliers, shareholders, the financial market, authorities, industrial associations and general community. The company's business model is described in further detail on page 7.

Exel Composites' material sustainability topics, the related policies, main activities and outcomes in 2019 as well as key non-financial indicators are described in the following. The main risks related to the company, including risks related to sustainability, are evaluated by Exel's Board of Directors on a quarterly basis as part of its risk assessment process. A description of the company's risk management process and main risks is available at the company's website and as part of the Corporate Governance Statement 2019, which is also available at the company's website at www.exelcomposites.com.

Value creation and financial impact for Exel Composites' stakeholders in 2019

(EUR million)

Material sustainability topics	Key activities in 2019
Environmental responsibility	
Responsible products: Safe and reliable products that contribute to sustainable development	• Safety and quality accordance to customer specifications, customer audits to Exel • ISO 45001 certifications received for manufacturing units in Europe • Participation and cooperation with industry associations • Testing of bio-based materials in production and for different applications
Responsible operations: Decreasing the environmental impact of own operations wherever possible	• Continued measurement and actions to reduce energy consumption and improving energy efficiency • Actions to reduce VOC emissions • Actions to increase recycling in general in Group sites • Research and participation in projects for the reuse of composite waste
Social responsibility	
Responsible employer: Employee development, motivation, attractive employer	• Cooperation with local communities, local universities, technology centers • Performance Development Reviews across the Group • Employee trainings and development of on-boarding process
Health and safety: Safe environment to employees and neighbors	• Reducing LTI as a top priority, safety improvements in all units • Monitoring of breathing air quality, no increased levels requiring actions • Safety trainings and communication • Regular safety audits and inspections, active work by local Health & Safety Committees at all sites
Diversity and non-discrimination: Fair and respectful treatment of all	• Zero tolerance policy on discrimination incidents • Continued enforcement of corporate values and Code of Conduct
Human rights in own operations and supply: Support and respect for human rights	• The Supplier Code of Conduct updated • Five supplier audits conducted
Corporate Governance	
Corporate responsibility governance and compliance: High standards of integrity and ethical business principles	• Continued enforcement of corporate values, Code of Conduct and Supplier Code of Conduct
Anti-corruption and bribery: Zero tolerance for bribery or corruption	• Continued enforcement of corporate values, Code of Conduct and Supplier Code of Conduct

Environmental responsibility

Exel Composites is committed to decreasing wherever possible the environmental impact of its own operations as well as to making products that contribute to decreasing its customers' environmental footprint. Sustainability is a global megatrend that increases composites demand and brings new business opportunities in the long-term in all Exel's customer segments and market areas.

Exel Composites' Quality, Environmental, Health and Safety (QEHS) Policy, Chemical Policy as well as the Group Code of Conduct guide the company's measures related to quality and environmental impact. The company's operations are governed by national environmental permits and complies with the requirements of the standards ISO 9001:2015, ISO 14001:2015 and ISO 45001:2017. In 2019 Exel received the new health and safety ISO 45001 certifications for the manufacturing units in Europe. Units in USA and China are preparing for the certification.

Exel Composites actively participates in the work of industry associations. This is an important means for the company to ensure being up-to-date on the latest developments in environmental matters, advances in environmental technology and new regulatory measures. Through its participation Exel can also promote work related to standards for composites, building and structural design, such as the Eurocode. Exel is, for example, a member in EPTA, European Pultrusion Technology Association, EuCIA, European Composites Industry Association, and American Composites Manufacturers Association, ACMA.

Exel Composites' environmental risks and sustainability issues are assessed as part of an overall group-wide quality management system. It is the responsibility of the Group Management Team to continuously develop and implement the system. Environmental impact, energy consumption, the use of raw materials and the amount of waste are monitored monthly on a Group level. Environmental risks are also assessed on factory level during inspections and controls conducted by national authorities and certification audits. According to Exel Composites' risk assessment, fires, emissions or chemical leakages into the water or ground present the biggest environmental risks. These risks are mitigated through pre-emptive safety measures, such as regular employee trainings, safety equipment and gear, sprinkler systems as well as safe storing of risky chemicals.

Responsible products

Customers are at the center of all Exel Composites' business decisions. Designing, producing and selling a product that does not meet the agreed requirements could have negative impact on the company's business and its reputation. Exel strives to differentiate itself from competition by delivering the best customer experience. Customer satisfaction is regularly evaluated using for example the Net Promoter Score-method (NPS). Ensuring the safety of all chemicals used in its products is a priority for Exel Composites. Many of the company's key customers also require Exel to comply with their Supplier Code of Conducts and audit Exel against their quality and safety requirements.

For many of Exel Composites' customers the decision concerning technology and materials is an important one from an environmental point of view. In addition to traditional factors in the decision making process, such as lightness, mechanical properties, fatigue performance and lower total costs, these qualities are also often seen to lower the overall environmental impact of the end product. Composites are lighter than the typical alternative materials such as metals, and therefore can result in lower installation and maintenance costs as well as easier handling. Lower fuel and energy consumption over their lifecycle is also a result of the inherently thermally insulating nature of composites for example when used in the construction market. Furthermore, composites are durable and non-corrosive with a long life span, which reduces the amount of energy intensive maintenance and the need for replacement. There are tools being researched and developed for example by EuCIA to help objectively assess the environmental impact of composites during the manufacturing phase. In 2019 the association also signed an agreement to reduce plastic waste in Europe, to which also Exel is committed to as an active member and sponsor of EuCIA.

Due to the properties of composites such as lightness and energy efficiency, Exel's products are also used in sustainability enhancing technologies and solutions, such as wind power and electric cars, among other. In 2019, wind power continued to grow as Exel's largest customer industry. Demand in this customer industry is driven by regulations aiming to reduce the impact of climate change and favoring sustainable energy sources. In addition, the average size of new wind turbines is growing, yielding to requirements of longer and stiffer wind turbine blades. Exel's composite solutions to wind turbine manufacturers enable the design of lighter and bigger rotor blades as well as improved energy efficiency even with low winds.

Interest towards the use of bio-based materials, resins and fibers such as flax, is expected to grow. In 2019, Exel continued to actively test these materials in production and for different applications. The commercial use, however, was still small scale due to their relatively higher cost. Customers who prefer the use of bio-based materials usually operate in very specific industries where the use of bio-materials clearly adds value to the end-product or where the current regulative requirements encourage their use.

Responsible operations

Exel Composites' primary energy source is electrical energy. In addition to production load, which is connected to lighting, ventilation and dust removal, heating has a major impact on the total energy usage as the company's largest production sites are situated in Northern locations. Exel's long term target is to reduce its total use of energy proportional to production. The company actively measures its energy use and takes measures to reduce consumption. For this purpose, Exel looks to make improvements in operational efficiency and the use of bio-fuel operated heating systems, heat recovering air exchange equipment, heat pumps, LED lighting and inverter controlled drives, where applicable. In 2019 Exel USA, for example, moved to motion sensor lighting in the manufacturing areas of the factory and installing more efficient air compressors to reduce heat leaks.

In Finland, Exel Composites carried out an energy efficiency survey in 2019, which is mandatory for large enterprises every four years according to Finnish legislation. The purpose is to reduce the impact of climate change. The energy survey determines the company's energy consumption profiles and identifies opportunities to save energy. While the survey confirmed an overall efficient energy use in Exel, some minor development points were taken on the task list. During 2019, Exel also investigated possible improvements in the energy quality provided by its energy supplier as well as the potential use of solar energy in the Finnish units. The investigation, however, did not result in action in 2019. In the Mäntyharju unit in Finland, Exel invested in 2019 in a reserve power system, which increases energy and cost efficiency during possible power breaks as it ensures uninterrupted production.

Exel's greenhouse gas emissions are mostly carbon dioxide that is formed in the company's own use of fuels, transportation of materials and external power production. The manufacturing of composites with generally available raw materials also entails emitting volatile organic compounds (VOC). Exel monitors and conducts tests on its VOC emissions, such as styrene, and invests in reducing them in order to always be within the permitted levels as required by local legislation and regulations. In 2019 a carbon absorption system was taken into use in Exel USA and in China a dust and VOC system was installed.

In China, Exel's new manufacturing location complies with modern and more stringent standards for chemical industries in China. In Austria, Exel considers environmental and safety requirements already in the current design phase of the new production facility.

The main operational efficiency goal for Exel Composites is to reduce operational or composite waste, which is inevitably generated as part of the regular production process. Exel has a waste management plan and continuously monitors and aims to reduce the amount of waste produced. The amount is highly dependent on the product mix and is therefore highly volatile. As products are mostly developed "on-demand" in close cooperation with customers, the use of raw materials is as efficient as possible.

Exel Composites is committed to re-using composite waste and where logistically, technologically or economically possible, composite waste goes to recycling. The recyclability of composites, however, remains a relatively complex topic with challenges that also vary from country to country. The composite waste that cannot be re-used is recycled through incineration where possible. In Central Europe incineration of waste is widely used, but not currently feasible in the Northern locations. In 2019, the Joensuu unit in Finland renewed its waste management contract and as a result the provider was changed. This has improved the logistic efficiency and thereby reduced environmental impact. Other than composite waste is recycled to the extent possible. For example, in Exel USA an acetone waste recycling process was implemented in 2019 to reduce acetone waste. Learnings across the group are shared with other units in order to implement best practices.

In 2019, Exel Composites continued its research to find ways of reusing composite waste. Grinded composites can be reused for example as raw material in the production of cement. In 2019, Exel also conducted, in cooperation with another company, a feasibility study where the aim was to use grinded composite waste to produce a commercially viable product. Although this particular project did not progress further, Exel continues its research and participation in programs to develop composite re-use where it is currently not possible. The company is also an end-user of existing composite recycling solutions like CompoCycle.

Production KPI's *

	2019	2018	2017
Energy usage, GWh	19.6	19.9	18.7
Energy usage, change from previous year, %	-1.5	6.3	-3.4
Energy usage in proportion to production, change from previous year, %	-26.3	-15.0	-15.0
Energy usage is impacted mainly by the number of manufacturing units and their geographical location (i.e. heating need) as well as production load			
Composite waste per ton produced, change from previous year, %	-5.3	26.6	-26.8
The amount of composite waste is highly dependent on the product mix			
Reused waste, %	33.7	43.3	64.2
Possibilities to re-use composite waste vary from country to country.			

* Figures include only those production sites that have been operational as part of Exel Composites Group during all of the financial year.

Social responsibility

Responsible employer

General HR management

Human resources (HR) are managed through the company's corporate values, Code of Conduct, the HR policy and the people strategy. For the ongoing 2019-2022 strategy cycle, human resources continues to focus on four topics: individual and team performance, increased personal engagement and employee development, increased retention in a competitive talent market and improved attractiveness as an employer.

Exel Composites' manufacturing units are mostly located in small towns, and therefore the company has an important social role as a local employer and supporter of regional vitality. The company cooperates with local universities and chambers of commerce, among others, to increase awareness of Exel as a company and an attractive employer as well as of the composites industry in general. Employees’ technological knowhow is crucial for Exel Composites’ business and consequently employee engagement as well as recruitment of skilled employees are critical for the company. In 2019, Exel continued its cooperation with universities, research institutes and technology centers in Finland, Belgium, China, Italy, UK and Austria. The construction of the new manufacturing site in Kapfenberg, Austria, which was initiated in 2019, is an important investment and opportunity also for the local community.

As part of the annual Performance Development Review (PDR) process, employees together with their manager identify areas of their professional development. In addition to the regular PDR-discussions across the Group, the process was developed in 2019 and optimized for different employee levels while considering local differences. For example in Finland a lighter variant of the process for the blue collars was tested and implemented. With the results in mind the process was adapted and implemented also in North America. The development continues into 2020.

In addition to individual trainings for professional development, Group-wide trainings continued to educate functional teams on different topics of relevance to them. In 2019, these included for example trainings on the mechanics of composites materials particularly for the R&D teams, sales management and customer service workshops for sales teams, as well as management and leadership trainings for Group and local management. Trainings and good on-boarding processes to new employees play a key role also in employee retention. In 2019, initiatives to improve the on-boarding process as well as employee training and retention were in particular focus in Finland, North America, Belgium and the UK.

A project to upgrade the current Group-wide intranet was initiated at the end of 2019 to provide a modern platform for the Group’s internal communication. The new intranet will be launched in 2020. The intranet is part of a wider branding project that gives a facelift to the Exel brand and visual identity.

Employee related KPI’s

	2019	2018	2017
Number of employees, on average	660	647	532
Number of employees, end of period	648	675	568
Employees' age, average	43	44	44
Employees with permanent contract, %	98.8	97.1	95.1
Employees with temporary contract, %	1.2	2.9	4.9
Number of years at Exel, average	8.0	8.8	9.4
Employee turnover, %	25.6	20.4	14.9
Male/ female, %	80.0 / 20.0	78.0 / 22.0	77 / 23.0
Top management (Board of Directors, Group Management Team), male/female, %	76.9 / 23.1	83.3 / 16.7	63.3 / 36.7

On 31 December 2019, Exel Composites employed 648 (675) people, of whom 229 (238) in Finland and 419 (437) in other countries. The average number of employees during the financial year was 660 (647).

Health and safety

A safe environment for our employees and neighbors at all locations is a first priority for Exel Composites. The health and safety issues are an integral part of responsible management, and all the sites of the Group have a safety organization with defined responsibilities. It is important for Exel that health and safety issues are taken care of together with the employees, monitored and developed.

The management of health and safety issues is based on identified risks and guided through the global Quality, Environmental, Health and Safety (QEHS) Policy, the company’s Chemical Policy and the ISO 45001 standard. The core of Exel Composites' health and safety efforts lies on preventive measures and reporting based on active risk assessments as well as internal and external evaluations.

The Group is continuously vigilant about updates in listings of chemical Substances of Very High Concern, such as in the REACH and RoHS declarations, in order to ensure it stays ahead of regulations. More than half of the employees are in daily contact with dangerous or flammable chemicals in their work. The main occupational health and safety risks relate to the possibility of fire or health problems due to allergies or long-term exposure.

Reducing lost time injuries (LTI) was in 2019, as in the past years, a particular focus area when it comes to health and safety. LTI is one of the main key performance indicators used for monitoring the operations of Exel and every LTI is inspected. They are reported to the top management as well as to other units to ensure the lessons learned are used to prevent accidents elsewhere. Near-miss and unsafe condition reporting is used for accident prevention in all factories. All these are monitored and reviewed in monthly reports for top management. Internal LTI targets are always set to be challenging and the accident rate has improved significantly in 2019 and year on year. For example at the end of 2019 the Runcorn unit in the United Kingdom celebrated over 365 days without a LTI incident. The unit collected and analyzed data regarding all incidents since 2014 and, based on the results, several improvements were implemented. Cuts, for example, which represented a third of the incidents and were predominately caused by steel drums, have been reduced considerably by purchasing a crusher whereby the drums could be compeletely eliminated from the process.

In potential accident situations, immediate corrective and protective actions are always done in cooperation with local authorities to minimize harm or danger to the environment or people. Incidents and near-miss situations are always investigated in order to improve the processes and train the employees to recognize and prevent risk situations. A report on the incident and the corrective actions taken are also shared with the other Group production facilities to prevent similar from happening elsewhere.

Monitoring air quality and VOC emissions in all sites is an important part of health and safety. Low concentration is maintained by efficient ventilation and exposure is reduced by the use of appropriate safety gear such as breathing masks. Employees' health is also monitored through regular medical checks. Styrene exposure is monitored, for example, by regular mandelic acid tests (urine samples) and necessary measures are taken if any high or increased levels are found. During 2019 no increased levels were found that would have required actions.

Communication about safety play an important role in minimizing the risk of accidents at Exel Composites. In 2019 Exel continued with regular safety awareness training for all employees across all units. Topics that are covered in these trainings included fire drills, fire extinguishing, monitoring of breathing air quality, first aid, evacuation, working with dangerous chemicals and communication in accident situations. All new employees are trained on the first day as part of their on-boarding process. All employees and visitors alike are provided with safety instructions and appropriate safety gear whenever in factory premises. Also suppliers are given safety information as needed. The employees' safety gear, including safety shoes, uniform with chemical resistant gloves, ear and eye protection, as well as respiratory protection as necessary, is regularly inspected and replaced.

In 2019, monthly safety audits, daily safety patrols as well as regular internal and external safety inspections at the facilities were carried out across the Group's production units. All local Health & Safety Committees continued their active work with safety topics, preventive wellness and employee wellbeing. Improving health and safety is a continued priority and in 2019 improvements were made, for example through investments in equipment that improve safety, better cleanliness and order in production areas, improved lighting, more safety instructions, etc.

Safety KPI's

	2019	2018	2017	2016	2015
Lost time injuries, LTI *	10.8	16.9	20.1	31.3	24.6
Reports on unsafe conditions	1,175.0	996.0	890.0	1,063.0	1,220.0

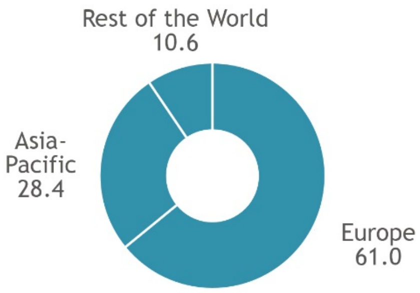
* Number of accidents per million hours worked

Diversity and non-discrimination

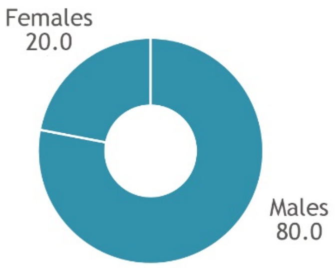
Exel Composites' corporate values and Code of Conduct state that everybody shall be treated with fairness, respect and dignity in the workplace and beyond by management and fellow employees. The company follows a zero tolerance policy for discrimination. All employees are expected to report any discriminant behavior or other Code of Conduct violations using for example the "Report misconduct"-form.

Diversity is encouraged and respected in the work place, all recruiting decisions as well as in the composition of the company's Board of Directors. The shareholders' Nomination Board follows the company's principles of diversity in making their proposal to the Annual General Meeting regarding members to Exel Composites' Board of Directors, paying attention to the members' expertise, know-how and viewpoint as well as age and gender. The target is members of both genders in the Board of Directors of the company. The tasks of the Nomination Board include the annual revision and suggestion of changes, if necessary, to the principles of diversity of the Board of Directors.

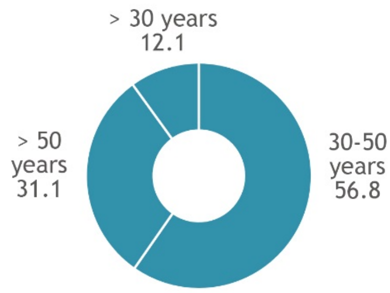
Employees per region, %



Gender diversity, %



Age distribution, %



Human rights in own operations and supply

Exel Composites' corporate values and Code of Conduct state that the company supports and respects the protection of human rights in all its operations, including its supply chain, and follows global human and labor rights conventions. No form of forced or child labor is tolerated in the Group, nor from any of its business partners or third parties associated with the Group.

The majority of Exel's own production units are located in countries where the risk for human rights violations is generally considered low. The slightly increased risk that is presented in China, where the company has two production units, is mitigated through a dedicated local supply chain organization and by regular group management members' visits and reviews.

The Group sources components and materials for its manufacturing processes from multiple sources and multiple countries. A majority of the company's supply chain is composed of large, international manufacturers or their distributors that often have established processes and high sustainability standards and therefore are considered low risk in relation to human rights violations. These suppliers and manufacturers are systematically audited also by several other customers than Exel, as well as other stakeholders. All suppliers are chosen with care and on the basis of objective factors such as quality, reliability, delivery and price, in addition to ethical standards and sustainability.

Exel Composites has a Supplier Code of Conduct that was originally introduced in 2018 with the purpose to confirm that suppliers comply with Exel's requirements regarding human rights and other Code of Conduct topics, appropriate legislation and regulations, including chemical safety. During 2019, the Supplier Code of Conduct was updated. All current suppliers and service providers have received a copy of the Supplier Code of Conduct and it is also a standard attachment to all new contracts. The Supplier Code of Conduct is available at the company's website www.exelcomposites.com.

Exel Composites conducts supplier audits primarily through factory visits where an initial self-assessment is verified. The audit topics include human rights, employee health and safety, monitoring of dangerous particles, among other. Audited suppliers are selected based on purchase volume, the criticality of the supplier as well as its location. In case of violations action is taken either to allow time for corrective action or to terminate the relationship. In 2019, a total of five key suppliers were audited on a global level resulting in some minor feedback items to be followed up.

There were no reported human rights violations in Exel's own operations nor within the company's supply chain in 2019.

Corporate Governance

Corporate responsibility governance and compliance

Exel Composites is committed to exercising high standards of integrity and following ethical business principles through its corporate values, Anti-Corruption Policy and Code of Conduct. Based on the principle of separation of powers, the Board of Directors is Exel Composites' highest governance body in relation to sustainability issues and is responsible for the management of the company and governs risk management through a risk management policy.

The Board of Directors makes quarterly risk assessments as part of the review and approval process of each set of half year financial reports, business reviews and annual financial statements. Risk factors are also considered in connection with any future guidance disclosed by the company. The material sustainability topics are validated by the Board of Directors and the related reporting of Exel Composites is annually reviewed alongside the publication of the company's Annual Financial Report and signed by the Board of Directors.

Discussion about the company values, the Code of Conduct, and what it means to act in accordance with them, is an important element of good governance and the culture at Exel. New employees get to view the Code of Conduct already as part of their recruitment process. In 2019, the corporate values continued to be enforced across the Group, and in the USA, for example, a refresher training was conducted.

Anti-corruption and bribery

Exel Composites does not tolerate bribery or corruption in any form as stated in its Code of Conduct, Supplier Code of Conduct and Anti-Corruption Policy. Any violations could constitute serious damage to Exel's business and reputational loss. Out of Exel's operations, mainly China is assessed for risks related to corruption.

In 2019, the company was not informed of any incidents of corruption nor Code of Conduct violations. There were also no pending legal cases regarding corruption brought against the company or its employees.

Corporate Governance Statement

Exel Composites issues a Corporate Governance Statement for the financial year 2019, prepared in accordance to the Finnish Corporate Governance Code issued by the Securities Market Association, effective as of 1 January 2020. The Corporate Governance Statement is issued separately from the Board of Directors' Report. Further information concerning corporate governance matters is available at Exel Composites' website at www.exelcomposites.com.

Related material at www.exelcomposites.com:

- Corporate values
- Code of Conduct and Supplier Code of Conduct
- The "Report misconduct"- channel
- Quality, Environmental, Health and Safety (QEHS) Policy
- Principles of diversity for the Board of Directors
- Articles of Association
- Duties of the President and CEO
- Corporate Governance Statements
- Remuneration Statements

KEY INDICATORS 2015-2019

Key indicators illustrating financial trends

	2019 IFRS 2)	2018 IFRS 2)	2017 IFRS 2)	2016 IFRS 2)	2015 IFRS 2)
Revenue	103,784	96,608	86,255	73,079	80,196
Operating profit	5,087	2,217	6,081	649	4,414
% of revenue	4.9	2.3	7.1	0.9	5.5
Adjusted operating profit	7,160	5,018	6,319	2,621	4,770
% of revenue	6.9	5.2	7.3	3.6	5.9
Profit before provisions and income taxes	3,885	1,705	5,335	678	4,257
% of revenue	3.7	1.8	6.2	0.9	5.3
Total assets	85,352	74,558	64,380	53,075	53,968
Return on equity %	9.2	1.4	15.1	0.7	9.4
Return on capital employed, %	8.6	4.4	14.8	1.7	12.0
Equity ratio, %	30.9	34.7	44.8	51.3	57.1
Net gearing, %	114.9	96.3	30.3	12.2	2.0
Capital expenditure	6,262	9,598	9,974	3,129	4,295
% of revenue	6.0	9.9	11.6	4.3	5.4
Research and development costs	2,859	2,835	1,876	1,747	1,850
% of revenue	2.7	2.9	2.2	2.4	2.3
Average personnel	660	647	532	479	498
Personnel at year end	648	675	568	455	494

Share data

	2019 IFRS 2)	2018 IFRS 2)	2017 IFRS 2)	2016 IFRS 2)	2015 IFRS 2)
Earnings per share (EPS), EUR	0.20	0.03	0.36	0.02	0.24
Adjusted earnings per share (EPS), EUR 1)	0.20	0.03	0.36	0.02	0.24
Equity per share, EUR	2.23	2.18	2.43	2.27	2.58
Dividend per share, EUR 3)	0.18	0.18	0.30	0.10	0.22
Payout ratio, %	88.8	550.6	84.5	600.3	92.0
Effective yield of shares, %	2.78	4.50	4.57	1.99	3.37
Price/earnings (P/E)	32.00	122.40	18.40	301.35	27.32
Price to book ratio, (P/B)	2.91	1.83	2.69	2.21	2.53

1) Adjusted for the dilution of option rights
2) From continuing operations
3) Board proposal for AGM 2020

COMPUTATION FORMULAE

Return on equity, %

net income + extraordinary items and provisions

equity + minority interest + voluntary provisions and depreciation difference less deferred tax liabilities (average)

Return on capital employed, %

profit before extraordinary items, provisions and income taxes + interest and other financial expenses

total assets less non-interest-bearing liabilities (average)

Equity ratio, %

equity + minority interest + voluntary provisions and depreciation difference less deferred tax liabilities

total assets less advances received

Net gearing, %

net interest-bearing liabilities (= interest-bearing liabilities less liquid assets)

equity

Earnings per share (EPS), EUR

profit before extraordinary items, provisions and income taxes less income taxes +/- minority interest

average adjusted number of shares in the financial period

Equity per share, EUR

equity + voluntary provisions + depreciation difference less deferred tax liabilities and minority interest

adjusted number of shares on closing date

Dividend per share, EUR

dividend for the financial period

adjusted number of shares on closing date

Payout ratio, %

dividend per share

earnings per share (EPS)

Effective yield of shares, %

dividend per share x 100

adjusted average share price at year end

Price/earnings (P/E), %

adjusted average share price at year end

earnings per share

Price to book ratio, (P/B)

total number of shares on closing date excluding treasury shares x share price at year end

equity without non-controlling interests

Adjusted operating profit

Operating profit - material items affecting comparability (restructuring costs, impairment losses and reversals, costs related to planned or realized business acquisitions or disposals, etc.)

AUDITED FINANCIAL STATEMENTS 2019

CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

For the financial year starting on 1 January and ending on 31 December

EUR thousands	Notes	2019	2018
Revenue	6	**103,784**	**96,608**
Other operating income	8	387	373
Increase (+) / Decrease (-) in inventories of finished goods and work in progress		1,139	1,117
Materials and services		-42,537	-39,874
Employee benefit expenses	10	-31,110	-29,332
Depreciation 1)	12	-5,608	-3,871
Impairment	12	-8	-1,606
Other operating expenses	9, 11	-20,960	-21,198
Operating profit		**5,087**	**2,217**
Financial income	13	589	849
Financial expenses 1)	14	-1,792	-1,361
Profit before tax		**3,884**	**1,705**
Income taxes	15	-1,488	-1,319
Profit/loss for the period		**2,397**	**386**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations	15	529	56
Income tax relating to components of other comprehensive income			0
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax:		**0**	**0**
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial gains (+) / losses (-), net of tax	15	-40	0
Total comprehensive income		**2,886**	**442**
Profit/loss attributable to:			
Equity holders of the parent company		2,397	386
Comprehensive income attributable to:			
Equity holders of the parent company		2,886	442
Total earnings per share, basic and diluted, EUR	17	**0.20**	**0.03**

1) Exel Composites Plc has applied the IFRS16 -standard since 1 January 2019 according to the model where the comparative information of previous periods is not adjusted.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at the end of the financial year

EUR thousands	Notes	2019	2018
ASSETS			
Non-current assets			
Goodwill	19	12,972	12,756
Other intangible assets	19	4,313	4,209
Tangible assets	20	18,107	16,631
Right-of-use assets 1)	20	4,693	0
Other non-current assets	21	104	89
Deferred tax assets	16	1,379	747
Total non-current assets		**41,567**	**34,432**
Current assets			
Inventories	22	16,878	15,214
Trade and other receivables	23	19,978	20,111
Cash at bank and in hand	24	6,930	4,801
Total current assets		**43,785**	**40,126**
Total assets		**85,352**	**74,558**
EQUITY AND LIABILITIES	32		
Share capital		2,141	2,141
Other reserves		129	129
Invested unrestricted equity fund		2,539	2,539
Translation differences		2,516	1,987
Retained earnings		16,580	18,599
Profit for the period		2,397	386
Equity attributable to the equity holders of parent company		**26,302**	**25,782**
Total equity		**26,302**	**25,782**
Non-current liabilities			
Interest-bearing liabilities	26, 30	11,255	11,393
Non-current lease liabilities 1)		3,549	0
Non-current interest-free liabilities	25	553	487
Deferred tax liabilities	16	287	162
Total non-current liabilities		**15,643**	**12,042**
Current liabilities			
Interest-bearing liabilities	26	21,098	18,234
Current lease liabilities 1)		1,262	0
Trade and other current liabilities	25	20,678	18,121
Income tax payable	25	369	378
Total current liabilities		**43,407**	**36,733**
Total equity and liabilities		**85,352**	**74,558**

1) Exel Composites Plc has applied the IFRS16 -standard since 1 January 2019 according to the model where the comparative information of previous periods is not adjusted.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year starting on 1 January and ending on 31 December

EUR thousands	Notes	2019	2018
Cash flow from operating activities			
Profit for the period		2,397	386
Non-cash adjustments to reconcile profit to net cash flow	35	8,411	7,535
Change in working capital		1,902	-4,085
Cash flow generated by operations		**12,711**	**3,837**
Interest paid		-737	-402
Interest received		4	13
Other financial items		-586	-146
Income taxes paid		-2,362	-2,435
Net cash flow from operating activities		**9,030**	**868**
Cash flow from investing activities			
Acquisitions of subsidiaries		0	-8,073
Purchase of non-current assets		-6,147	-4,787
Proceeds from sale of non-current assets		60	82
Net cash flow from investing activities		**-6,087**	**-12,779**
Cash flow before financing activities		**2,943**	**-11,911**
Cash flow from financing activities			
Proceeds from long-term borrowings		1,000	5,670
Repayments of long-term borrowings		0	-1,000
Change in short-term loans		1,511	8,300
Instalments of lease liabilities 1)		-1,196	0
Purchases of treasury shares		0	0
Dividends paid		-2,216	-3,546
Net cash flow from financing activities		**-901**	**9,426**
Change in liquid funds		**2,042**	**-2,484**
Liquid funds at the beginning of period		4,801	7,629
Exchange rate fluctuations on liquid funds		87	-357
Liquid funds through business acquisitions		0	13
Liquid funds at the end of period		6,930	4,801

1) Exel Composites Plc has applied the IFRS16 -standard since 1 January 2019 according to the model where the comparative information of previous periods is not adjusted. Total cash outflow for leases was EUR 1,306 thousand.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

As at the end of the financial year

EUR thousands	Share capital	Invested unrestricted equity fund	Translation differences	Retained earnings	Total
2018					
Balance at the beginning of the financial year	**2,141**	**2,668**	**1,931**	**22,075**	**28,816**
Comprehensive result			56	386	**442**
Defined benefit plan actuarial gains (+) / loss (-), net of tax				0	**0**
Other items				-17	**-17**
Dividend				-3,546	**-3,546**
Treasury shares				0	**0**
Share-based payments reserve				0	**0**
Correction to previously issued financial statements 1)				88	**88**
Balance at the beginning of the financial year	**2,141**	**2,668**	**1,987**	**18,986**	**25,782**
2019					
Balance at the beginning of the financial year	**2,141**	**2,668**	**1,987**	**18,986**	**25,782**
Comprehensive result			529	2,397	**2,926**
Defined benefit plan actuarial gains (+) / loss (-), net of tax				-40	**-40**
Other items					**0**
Dividend				-2,131	**-2,131**
Treasury shares					**0**
Share-based payments reserve				66	**66**
Correction to previously issued financial statements 2)				-301	**-301**
Balance at the end of the financial year	**2,141**	**2,668**	**2,516**	**18,977**	**26,302**

1) Clearing a non-registered dormant subsidiary from consolidated books.
2) Corrections related to taxations and inventory valuations of previous years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All figures in EUR thousands unless otherwise stated)

The consolidated financial statements of Exel Composites Plc for the year ended 31 December 2019 were authorized for issue in accordance with a resolution of the Board of Directors on 17 February 2020. Final decision to adopt, change or reject the financial statements is made by shareholders in Annual General Meeting on 20 March 2020.

NOTE 1 CORPORATE INFORMATION

Exel Composites, a global technology company headquartered in Finland, is the world's largest manufacturer of pultruded and pull-wound composite products. The company's global manufacturing, R&D, and sales footprint serves customers across a broad range of industries and applications. With 60 years of composites experience and engineering expertise, the company works closely with its customers to design and manufacture high quality composite products using carbon fiber, fiberglass, and other high-performance materials.

The Group's factories are located in Austria, Belgium, China, Finland, the United Kingdom and USA. Exel Composites' share is listed in the Small Cap segment of the Nasdaq Helsinki Ltd. in the Industrials sector. Exel Composites Plc is domiciled in Mäntyharju, Finland and its registered address is Uutelantie 24 B, 52700 Mäntyharju, Finland.

NOTE 2 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, with the exception of available-for-sale investment securities and certain other financial assets and financial liabilities that have been measured at fair value.

The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand except where otherwise indicated.

Statement of Compliance

The consolidated financial statements of Exel Composites Plc have been prepared in compliance with International Financial Reporting Standards (IFRS), applying IAS and IFRS standards, as well as SIC and IFRIC interpretations, as adopted by the European Union, valid on 31 December 2019. The notes to the consolidated financial statements are also in compliance with the Finnish Accounting and Companies Acts.

Basis of Consolidation

Exel Composites' consolidated financial statements include the accounts of the parent company Exel Composites Plc and its subsidiaries as at 31 December each year. Subsidiaries are viewed as companies in which it owns, directly or indirectly, over 50 per cent of the voting rights or in which it is in a position to govern the financial and operating policies of the entity. The Group has control over an entity when it has a participation in the entity and is exposed to or has right to its variable revenues and can influence the revenues by using its control over the entity. Subsidiaries are fully consolidated from the date that Exel Composites acquired control and are no longer consolidated from the date that control ceases. Where necessary, the accounting principles of subsidiaries have been changed to ensure consistency with the accounting principles of the Group. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Acquisitions of companies are accounted for using the purchase method. The cost of an acquisition is measured at fair value over the assets given up, shares issued or liabilities incurred or assumed at the date of acquisition. The excess acquisition cost over the fair value of net assets acquired is recognized as goodwill.

All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

If the Group loses control over a subsidiary, it:

- Derecognizes the assets and liabilities of the subsidiary;

- Derecognizes the carrying amount of non-controlling interest;
- Derecognizes the cumulative translation differences, recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss, and
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

When compiling the opening IFRS balance sheet, Exel Composites has applied the exemption provided by IFRS 1 related to business combinations. This means that the assets and liabilities of subsidiaries have not been assessed retroactively at their market value. Instead, they have been included in the balance sheet on the transition date in an amount in accordance with earlier financial accounting practice. The Group has no affiliated companies or joint ventures.

Non-controlling interest is deducted from shareholders' equity and presented as a separate item in the balance sheet. Similarly, it is presented as a separate item in the consolidated financial statements. The share of losses attributable to the holders of non-controlling interest was debited to non-controlling interest in the consolidated balance sheet up to the full value of the non-controlling interest prior to 1 January 2010. The Group had no non-controlling interests in 2019 and 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers has been applied for the reporting period beginning on 1 January 2018. The new standard defines a five-step model to recognize revenue based on contracts with customers. IFRS 15 replaced the old standards IAS 18 and IAS 11 as well as their interpretations. The new standard had no material effect on the Group's revenue recognition.

The Group revenue is generated mainly by the sale of composite products. Customer can benefit from each composite product sold by the Group on its own or together with other resources readily available to the customer. Sold goods and their prices have been identified in customer contracts. Deliveries are based on the customer's purchase orders and each supplied quantity is invoiced separately. There is no significant financing component included in the transaction prices. Some of the customer contracts include a variable consideration in the form of volume based rebate. The effect of the variable consideration on the transaction price is taken into account in revenue recognition.

The performance obligation is satisfied when the goods have been delivered to the customer according to the agreed delivery terms. In most cases this happens when the goods leave the factory. In case, according to agreed delivery terms, risks and rewards as well as control over the goods are transferred to the customer only when the goods have been delivered to the customer, then revenue is recognized only when the customer has received the goods. This did not change the Group's earlier revenue recognition principles.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments has been applied for the reporting period beginning on 1 January 2018. IFRS 9 replaced the standard IAS 39 Financial Instruments: recognition and measurement. The adoption of IFRS 9 did not have any material effect on the Group's annual accounts.

The main impact of the IFRS 9 application for the Group is coming from the new expected credit loss model applied to assess impairment loss of the doubtful accounts receivable. The Group applies the simplified approach allowed by IFRS 9 as the accounts receivable does not contain significant financing component. To measure the lifetime expected credit losses trade receivables have been grouped based on credit risk characteristics and aging category. Expected credit losses have been measured based on historical loss rates adjusted by forward looking estimates and individual assessment. The adaption of IFRS 9 did not have material effect on impairment losses made. Part of the Group's trade receivables are covered by a trade credit insurance.

NOTE 3 CHANGES IN ACCOUNTING POLICIES ANS DISCLOSURES

The Group has adopted IFRS16 Leases standard from 1st January 2019. Otherwise the accounting policies adopted are consistent with those of the previous financial year.

The standards and standard amendments that are issued, but not effective, up to the date of issuance of the Group's financial statements are listed below. The Group intends to adopt these standards and amendments, if applicable, when they become effective. Based on preliminary analysis, the standards are not expected to materially impact on the Group's financial statements.

New standards

- IFRS 17 Insurance Contracts

Amendments to standards

- IAS 1 Classification of Liabilities as Current or Non-current
- References to Conceptual Framework in IFRS Standards
- IAS 1 and IAS 8 Definition of Material
- IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform

IFRS 16 Leases

Exel Composites (Group) has applied the IFRS16 Leases – standard since 1 January 2019. Lease liabilities arising from lease and rental agreements along with corresponding right-of-use assets are stated in the balance sheet accordingly.

In the initial adoption of the standard, the Group used the modified method where comparative information was not adjusted and the lease liability was determined by the present value of remaining lease payments. The discount rate used is the average rate on the Group's external loans, which was 2.271% at the time of initial adoption or if stated in the lease contract the internal rate of the contract.

The Group has used the recognition exemption where lease contracts are not stated in the balance sheet, if the value of the underlying asset is less than approx. 5,000 euros and/or if the lease period is 12 months or less.

For lease contracts with no set end date and with termination or extension options, the Group has determined the lease term by making an assessment using best available information.

A significant part of the Group's lease liability stated in the balance sheet according to IFRS16 comes from lease contracts on factory buildings in Europe, China and USA. In addition to these, the Group's balance sheet has lease contracts on small production and office equipment and vehicles.

A total of EUR 4.7 million of right-of-use assets were included in the Group's balance sheet on 1 January 2019. Of this total buildings were EUR 4.4. million. Corresponding lease liabilities were included as noncurrent EUR 3.5 million and current EUR 1.2 million.

Reconciliation of lease liabilities

Lease liabilities 31.12.2018	2,042
Lease liabilities which took effect on 1.1.2019	40
Rent for the closed factory in Voerde booked as one-off cost	-228
Short-term and/or low value asset leases	-79
Assessments for leases with no set end date or extension options	3,209
Other	10
	4,993
Discounting	-267
Lease liabilities 1.1.2019	4,727

Specifications according to IFRS16 standard are presented in the Consolidated Financial Statements and in the notes of each related income statement and balance sheet item (notes 9, 12, 14, 20, 26 and 35).

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements may require the use of judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the end of the reported period and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The preparation of impairment tests requires the use of estimates.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When calculations of impairment of non-financial assets are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including sensitivity analysis of key assumptions, are given in Note 27.

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with the future tax planning strategies. Further details are given in Note 16.

Pension and other post-employment benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Determining the fair value of assets in business combinations

In major corporate mergers the Group has employed the services of an outside advisor in assessing the fair value of tangible assets. For tangible assets comparisons have been made with the market prices of similar assets and an estimate made about impairment caused by the acquired asset's age, wear and other related factors. The determination of the fair value of tangible assets is based on estimates of cash flows related to the asset.

NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill
Business combinations from 1 January 2009

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisitions costs incurred are expensed.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If the consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired is allocated to each of the Group's cash generating units.

Business combinations prior to 31 December 2008

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable assets.

The Group does not have any associates or joint ventures.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Sales of products are recognized in accordance with IFRS 15 when the performance obligation is satisfied. The performance obligation is satisfied when the goods have been delivered to the customer according to the agreed delivery terms. In most cases this happens when the goods leave the factory. In case according to agreed delivery terms risks and rewards as well as control over the goods are transferred to the customer only when the goods have been delivered to the customer, then revenue is recognized only when the customer has received the goods. Revenue arising from projects lasting over 12 months and having a material impact on the Group's financial position and performance is recognized in accordance with IFRS 15.

Revenue comprises the invoiced value for the sale of goods and services net of indirect taxes, sales adjustment and exchange rate differences. Distribution costs for products to be sold are included in the income statement as other operating expenses. Interest income is recognized using the effective interest rate method and dividend income when the right to the dividend has been created.

Foreign currency translation

The Group's consolidated financial statements are presented in euros, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

The income statements of independent foreign subsidiaries are translated into euros at the average exchange rates for the financial year and the assets and liabilities are translated at the exchange rate of the balance sheet date. Exchange differences arising on the translation are recognized in other comprehensive income. When a foreign operation is sold, the component of other comprehensive income relating to that particular foreign operation is recognized in the income statement.

Any goodwill arising from the acquisition of a foreign entity subsequent to 1 January 2005 and any fair value adjustments to the carrying amounts of assets and liabilities are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Other non-monetary items that are measured in the terms of historical cost in the foreign currency are translated using the exchange rates at the dates of the initial transaction.

Foreign currency exchange gains and losses related to business operations and translating monetary items have been entered in the income statement. Foreign exchange differences from business operations are included in other items above profit for the year. Foreign exchange differences from foreign currency loans and cash at bank are included in financial items.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful life of intangible assets is either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is indication that the intangible asset may be impaired.

Intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

- Development costs 3-5 years
- Other long-term costs 3-8 years
- Other intangible assets 3-8 years
- Customer relationships 10 years

Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually, either individually or at the cash generating unit level.

Research and development

Research costs are expensed as incurred. Costs incurred from development projects, which are often connected with the design and testing of new or advanced products, are recorded in the balance sheet as intangible assets from the time that the product can be technically achieved, it can be utilized commercially, and the product is expected to create a comparable financial benefit. Other development costs are recorded as expenses. Capitalized development costs are amortized on a straight-line basis beginning from the commercial production of the product during the period they are effective, yet no longer than five years. There were no capitalized development costs during 2019 and 2018.

Computer software

Costs associated with the development and maintenance of computer software are generally recorded as expenses. Costs that improve or expand the performance of computer software to the extent that the performance is higher than originally is considered as a property item improvement and is added to the original acquisition cost of the software. Capitalized computer software development costs are expensed and amortized on a straight-line basis during the period they are financially effective.

Other intangible assets

The acquisition costs of patents, trademarks and licenses are capitalized in intangible assets and depreciated on a straight-line basis during their useful lives.

Property, plant and equipment

Property, plant and equipment is stated in the balance sheet at historical cost less accumulated straight-line depreciation according to the expected useful life, benefits received, and any impairment losses.

Planned depreciation is calculated on a straight-line basis to write off the acquisition cost of each fixed asset up to its residual value over the asset's expected useful life. Land areas are not depreciated. For other tangible fixed assets, depreciation is calculated according to the following expected useful lives:

- Buildings 5-20 years
- Machinery 5-15 years
- Equipment 3-5 years

If the book value of an asset item exceeds the estimated amount recoverable in the future, its book value is adjusted immediately to correspond with the amount recoverable in the future.

Routine maintenance and repair expenditure is recognized as an expense. Expenditure on significant modernization and improvement projects are recognized in the balance sheet if they are likely to increase the future economic benefits embodied in the specific asset to which they relate. Modernization and improvement projects are depreciated on a straight-line basis over their expected useful lives.

Depreciation on tangible fixed assets is discontinued when a tangible fixed asset meets the criteria of "held-for-sale" according to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

Gains or losses on disposal or decommissioning of tangible fixed assets are calculated as the difference of the net proceeds obtained and the balance sheet value. Capital gains and losses are included in the income statement in the item operating profit.

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as an income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognized as deferred income and released to the income statement over the expected useful life of the relevant asset by equal annual installments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity occurs in connection with the borrowing of funds. For the years ending 31 December 2019 and 2018, the Group had no assets where the borrowing costs would have been capitalized.

Financial assets

Financial assets are classified within the scope of IFRS 9 as financial assets at amortized cost, at fair value through profit or loss, at fair value through other comprehensive income or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

The Group's financial assets include cash and short-term deposits, trade and other receivables, and derivative financial instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, originated or acquired, that are not quoted in an active market, not held for trading, and not designated on initial recognition as assets at fair value through profit or loss or as held-for-sale. Loans and receivables are measured at amortized cost. They are included in the statement of financial position under trade receivables and other receivables as either current or non-current assets according to their nature; they are considered non-current assets if they mature after more than 12 months. The losses arising from impairment are recognized in the income statement in finance costs.

"Held-to-maturity financial assets" include non-derivative financial assets with fixed or determinable payments and fixed maturities when the Group has the positive intention and ability to hold them to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. The Group did not have any held-to-maturity investments during the years ended 31 December 2019 and 2018.

A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay received cash flows in full without material delay to a third party under a pass-through arrangement.

Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and in hand and short-term deposits with an original maturity of three months and less. Credit accounts connected with Group accounts are included in current interest-bearing liabilities and are presented as net amounts, as the Group has a legal contractual right of set-off to make payment or otherwise eliminate the amount owed to creditors either in whole or in part.

Cash and cash equivalents are recorded at the original amount in the statement of financial position.

Financial liabilities

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at amortized cost, at fair value through profit or loss, at fair value through other comprehensive income or as derivatives designated as hedging instruments in an effective hedge. The Group determines the classification of its financial liabilities at initial recognition. The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings and derivative financial instruments.

Finance lease liabilities are initially recognized at fair value. All financial liabilities, excluding derivative liabilities, are later valued at amortized cost using the effective interest rate method. Financial liabilities are included in non-current and current liabilities, and they may be either interest-bearing or non-interest-bearing.

Derivative financial instruments and hedging

Derivative contracts are recorded initially as an acquisition cost equal to their fair value. Following their acquisition derivative contracts are valued according to their fair value.

Profits and losses that are generated from the valuation of fair value are recorded according to the intended use of the derivative contract. The Group does not apply hedge accounting as described by IFRS 9. As a result, all value changes are recognized in profit or loss. The Group has entered into interest rate swap agreements to convert non-current floating rate financial liabilities to fixed interest rates. Derivative financial instruments are presented in Section 31 of the Notes. Derivatives are recorded in the balance sheet as accrued expenses and deferred income.

Hedges for net investments in foreign units are recorded in the same way as cash-flow hedges. A hedge on a foreign subsidiary's equity is recorded in shareholders' equity in the same way as the exchange rate difference in shareholders' equity. The Group did not hedge its net foreign investments exposure during 2019 or 2018.

Impairment of non-financial assets

At each reporting date, the Group evaluates whether there are indications of impairment in any asset item. If impairment is indicated, the recoverable amount of the asset is estimated. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In addition, the recoverable amount is assessed annually for the following items regardless of whether there are indications of impairment: goodwill; intangible assets that have an unlimited economic lifespan; and assets under construction.

Impairment losses of continuing operations are recognized immediately in the income statement in those expense categories consistent with the function of the impaired asset.

Impairment of financial assets

The Group assesses on each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Lease agreements

Group has applied the IFRS16 –standard since 1 January 2019. Lease liabilities, current and non-current, arising from lease and rental agreements along with corresponding right-of-use assets are stated in the balance sheet accordingly.

Group uses the recognition exemption where lease agreements are not stated in the balance sheet if the value of the underlying asset is less than approx. 5,000 euros and/or if the lease period is 12 months or less.

Lease agreements are discounted to present value using the average rate on the Group's external loans or the internal rate of the lease agreement, if stated.

For lease contracts with no set end date and with termination or extension options the Group determines the lease term by making an assessment using best available information.

Inventories

Inventories are valued in the balance sheet either at the acquisition cost or at the net realizable value, whichever is lower. The acquisition cost is determined using the weighted average price method. The acquisition cost of finished and incomplete products comprises raw materials, direct costs of labor, other direct costs and the appropriate portion of the variable general costs of manufacture and fixed overhead at the ordinary rate of operations, but it does not include borrowing costs. The net realizable value is the estimated selling price in ordinary business operations less the estimated expenditure on product completion and sales.

Trade receivables

Trade receivables are recorded in the balance sheet at their original invoice amount.

An impairment of trade receivables is recognized in accordance with IFRS 9. The Group applies the simplified approach allowed by IFRS 9 as the accounts receivable does not contain significant financing component. To measure the lifetime expected credit losses trade receivables have been grouped based on credit risk characteristics and aging category. Expected credit losses have been measured based on historical loss rates adjusted by forward looking estimates and individual assessment.

Share capital

Ordinary shares are included in shareholders' equity. Expenses incurred directly from new share issues are recorded in shareholders' equity as a reduction of received payments.

Taxes

Group taxes consist of taxes based on Group companies' results for the financial year, adjustments to taxes related to previous years and the change in deferred income taxes.

The tax expenses on the income statement are formed from the tax based on the taxable income for the financial year and deferred taxes. The tax expenses are recorded in the income statement except for the items recorded directly into shareholders' equity, when the tax impact is recorded also as an equivalent part of shareholders' equity. The taxes for the financial year are calculated from the taxable income according to the valid tax rate in each country. Taxes are adjusted by the possible taxes related to previous financial years.

Deferred taxes are calculated for all temporary differences between accounting and taxation using the tax rates valid at the closing date. The largest temporary differences arise from the depreciation of tangible assets, valuations in the fair value in the balance sheets of acquired companies at the time of acquisition, revaluations of certain non-current reserves, reservations for pension schemes and post-retirement benefits, unused tax losses, and differences in net wealth between fair value and taxable value in connection with acquisitions.

Deferred tax assets have been recorded to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilized will materialize in the future. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date.

Revenues, expenses and assets are recognized net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority
- Receivables and payables that are stated with the amount of sales tax included.

Pensions and other post-employment benefits

The Group's pension schemes comply with each country's local regulations and practices. Some of the pension schemes in the Group apply defined benefit pension schemes where the pension benefits, disability benefits and employment termination benefits are defined. Pension benefits are based generally on the period of employment and salary over a fixed period for each employee. Pension contributions are funded through payments to insurance companies. In addition, the Group has defined-contribution plans.

In defined benefit pension plans, the present value of future pension payments on the closing date is presented less the fair value of the plan-related assets on the closing date. Pension liabilities are calculated by independent actuaries. The pension liability is determined according to the projected unit credit method: the pension liability is discounted to the present value of estimated future cash flows using the interest rate which is equal to the interest rate of government or corporate bonds with maturities corresponding to the maturity of the pension liability. Pension costs are recorded in the income statement as an expense with costs periodized over the employees' time of service based on actuarial calculations carried out annually. Actuarial gains and losses are recognized in full as a component of other comprehensive income.

In defined-contribution schemes, pension contributions are paid to insurance companies, after which the Group no longer has other payment obligations. The Group's contributions to defined-contribution schemes are entered in the financial period to which the payments relate.

Long-term compensation

The Group has long-term incentive programs for the President and CEO and the Group Management Team and selected key employees of the Company. The aim of the programs is to combine the objectives of the shareholders and the executives in order to increase the value of the Company, to commit the executives to the Company and to offer the executives a competitive reward program based on holding the Company's shares. The Board of Directors makes the decision on the program annually.

The cost of the programs will be accounted for as operating expenses during the duration of the programs.

Provisions

A provision is recognized in the balance sheet when the Group has a legal or actual obligation on the basis of a prior event, the materialization of the payment obligation is probable and the size of the obligation can be reliably estimated and requires a financial payment or causes a financial loss. If compensation for a share of the obligation can be received from a third party, the compensation is recorded as a separate asset item, but only when it is practically certain that said compensation will be received.

The right of personnel to annual leave and leave based on a long period of service are recognized when the right is created. The recorded provision corresponds to the obligations regarding the annual leave and leave based on a long period of service based on work performed by the reporting date.

The Group recognizes a provision against loss-making agreements if the benefits of an agreement are expected to be smaller than the unavoidable costs required to fulfill the obligations of the agreement.

A provision for restructuring is recognized when the Group has prepared a detailed and formal restructuring plan and restructuring has either commenced or the plan has been announced publicly. The provisions are valued at their present value of costs required to cover the obligation.

Dividends

Dividends paid by the Group are recognized for the financial year in which the shareholders have approved payment of the dividend.

Earnings per share

The undiluted earnings per share is calculated by dividing the profit for the period belonging to the shareholders of the parent company by the weighted average of shares in issue, not including shares purchased by the Company itself and that are presented as own shares. The weighted average number of shares used to calculate the diluted earnings per share takes into account the diluting effect of outstanding stock options during the period. This effect is calculated by the number of shares that could have been acquired at market price with the value of the subscription rights to usable stock options, which defines the ”free element”; ”free shares” are added to the number of released shares, but the result for the financial year is not adjusted.

NOTE 6 SEGMENT INFORMATION

Segment information is presented according to the Group's operating segment and geographical distribution. The operating segment is based on the Group's internal organizational structure and internal financial reporting.

The operating segment consists of asset groups and businesses whose risks and profitability relative to products or services differ from other business segments. In geographical information products or services are produced in a certain financial environment the risks and profitability of which differ from the financial environments' risks and profitability of other geographical locations.

Operating segments

The Group has one operating segment, Exel Composites.

Geographical information

The Group's geographical information is given for Europe, Asia-Pacific (APAC) and Rest of world. Revenue of geographical distribution is presented according to the customers, while assets are presented according to the location of the assets.

Revenue outside the Group according to location of customers

	2019	2018
Europe	62,076	61,073
Asia-Pacific	17,600	17,430
Rest of world	24,108	18,106
Total	**103,784**	**96,608**

Revenue from the biggest customer amounted to EUR 19,700 (12,352) thousand.

Total assets according to geographic location

	2019	2018
Europe	40,939	32,785
Asia-Pacific	31,801	26,020
Rest of world	12,612	10,548
Total	**85,352**	**69,353**

Capital expenditure according to geographic location

	2019	2018
Europe	5,283	3,752
Asia-Pacific	544	695
Rest of world	435	5,151
Total	**6,262**	**9,598**

NOTE 7 EXCHANGE RATES

The income statements of subsidiaries, whose measurement and reporting currency is not the euro, are translated into the Group reporting currency using the average exchange rate, whereas the assets and liabilities of the subsidiaries are translated using the exchange rates on the reporting date. The reporting date exchange rates are based on exchange rates published by the European Central Bank for the closing date. The average exchange rate is calculated as an average of each month's average rates from the European Central Bank.

Key exchange rates for Exel Composites Group applied in the accounts are:

Country	Currency	2019 Average rate	2018 Average rate	2019 Closing rate	2018 Closing rate
Australia	AUD	1.61059	1.57992	1.59950	1.62200
UK	GBP	0.87731	0.88475	0.85080	0.89453
China	RMB	7.73388	7.80736	7.82050	7.87510
USA	USD	1.11958	1.18149	1.12340	1.14500
Hong Kong	HKD	8.77243	9.25987	8.74730	8.96750

NOTE 8 OTHER OPERATING INCOME

	2019	2018
Insurance compensations	19	0
Grants	152	98
Rental income	18	18
Exel Sports lisencing	105	99
Other operating incomes	94	158
Total	**387**	**373**

NOTE 9 OTHER OPERATING EXPENSES

	2019	2018
Audit fees	201	219
Tax consultation provided by the Audit company	12	29
Other services provided by the Audit company	63	174
Rents on leases with short lease period	268	0
Rents on leases for assets with low value	11	0
Other rental expenses	84	1,443
Write-offs on non-current assets and losses on asset sales	158	3
Other variable operating expenses	11,057	9,347
Other operating expenses	9,107	9,983
Total	**20,960**	**21,198**

NOTE 10 EMPLOYEE BENEFIT EXPENSES

	2019	2018
Wages and salaries	25,320	24,233
Pension costs – defined contribution schemes	2,369	2,434
Pension costs – defined benefit schemes	22	-2
Other employee benefits	3,398	2,667
Total	**31,110**	**29,332**

	2019	2018
Average number of personnel	660	647

NOTE 11 RESEARCH AND DEVELOPMENT EXPENDITURE

The income statement includes research and development costs entered as costs amounting to EUR 2,859 (2,835) thousand in 2019. These costs are included in the income statement under Employee Benefit Expenses and Other Operating Expenses.

NOTE 12 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

Depreciation and amortization of assets

	2019	2018
Intangible assets	863	522
Tangible assets		
Buildings	224	205
Buildings, right-of-use assets	1,170	0
Machinery and equipment	3,207	3,144
Machinery and equipment, right-of-use assets	145	0
Total	**5,608**	**3,871**

Impairment and write-down of assets

	2019	2018
Intangible assets	0	0
Goodwill	0	1,305
Tangible assets		
Land	8	8
Buildings	0	0
Machinery and equipment	0	294
Total	**8**	**1,606**

NOTE 13 FINANCIAL INCOME

	2019	2018
Interest income on loans and receivables	8	11
Dividend income	2	2
Foreign exchange gains	564	833
Change in fair value of financial assets recognized at fair value through profit or loss	15	4
Other finance income	0	0
Total finance income	**589**	**849**

NOTE 14 FINANCIAL EXPENSES

	2019	2018
Interest expenses on debts and borrowings	604	479
Interest expenses on lease liabilities	110	0
Foreign exchange losses	649	693
Change in fair value of financial assets recognized at fair value through profit or loss (from derivatives)	0	38
Other finance expenses	428	150
Total finance expenses	**1,792**	**1,361**

Exchange differences for sales (exchange rate loss EUR 13 thousand) and purchases (exchange rate loss EUR 11 thousand) are entered in the income statement in the appropriate sales and purchase accounts.

NOTE 15 INCOME TAXES

The income tax entered as an expense consisted mainly of the following components for the years ended 31 December 2019 and 2018:

	2019	2018
Income tax based on taxable income for the financial year	1,944	1,666
Income taxes from previous financial periods	142	18
Deferred taxes	-598	-365
Total income taxes reported in the income statement	**1,488**	**1,319**

Income tax recognized in other comprehensive income 2019

	Before tax	Tax effect	After tax
Exchange differences on translating foreign operations	529	0	529
Defined benefit plan actuarial gains (+) / losses (-)	-54	13	-40
Total	**475**	**13**	**489**

Income tax recognized in other comprehensive income 2018

	Before tax	Tax effect	After tax
Exchange differences on translating foreign operations	56	0	56
Defined benefit plan actuarial gains (+) / losses (-)	0	0	0
Total	**56**	**0**	**56**

A reconciliation between tax expense and the product of accounting profit multiplied by Finland's domestic tax rate for the years ended 31 December 2019 and 2018 is as follows:

Income tax reconciliation

	2019	2018
Profit before taxes	3,885	1,705
Consolidated income taxes at Group's domestic tax rate (20%)	777	341
Impact of different tax rates of foreign subsidiaries	49	-68
Tax-exempt income and non-deductible expenses	63	25
Tax at source booked as cost	129	0
Income taxes for prior years	142	18
Effect of deferred tax assets not recognized	420	1,068
Other items	-93	-66
Income tax recognized in consolidated income statement	1,488	1,319
Effective tax rate	38.3	77.3

NOTE 16 DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Deferred tax assets

	1.1.2019	Recognized in income statement	Recognized in shareholders' equity	Exchange rate differences	31.12.2019
Intercompany profit in inventory	5	31		0	36
Intercompany profit in fixed assets	93	55		2	150
Losses	619	543		1	1,163
Other temporary differences	514	1	13	6	535
Offset with deferred tax liabilities	-484	-22			-506
Net deferred tax assets	**747**	**609**	**13**	**10**	**1,379**

Deferred tax liabilities

	1.1.2019	Recognized in income statement	Recognized in shareholders' equity	Exchange rate differences	31.12.2019
Accumulated depreciation	66	17			83
Other temporary differences	581	113		15	709
Offset with deferred tax assets	-484	-22			-506
Net deferred tax liabilities	**163**	**108**	**0**	**15**	**287**

Deferred tax assets

	1.1.2018	Recognized in income statement	Recognized in shareholders' equity	Exchange rate differences	31.12.2018
Intercompany profit in inventory	5	0			5
Intercompany profit in fixed assets	103	-10			93
Losses	515	104			619
Other temporary differences	510	21	-9	-8	514
Offset with deferred tax liabilities	-659	175			-484
Net deferred tax assets	**473**	**290**	**-9**	**-8**	**747**

Deferred tax liabilities

	1.1.2018	Recognized in income statement	Recognized in shareholders' equity	Exchange rate differences	31.12.2018
Accumulated depreciation	4	62			66
Other temporary differences	894	-313		0	581
Offset with deferred tax assets	-659	175			-484
Net deferred tax liabilities	**240**	**-76**	**0**	**0**	**162**

Some deferred tax items related to the earlier accounting periods have been recorded directly to the equity. The Group had taxable net losses on 31 December 2019 of EUR 15,094 (12,077) thousand, of which the Company has recorded deferred tax assets of EUR 1,163 (618) thousand that are available for offset against future taxable profits of the companies in which the losses arose.

IAS 12 Income Tax, cumulated tax losses

Group's subsidiary in USA has cumulated tax losses in 2018 and 2019. Group has estimated the long-term profitability of the subsidiary in USA and concluded that future profits will cover the deferred tax assets booked on the 2019 taxable losses of the subsidiary. Group has booked €379 thousand of deferred tax receivables on the losses of the USA unit.

The old China subsidiary has cumulated tax losses from 2016 to 2019. Group's decision to reorganize the operations of the two manufacturing units in China gives certainty to utilize the accumulated tax losses in the coming years. Group has booked €784 thousand of deferred tax receivables on the losses of the old China unit.

Group has significant tax losses also in its subsidiaries in Australia and Germany. Australia is now profitable and Germany is expected to make profit in 2020 but the profits are rather small. Group has reviewed the possibility to utilize the tax losses and decided that it will not book deferred tax assets on these tax losses at this point. In both countries tax losses can be carried forward indefinitely.

NOTE 17 EARNINGS PER SHARE

The earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the parent company by the weighted average number of outstanding shares during the financial year. There is no dilution effect in the Exel Composites shares.

	2019	2018
Profit for the financial year attributable to ordinary equity holders of the parent company, EUR thousands	2,397	386
Weighted average number of outstanding shares during the financial year, 1,000 shares	11,820	11,820
Basic and diluted earnings per share, EUR/share	0.20	0.03

NOTE 18 DIVIDENDS PER SHARE

The Annual General Meeting held on 21 March 2019 approved the Board's proposal to distribute a dividend of EUR 0.18 per share for the financial year 2018.

The Annual General Meeting held on 22 March 2018 approved the Board's proposal to distribute a dividend of EUR 0.30 per share for the financial year 2017.

Following the balance sheet date the Board of Directors has proposed for approval at the Annual General Meeting that a dividend of EUR 0.18 per share be paid for the financial year 2019.

NOTE 19 INTANGIBLE ASSETS

The Group has no internally created intangible assets.

Goodwill

	2019	2018
Acquisition cost at 1 January	18,866	18,300
Additions	0	789
Exchange rate differences	227	-223
Acquisition cost at 31 December	**19,093**	**18,866**
Accumulated amortization and impairment at 1 January	-6,110	-4,852
Impairment charge	0	-1,305
Exchange rate differences	-12	47
Accumulated amortization and impairment at 31 December	**-6,122**	**-6,110**
Book value at 1 January	12,756	13,447
Book value at 31 December	**12,972**	**12,756**

Other intangible assets

	2019	2018
Acquisition cost at 1 January	6,124	6,211
Additions	18	98
Disposals	-649	0
Transfers between asset groups	0	0
Exchange rate differences	54	-185
Acquisition cost at 31 December	**5,547**	**6,124**
Accumulated amortization at 1 January	-5,129	-5,173
Amortization for the period	-129	-135
Impairment charge and write-downs	0	0
Disposals	638	0
Exchange rate differences	-45	179
Accumulated amortization at 31 December	**-4,664**	**-5,129**
Book value at 1 January	996	1,038
Book value at 31 December	**883**	**996**

Other long-term expenses

	2019	2018
Acquisition cost at 1 January	7,277	4,114
Additions	67	2,092
Disposals	-1,005	0
Transfers between asset groups	852	1,015
Exchange rate differences	35	56
Acquisition cost at 31 December	**7,225**	**7,277**
Accumulated amortization at 1 January	-4,063	-3,670
Amortization for the period	-734	-387
Disposals	1,005	0
Exchange rate differences	-3	-6
Accumulated amortization at 31 December	**-3,795**	**-4,063**
Book value at 1 January	3,213	443
Book value at 31 December	**3,430**	**3,213**

NOTE 20 PROPERTY, PLANT AND EQUIPMENT

Land and water areas

	2019	2018
Acquisition cost at 1 January	857	863
Additions	956	0
Disposals	0	0
Transfer between asset groups	0	0
Exchange rate differences	21	-7
Acquisition cost at 31 December	**1,834**	**857**
Accumulated amortization at 1 January	-253	-247
Impairment charge and write-downs	-8	-8
Exchange rate differences	-8	2
Accumulated amortization at 31 December	**-270**	**-253**
Book value at 1 January	603	616
Book value at 31 December	**1,564**	**603**

Buildings and structures

	2019	2018
Acquisition cost at 1 January	8,277	7,699
Additions	40	476
Disposals	-806	0
Transfer between asset group	0	139
Exchange rate differences	57	-37
Acquisition cost at 31 December	**7,568**	**8,277**
Accumulated amortization at 1 January	-5,845	-5,666
Amortization for the period	-224	-205
Impairment charge and write-downs	0	0
Disposals	806	0
Exchange rate differences	-34	26
Accumulated amortization at 31 December	**-5,297**	**-5,845**
Book value at 1 January	2,432	2,033
Book value at 31 December	**2,271**	**2,432**

Buildings and structures, right-of-use assets

	2019	2018
Acquisition cost at 1 January	4,397	0
Additions	1,141	0
Disposals	0	0
Transfer between asset group	0	0
Exchange rate differences	50	0
Acquisition cost at 31 December	**5,588**	**0**
Accumulated amortization at 1 January	0	0
Amortization for the period	-1,170	0
Impairment charge and write-downs	0	0
Disposals	0	0
Exchange rate differences	3	0
Accumulated amortization at 31 December	**-1,167**	**0**
Book value at 1 January	0	0
Book value at 31 December	**4,421**	**0**

Machinery and equipment

	2019	2018
Acquisition cost at 1 January	55,917	50,505
Additions	1,968	4,738
Disposals	-5,337	-127
Transfers between asset groups	2,591	860
Exchange rate differences	295	-59
Acquisition cost at 31 December	**55,434**	**55,917**
Accumulated amortization at 1 January	-43,895	-40,794
Amortization for the period	-3,207	-3,179
Impairment charge and write-downs	0	-70
Disposals	4,830	53
Exchange rate differences	-170	95
Accumulated amortization at 31 December	**-42,442**	**-43,895**
Book value at 1 January	12,021	9,710
Book value at 31 December	**12,992**	**12,021**

Machinery and equipment, right-of-use assets

	2019	2018
Acquisition cost at 1 January	330	0
Additions	86	0
Disposals	0	0
Transfers between asset groups	0	0
Exchange rate differences	1	0
Acquisition cost at 31 December	**417**	**0**
Accumulated amortization at 1 January	0	0
Amortization for the period	-145	0
Impairment charge and write-downs	0	0
Disposals	0	0
Exchange rate differences	0	0
Accumulated amortization at 31 December	**-145**	**0**
Book value at 1 January	0	0
Book value at 31 December	**272**	**0**

Advance payments and construction in progress

	2019	2018
Acquisition cost at 1 January	1,574	2,428
Additions	3,213	1,404
Transfers between asset groups	-3,503	-2,014
Disposals	-9	-253
Exchange rate differences	6	8
Acquisition cost at 31 December	**1,280**	**1,574**
Book value at 1 January	1,574	2,428
Book value at 31 December	**1,280**	**1,574**

The Group had no assets held for sale.

NOTE 21 OTHER NON-CURRENT ASSETS

The other non-current assets consist mainly of connection fees and telephone shares.

	2019	2018
Book value at 1 January	89	85
Decreases	0	0
Change in fair value	15	4
Book value at 31 December	**104**	**89**

NOTE 22 INVENTORIES

	2019	2018
Raw materials	7,583	7,504
Work in progress	3,564	2,484
Finished products and goods	5,731	5,226
Total inventories	**16,878**	**15,214**

During the 2019 financial year an expense of EUR 137 (220) thousand was recognized to reduce the book value of inventories to their net realizable value.

NOTE 23 TRADE AND OTHER RECEIVABLES

	2019	2018
Trade receivables	17,519	18,566
Deferred income	692	500
Other receivables	997	642
Tax receivables	770	403
Total receivables	**19,978**	**20,111**

During the 2019 financial year credit losses of EUR -186 (142) thousand were recorded, consisting of actual credit losses amounting to EUR 61 (116) thousand and change in the bad debt provision amounting to EUR -247 (26) thousand covering all overdue trade receivables which are over 90 days overdue. As at 31 December 2019, the ageing analysis of trade receivables is as follows:

			Past due but not impaired		
	Total	**Neither past due nor impaired**	**<30 days**	**30-60 days**	**61-90 days**
2019	17,519	10,083	6,532	515	389
2018	18,566	11,445	5,152	1,117	852

All receivables past due over 90 days were impaired and provisions were made in the income statement.

NOTE 24 CASH AND CASH EQUIVALENTS

Cash assets and short-term deposits consist of cash-in-hand and bank accounts amounting to EUR 6,930 (4,801) thousand.

NOTE 25 TRADE AND OTHER NON-INTEREST BEARING LIABILITIES

	2019	2018
Trade payables	10,619	9,263
Accrued expenses	8,624	7,907
Advance payments	267	172
Other current interest-free liabilities	1,536	1,156
Non-current interest-free liabilities	553	487
Total	**21,600**	**18,986**

NOTE 26 INTEREST BEARING LOANS AND BORROWINGS

Non-current interest-bearing loans and borrowings

	2019	2018
Loans from financial institutions	10,564	10,781
Lease liabilities	3,549	
Pension loans	690	613
Total	**14,803**	**11,394**

Current interest-bearing loans and borrowings

	2019	2018
Loans from financial institutions	20,833	12,872
Lease liabilities	1,262	0
Cheque account with overdraft facility	264	5,362
Total	**22,360**	**18,234**

EUR 18 million of current interest-bearing liabilities were commercial papers. To secure the payment of commercial papers, the company had at the end of the financial year unused, non-current (over 12 months) revolving credit facilities for EUR 20 million.

Maturity of non-current interest-bearing liabilities (other than lease liabilities)

	2019	2018
2020	0	3,833
2021	7,064	6,947
2022	0	0
2023	0	0
2024	3,500	0
Later	690	613
Total	**11,255**	**11,393**

Among interest-bearing loans EUR 6,231 (6,714) thousand has been converted to fixed interest rates through interest rate swap agreements in 2019.

Maturity of non-current lease liabilities

	2019	2018
2020	0	0
2021	1,243	0
2022	974	0
2023	762	0
2024	463	0
Later	107	0
Total	**3,549**	**0**

NOTE 27 IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES

Goodwill acquired through business combinations has been arisen from the following business units:

Distribution of goodwill

	2019	2018
Finland	135	135
Germany	0	0
Belgium	209	209
Austria	688	688
China	4,302	4,197
USA	833	818
Exel Composites Group	6,805	6,710
Total	**12,972**	**12,756**

Impairment tests are made annually on goodwill and intangible assets with an indefinite economic live. On the closing date the Exel Composites Group had no intangible assets with an unlimited economic live.

The calculation of value-in use is most sensitive to following assumptions:

- Sales margin -%
- Discount rates
- Growth rate used to extrapolate cash flows beyond the budget period.

The Group makes a so-called two-step Goodwill impairment where CGU level goodwill is tested first and thereafter Group level goodwill. The Group has allocated goodwill to group and smaller cash-generating units. The impairment of cash-generating units is tested by comparing the recoverable amounts to the carrying amounts. The recoverable amount of cash-generating units is determined based on calculations of value in use, which are based on discounted future cash flows. Future cash flows are based on the continual use of the item and forecasts made by management for the coming years. Forecasts for periods further ahead in the future have been calculated on the assumption of annual growth of 1% to 2% on the industry in the long term. Sales margin levels used in the forecasts are expected to remain on average at the current level.

Discount rate is defined to reflect the effect of the different business risks on the expected return on equity. The cost of liabilities is defined according to the existing credit portfolio. The calculation of the average cost of capital takes into account the Group's targeted capital structure, as well as the effect of debt on the cost of Group equity. The discount rate after taxes used in the calculations was on average 6,7% (6,9%).

On the basis of the impairment test, the amount of money that can be accrued by all cash-generating units exceeded the corresponding balance sheet values. In the USA business unit the recoverable amount is most sensitive to future growth rate, sales margin and discount rate assumptions.

The sensitivity analysis of goodwill impairment tests indicate that if the group turnover drops over 6% (1%) there would be a situation where the recoverable value would not exceed the carrying amount. Alternatively the sales margin must decline over 2 (2) per cent units or average discount rate to increase to over 9,1% (8,4%).

Testing assumptions used for USA business unit included 2% growth rate for the future years and 8,6% discount rate. Sales margin is forecasted to improve as a result of implemented structural savings in the USA business unit. A decrease by one percentage point from the current level either in annual growth rate or in sales margin or alternatively an increase by one percentage point in discount rate would result in goodwill write-down need in the USA business unit.

NOTE 28 FINANCIAL RISK MANAGEMENT

The Group is exposed to a number of financial risks in its business operations. The objective of financial risk management is to protect against unfavorable changes in the financial markets and thus secure the Group's planned profit development. The main financial risks include the foreign exchange risk, interest rate risk, liquidity and refinancing risk, and credit risk. The Group uses forward agreements and currency options, currency loans, interest rate options and interest rate swaps.

Foreign currency risk

The Group operates internationally and is thus exposed to various transactions risks caused by currency positions and risks that are generated when investments made in different currencies are converted into the parent company's operating currency. In addition to the euro (EUR), the main currencies are the Australian dollar (AUD), the British pound (GBP), the US dollar (USD), the Chinese renminbi (RMB) and the Hong Kong dollar (HKD).

Foreign exchange risks are generated by commercial transactions, from monetary items in the assets and liabilities and from net investments in foreign subsidiaries. The objective of foreign exchange risk management is to protect the operating result and shareholders' equity against foreign exchange rate fluctuations.

The only invoicing currencies used are either the unit's functional currency or currencies generally used in export sales. The currency flows of subsidiaries are protected on a per company basis against the functional currency of each company. The operating units are responsible for hedging against their own foreign exchange risks.

Currency positions are assessed at their net amount in each currency generally for the following 12-month period. Currency flows are protected as needed by forward agreements and currency options.

The Group's translation exposure in main currencies was as follows:

Net investment

	31.12.2019	31.12.2018
AUD	3,101	2,854
GBP	7,216	6,805
RMB	6,736	8,282
HKD	5,274	251
USD	-4,496	-2,385

The Group's sensitivity to main currencies when all other variables are constant is the following:

31.12.2019	AUD	GBP	RMB	HKD	USD
Increase in currency rate vs. EUR, %	5%	5%	5%	5%	5%
Effect on profit before tax, EUR					
Effect on equity, EUR	155	361	337	264	-225

31.12.2018	AUD	GBP	RMB	HKD	USD
Increase in currency rate vs. EUR, %	5%	5%	5%	5%	5%
Effect on profit before tax, EUR					
Effect on equity, EUR	143	340	414	13	-119

Interest rate risk

The Group's currency-denominated borrowings are in the functional currencies of Group companies. The nominal values of interest-bearing liabilities (lease liabilities excluded) on 31 December 2019 were divided to the currencies as follows:

Currency	Amount, EUR thousands	%
EUR	26,121	81%
USD	6,231	19%

Non-current loans have adjustable rates of interest, but they are partially protected against interest rate risks by converting them to fixed interest rates through interest rate swaps. At the balance sheet date the Group had interest swap contracts with notional value of EUR 6,231 thousand, where the Group pays 3.018% fixed interest. The Group does not use the hedge accounting to the interest swap or option contracts.

The Group's exposure to the risk of changes in the market interest rates relates primarily to the Group's loans. The effect of one percentage point in the interest rates on 31 December 2019 was EUR 324 (296) thousand.

Liquidity and funding risk

The Group aims to ensure adequate liquidity under all circumstances and to optimize the use of liquid assets in financing business operations. In addition, the objective is to minimize net interest costs and bank charges. Cash reserves are invested only in objects that can be realized quickly. In addition to cash reserves and interest rate investments, the Group had unused, committed credit limits on 31 December 2019 amounting to EUR 33,682 thousand. Committed credit limits secure the repayment of short-term liabilities, such as commercial papers.

The Finance Department sees to it that a sufficient number of different financing sources are available and that the maturity schedule of foreign loans is managed. The parent company's Finance Department centrally manages the Group's refinancing and its management. The Group's internal debt ratios exist primarily directly between the parent company and its subsidiaries.

The tools employed for managing liquidity are credit-bearing Group accounts, credit limits and commercial papers.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2019 based on contractual undiscounted payments in EUR thousands.

31.12.2019	On demand	Less than 3 months	3-12 months	1-5 years	> 5 years	Total
Interest-bearing liabilities		18,279	4,081	14,006	798	37,163
Trade and other current payables		21,046				21,046

31.12.2018	On demand	Less than 3 months	3-12 months	1-5 years	> 5 years	Total
Interest-bearing liabilities		6,901	11,333	10,781		29,015
Trade and other current payables		18,499				18,499

Credit and counterparty risk

The Group's business operations are based for the most part on established and reliable customer relationships and the industry's generally accepted terms of agreement. The payment period for invoices is generally 14 – 60 days. The background of new customers is assessed, for example by obtaining credit information. The Group has no significant credit risk concentrations, as the customer base is broad and distributed geographically between the Group's operating countries. Credit risks related to trade receivables are monitored by the business units. Approximately half of the Group's trade receivables are secured with credit insurance.

Counterparty risk refers to a situation in which a contracting party is unable to fulfill its contractual obligations. Derivative instruments and cash reserve investments are only employed with counterparties that have a good credit rating. At the end of the 2019 financial year, the Group's only counterparties were financial institutions.

The Group's maximum credit risk is the amount of the financial assets in the end of the financial year. The aging of the trade receivables is presented in Note 23.

Capital management

The objective of the Group's capital management is to ensure that it maintains strong credit worthiness and healthy capital ratios in order to support its business and maximize shareholder value.

The Group monitors capital using a net gearing ratio, which is net interest-bearing debt divided by shareholders' equity. The Group includes in net interest-bearing debt the loans and borrowings less cash and cash equivalents.

The Company pursues a strategy to improve capital employment turnover rates in order to improve profitability and cash flow.

	2019	2018
Interest-bearing liabilities	37,163	29,627
Cash and cash equivalents	6,930	4,801
Net interest-bearing liabilities	30,234	24,827
Shareholders' equity	26,302	25,782
Net gearing, %	114.9	96.3

NOTE 29 PENSION AND OTHER POST-EMPLOYMENT OBLIGATIONS

The Group operates a number of defined benefit and contribution pension schemes throughout the world.

The most significant pension scheme in Finland is the statutory Finnish employee pension scheme (TyEL) according to which benefits are directly linked to the employee's earnings. The TyEL pension scheme is arranged with insurance companies. The disability share of the TyEL pension scheme is recognized as a defined benefit scheme.

Pension schemes elsewhere than in Finland include both defined benefit and defined contribution pension schemes.

Amounts recognized in the income statement

	2019	2018
Service cost for the financial year	2,352	2,434
Differences in benefit schemes	22	-2
Total included in personnel expenses	**2,374**	**2,432**

Amounts recognized in the balance sheet

	2019	2018
At the beginning of financial period	613	615
Pension expenses in the income statement	22	-2
Defined benefit plan actuarial gains (+) / losses (-)	54	0
At the end of financial period	**689**	**613**

NOTE 30 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Derivative financial instruments are recorded in the balance sheet at their fair values, defined as the amount at which the instruments could be exchanged between willing parties in a current transaction, other than in a liquidation or forced sale.

The fair values of such financial items have been estimated on the following basis:

- Interest rate swap agreements are valued using discounted cash flow analysis.
- Forward foreign exchange contracts are fair valued based on the contract forward rates in effect on the balance sheet date.
- Foreign currency options are fair valued based on quoted market prices on the balance sheet date.

Loans from financial institutions are discounted by the risk-free rate of interest during the loan period combined with the loan's interest rate margin on the balance sheet date. The discount rate applied is the rate at which the Company could obtain a similar loan elsewhere on the balance sheet date.

The original book value of receivables other than those based on derivative contracts, as well as that of purchasing and other non-interest bearing debts, corresponds with their fair value, as the discounted effect is not essential considering the maturity of the receivables.

Principles regarding classification of financial instruments' fair values:

The fair value of financial instruments has been determined by the Group using appropriate valuation methods for which sufficient information is available. This is done by maximizing the usage of market observable inputs and minimizing the usage of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

The Group's financial assets and liabilities are included in Level 2 valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The Group categorizes financial assets and liabilities valued at fair value to appropriate net fair value hierarchy level at the end of each reporting period.

Net fair values and nominal values of financial assets and liabilities

	Net fair value hierarchy	2019 Net fair value	2019 Nominal value	2018 Net fair value	2018 Nominal value
Trade and other receivables	Level 2	19,978	19,978	20,111	20,111
Cash and cash equivalents	Level 2	6,930	6,930	4,801	4,801
Interest rate swap agreements	Level 2	-117	6,231	-50	6,714
Bank loans	Level 2	31,483	31,398	23,703	23,652
Current credit facilities	Level 2	264	264	5,362	5,362
Trade and other payables	Level 2	21,047	21,047	18,499	18,499

Changes in the fair value of derivative financial instruments are recognized in the income statement in financial gains and losses.

NOTE 31 CONTINGENT LIABILITIES

	2019	2018
Commitments on own behalf		
Mortgages	0	2,783
Floating charges	0	12,500
Operating leases		
Not later than one year	32	1,304
1-5 years	0	738
Other liabilities	6	6

During 2019, the Group entered into a frame agreement with its primary banks. Based on the frame agreement the banks gave up all outstanding mortgages and floating charges.

NOTE 32 SHARE CAPITAL

	Number of shares (1,000)	Share capital	Invested unrestricted equity fund	Total
1.1.2018	11,897	2,141	2,539	4,681
31.12.2018	11,897	2,141	2,539	4,681
31.12.2019	11,897	2,141	2,539	4,681

Authorizations by the AGM

Repurchase and/or the acceptance as pledge of the company's own shares

On 21 March 2019 the Annual General Meeting authorized the Board of Directors to repurchase and/or accept as pledge of the company's own shares as follows:

The amount of own shares to be repurchased and/or accepted as pledge on the basis of the authorization shall not exceed 600,000 shares in total, which corresponds to approximately 5.0 per cent of all the shares in the company. Only the unrestricted equity of the company can be used to repurchase own shares on the basis of the authorization.

Own shares can be repurchased at a price formed in public trading on the date of the repurchase or otherwise at a price formed on the market.

The Board of Directors decides on how own shares will be repurchased and/or accepted as pledge. Shares can be repurchased using, inter alia, derivatives. Own shares can be repurchased otherwise than in proportion to the shareholdings of the existing shareholders (directed repurchase). The Board of Directors shall decide on other terms of the share repurchase and/or acceptance as pledge.

Shares may be repurchased to be used as consideration in possible acquisitions or in other arrangements that are part of the company's business, to finance investments, as part of the company's incentive program or to be retained, otherwise conveyed or cancelled by the company.

The authorization cancels the authorization given to the Board of Directors by the General Meeting on 22 March 2018 to decide on the repurchase and/or acceptance as pledge of the company's own shares.

The authorization is effective until the end of the next Annual General Meeting, however no longer than until 30 June 2020.

Exel Composites held 70,000 own shares at the end of 2019, which have been repurchased to be used as part of the company's incentive program.

Issuance of shares and special rights entitling to shares

On 21 March 2019 the Annual General Meeting authorized the Board of Directors to decide on the issuance of shares and special rights entitling to shares referred to in Chapter 10, Section 1 of the Companies Act as follows:

The amount of shares to be issued on the basis of the authorization may be a maximum of 1,189,684 new shares, which corresponds to approximately 10.0 per cent of all shares in the company, and/or a maximum of 600,000 Company's own shares.

The Board of Directors decides on all the conditions of the issuance of shares and of special rights entitling to shares. The issuance of shares and of special rights entitling to shares may be carried out in deviation from the shareholders' pre-emptive rights (directed issue).

The shares to be issued based on the authorization can be used as consideration in possible mergers and acquisitions and other business arrangements, to finance investments or as a part of the Company's incentive program for personnel.

The authorization cancels the authorization given to the Board of Directors by the General Meeting on 17 March 2016 to decide on the issuance of shares as well as special rights entitling to shares.

The authorization is effective until 30 June 2022.

NOTE 33 LONG-TERM COMPENSATION

On 31 December 2019 the Group had three share-based long-term incentive programs:

The 2017 plan is part of a share-based long-term incentive program for the earning period 2017-2019 and is targeted at approximately 14 executives. The President and CEO and the members of the Group Management Team are included in the target group of the 2017 incentive program. 75% of the potential share-based performance reward is based on cumulative operating profit (EBIT) and 25% on total shareholder return of the company's share (TSR). The potential share reward is payable in 2020. The maximum number of shares to be paid under this individual plan is 153,700 shares, of which President and CEO's share is 42,800 shares. EUR 30 thousand of costs related to the 2017 plan were accrued in 2019. Estimated payout (to be confirmed in March 2020) is 25,000 shares.

The 2018 plan is part of a share-based long-term incentive program for the earning period 2018-2020 and is targeted at approximately 15 executives. The President and CEO and the members of the Group Management Team are included in the target group of the 2018 incentive program. 75% of the potential share-based performance reward is based on cumulative adjusted operating profit (EBIT) and 25% on total shareholder return of the company's share (TSR). The potential share reward is payable in 2021. The maximum number of shares to be paid under this individual plan is 122,000 shares, of which President and CEO's share is 33,973 shares. EUR 27 thousand of costs related to the 2018 plan were accrued in 2019.

The 2019 plan is part of a share-based long-term incentive program for the earning period 2019-2021 and is targeted at approximately 20 executives. The President and CEO and the members of the Group Management Team are included in the target group of the 2019 incentive program. 75% of the potential share-based performance reward is based on cumulative adjusted operating profit (EBIT) and 25% on total shareholder return of the company's share (TSR).The potential share reward is payable in 2022. The maximum number of shares to be paid under this individual plan is 196,000 shares, of which President and CEO's share is 50,000 shares. EUR 9 thousand of costs related to the 2019 plan were accrued in 2019.

The 2016 program, the earning period of which ended in 2018, was based on a long-term monetary incentive program and was targeted at approximately 20 executives for the earning period 2016-2018. The President and CEO and the members of the Group Management Team were included in the target group of the 2016 incentive program. The potential long-term monetary performance reward was based on the Group's cumulative Economic Profit and on the Group's Total Shareholder Return (TSR). The potential maximum reward to be paid in 2019 was EUR 1 million. There were no rewards paid based on the 2016 program.

The administration of the share-based incentive plan and the acquisition of shares are conducted through an arrangement made with Evli Awards Management Oy (EAM) as per the decision of the Board of Directors on 12 June 2017 and according to the stipulations of the Companies Act for financing the purchase of own shares (the Finnish Companies Act, Chapter 13,Section 10, Subsection 2) relating to incentive plans. As a part of this arrangement EAM founded EAM EXL1V Holding Oy (Holding company) which acquires the shares with Exel's funding and according to the agreement. These shares will be delivered to the employees according to the Exel's share plan terms and conditions. The Holding company is owned by the EAM in legal terms, but according to the agreement Exel has control over the company and acts as the principal, whereas EAM is an agent through the Holding company. This control arising from contractual terms means, that the Holding company is consolidated in to the group's IFRS financial statements as a structured entity.

No reward will be paid to an executive based on the 2017, 2018 and 2019 programs described above, if his or her employment or service with the Company ends before the reward payment unless the executive is leaving the Company due to retirement or unless the Board decides otherwise. The programs also include a one year lock-up period, and the restriction on leaving the Company is extended to the end of the lock-up.

The cost of all programs will be accounted for as operating expenses during the duration of the programs.

NOTE 34 DISTRIBUTABLE FUNDS

The parent company's distributable funds on 31 December 2019 were EUR 11,581 thousand.

NOTE 35 CASH FLOW FROM BUSINESS OPERATIONS

Non-cash adjustments to the result for the financial year

	2019	2018
Depreciation, impairment charges and write-offs	5,740	5,478
Taxes	1,488	1,319
Financial expenses	1,681	1,367
Interest expenses on lease liabilities	110	0
Financial income	-589	-846
Other adjustments	-19	218
Total	**8,411**	**7,535**

NOTE 36 RELATED-PARTY TRANSACTIONS

Exel Composites' related parties include the controlling parent company, all companies belonging the Exel Composites Group as well as Exel Composites' Board of Directors, President & CEO, Group Management Team and executives of the parent company and subsidiaries. The company evaluates and monitors transactions concluded between the company and its related parties to ensure that any conflicts of interest are appropriately taken into account in the decision-making process.

In 2019 no significant related-party transactions were conducted between the Group and its related parties.

The Group's parent company and subsidiary relationships

Name of subsidiary	Domicile	Group share of holding	Group control
EAM EXL1V Holding	Finland	0%	100%
Exel GmbH	Germany	100%	100%
Exel Composites N.V.	Belgium	100%	100%
Exel Composites GmbH	Austria	100%	100%
Exel Composites (Nanjing) Co. Ltd.	China	100%	100%
Exel Composites (Australia) Pty. Ltd.	Australia	100%	100%
Pacific Composites Ltd.	Australia	100%	100%
Pacific Composites (Europe) Ltd.	UK	100%	100%
Fibreforce Composites Ltd.	UK	100%	100%
Pacific Composites Ltd.	New Zealand	100%	100%
Exel Composites Store Ltd.	Finland	100%	100%
Exel Composites (HK) Holding Limited	Hong Kong	100%	100%
Nanjing Jingheng Composite Material Co. Ltd.	China	100%	100%
Jianhui FRP Trading Co. Limited	Hong Kong	100%	100%
Exel Composites USA Holdings Inc.	USA	100%	100%
Diversified Structural Composites Inc.	USA	100%	100%

The ultimate parent company is Exel Composites Plc.

Management remuneration

Senior management accrued salaries, fees and bonuses

	2019	2018
President and CEO	324	390
Members of the Board of Directors	175	164
Total	**499**	**554**

Salaries and fees per person

President and CEO and Board of Directors	2019	2018
Riku Kytömäki President and CEO	324	390
Reima Kerttula Chairman (as of 17 March 2016, member until 17 March 2016)	62	56
Petri Helsky Member (as of 17 March 2016)	29	28
Helena Nordman-Knutson Member (as of 4 April 2017)	29	28
Jouko Peussa Member (as of 17 March 2016)	28	27
Maija Strandberg Member (as of 21 March 2019)	27	0
Kai Kauto Member (until 21 March 2019)	0	25
Total	**499**	**554**

The accrued pension costs of President and CEO amounted to EUR 81 (98) thousand. The President and CEO's pension plan is pursuant to the employment pension legislation.

The holdings of the senior management on 31 December 2019

Number of shares and votes	2019	2018
Riku Kytömäki President and CEO	64,610	50,200
Reima Kerttula Chairman (as of 17 March 2016, member until 17 March 2016)	16,900	12,851
Petri Helsky Member (as of 17 March 2016)	5,743	3,867
Helena Nordman-Knutson Member (as of 4 April 2017)	4,601	2,725
Jouko Peussa Member (as of 17 March 2016)	5,743	3,867
Maija Strandberg Member (as of 21 March 2019)	1,876	0
Kai Kauto Member (until 21 March 2019)	2,725	2,725
Number of shares and votes total	**102,198**	**76,235**

NOTE 37 EVENTS AFTER THE REPORTING PERIOD

Exel Composites continues the long-term incentive program for top management

In February 2020, the Board of Directors of Exel Composites decided on the continuation of the share-based long-term incentive program for the top management of Exel Composites. The 2020 performance based plan is part of the share-based long-term incentive program published on 4 May 2017. Similarly to the previous programs within this plan, the performance targets applied to the plan commencing at the beginning of 2020 are adjusted operating profit (EBIT) and the total shareholder return of the company's share (TSR).

Exel Composites revises its target for net gearing

Exel Composites revises its long-term financial target for net gearing to be approximately at 80% or below. The new net gearing target takes into account the impact of IFRS 16-standard to Group net gearing. Previously the target was at approximately 60% or below.

PARENT COMPANY INCOME STATEMENT

For the financial year starting on 1 January and ending on 31 December

EUR	Notes	2019	2018
Revenue	**38**	**33,617,576.33**	**32,763,727.81**
Variation in inventories of finished goods and work in progress		403,106.37	903,048.41
Other operating income		67,469.25	262,823.06
Materials and services	**39**	-15,458,617.87	-15,061,868.35
Personnel expenses	**40**	-13,092,118.92	-13,166,028.55
Depreciation, amortization and reduction in value	**41**	-1,919,057.25	-1,788,812.72
Other operating expenses	**42**	-1,637,707.94	-2,060,434.17
Operating profit / loss		**1,980,649.97**	**1,852,455.49**
Financial income	**44**	1,676,341.29	3,586,065.24
Financial expenses	**44**	-908,624.46	-833,537.56
Profit/ loss before appropriations and taxes		**2,748,366.80**	**4,604,983.17**
Appropriations	**45**	-85,851.61	-312,096.30
Income taxes	**46**	-365,291.46	-416,075.69
Profit/ loss for the period		**2,297,223.73**	**3,876,811.18**

PARENT COMPANY BALANCE SHEET

As at the end of the financial year

EUR	Notes	2019	2018
ASSETS			
Non-current assets			
Intangible assets	47	2,156,593.25	1,637,342.96
Tangible assets	48	6,761,279.88	6,556,258.01
Investments	49	20,895,813.67	20,895,813.67
Total non-current assets		**29,813,686.80**	**29,089,414.64**
Current assets			
Inventories	51	7,070,276.43	6,422,250.07
Current receivables	52	22,314,801.45	19,610,230.44
Cash at bank and in hand		371,662.41	315,255.76
Total current assets		**29,756,740.29**	**26,347,736.27**
TOTAL ASSETS		**59,570,427.09**	**55,437,150.91**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	53	2,141,431.74	2,141,431.74
Other reserves	53	2,539,278.34	2,539,278.34
Retained earnings/loss	53	6,744,593.86	5,006,354.42
Profit/loss for the period	53	2,297,223.73	3,876,811.18
Total equity		**13,722,527.67**	**13,563,875.68**
Appropriations	54	417,117.69	331,266.08
Liabilities			
Non-current liabilities	55	10,564,417.55	10,780,537.12
Current liabilities	56	34,866,364.18	30,761,472.03
Total liabilities		**45,430,781.73**	**41,542,009.15**
TOTAL EQUITY AND LIABILITIES		**59,570,427.09**	**55,437,150.91**

PARENT COMPANY CASH FLOW STATEMENT

For the financial year starting on 1 January and ending on 31 December

EUR thousands	2019	2018
Cash flows from operating activities		
Profit/loss for the period	2,297	3,877
Adjustments to profit/loss for the period	1,571	-243
Cash flow before working capital changes	3,869	3,634
Working capital changes	-1,109	-13,098
Operating cash flow before financial items and taxes	2,760	-9,464
Interest and other financial expenses paid relating to operating activities	-698	-385
Dividends received	931	2,622
Interests received	35	24
Income taxes paid	-703	-1,123
Net cash flow from operating activities (A)	**2,325**	**-8,326**
Cash flows from investing activities		
Purchase of tangible and intangible assets	-2,643	-2,653
Purchased subsidiary shares	0	-111
Net cash flow from investing activities (B)	**-2,643**	**-2,764**
Cash flow from financing activities		
Change of short-term borrowings	1,503	7,362
Proceeds from long-term borrowings	1,000	8,300
Repayment of long-term borrowings	0	-1,000
Dividends and other distribution of profit paid	-2,128	-3,546
Received and paid group contributions	0	-42
Net cash flow from financing activities (C)	**375**	**11,074**
Net increase (+) / decrease (-) in cash and cash equivalents (A + B + C)	**56**	**-16**
Cash and cash equivalents at beginning of period	315	331
Cash and cash equivalents at end of period	372	315

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

(All figures in EUR thousands unless otherwise stated)

CHANGE IN PRESENTATION

The presentation of the income statement and balance sheet has been changed. The income statement and the balance sheet are presented in a short format and more details can be found in the notes.

NOTE 38 REVENUE BY MARKET AREA

	2019	2018
Europe	28,021	28,258
Asia Pacific	1,549	1,477
Rest of the World	4,048	3,028
Total	**33,618**	**32,764**

NOTE 39 MATERIALS AND SERVICES

	2019	2018
Materials and supplies		
Purchases during financial period	15,454	14,458
Change in inventories	-242	329
External services	247	274
Total	**15,459**	**15,062**

Other variable costs were previously presented under Other Operating Expenses. Now displayed in Materials and Services in the Purchases during financial period-line. Comparative figures have been restated accordingly EUR 3 479 thousand.

NOTE 40 PERSONNEL

Average number of personnel during the financial year

	2019	2018
Office employees	86	89
Production employees	141	146
Total	**227**	**235**

Personnel expenses

	2019	2018
Wages and salaries	10,960	10,864
Pension expenses	1,733	1,859
Other social security expenses	400	442
Total	**13,092**	**13,166**

Wages, salaries and other remuneration of directors and management

	2019	2018
President and CEO	324	390
Members of the Board of Directors	175	164
Total	**499**	**554**

The accrued pension costs of President and CEO amounted to EUR 81 (98) thousand. The President and CEO's pension plan is pursuant to the employment pension legislation.

NOTE 41 DEPRECIATION, AMORTIZATION AND REDUCTION IN VALUE

Tangible and intangible assets are recognized in the balance sheet at cost less depreciation according to plan. Cost includes variable expenditure relating to the acquisition and production of the assets. Grants received are deducted from the cost. Depreciation according to plan is calculated using the straight-line method based on the useful life of the assets. Depreciation is started at the moment when the asset is taken into use.

Planned depreciation periods

- Buildings and structures 5-20 years
- Machinery and equipment 5-8 years
- Other capitalized expenditure 5-8 years
- Goodwill 10 years
- Other intangible assets 5 years

Planned depreciation, amortization and reduction in value

	2019	2018
Depreciation according to plan	1,919	1,789
Total	**1,919**	**1,789**

NOTE 42 OTHER OPERATING EXPENSES

	2019	2018
Real estate, machinery and equipment expenses	1,257	1,352
Other operating expenses	381	709
Total	**1,638**	**2,060**

Other variable costs were previously presented under Other Operating Expenses. Now displayed in Materials and Services in the Purchases during financial period-line. Comparative figures have been restated accordingly EUR 3 479 thousand.

NOTE 43 AUDITOR'S FEES

Authorized Public Accountants, Ernst & Young	2019	2018
Audit of financial statements	65	61
Engagements reffered to in the Auditing Act, 1.12§	4	0
Other fees	35	17
Total	**103**	**78**

NOTE 44 FINANCIAL INCOME AND EXPENSES

	2019	2018
Income from Group companies	929	2,620
Income from other investments held as non-current assets		
From others	2	2
	931	2,622
Other interest income and other financial income		
From Group companies	539	336
From others	206	629
	745	964
Total financial income	**1,676**	**3,586**
Interest and other financial expenses		
To Group companies	-85	-101
To others	-824	-732
	-909	-833
Total financial expenses	**-909**	**-833**
Total financial income and expenses	**768**	**2,753**

NOTE 45 APPROPRIATIONS

	2019	2018
Change in cumulative accelerated depreciation	-86	-312
Total	**-86**	**-312**

NOTE 46 INCOME TAXES

	2019	2018
Income taxes from ordinary activities	388	399
Income tax relating to previous financial years	-23	17
Total	**365**	**416**

NOTE 47 INTANGIBLE ASSETS

	Intangible assets	Other long-term expenses	Advance payments	Total
Acquisition cost at 1 January	1,220	5,372	0	6,592
Additions	18	67	0	85
Disposals	-507	-1,935	0	-2,442
Transfer between items	0	852	0	852
Acquisition cost at 31 December	**731**	**4,356**	**0**	**5,087**
Accumulated amortization and impairment at 1 January	-1,205	-3,749	0	-4,954
Accumulated amortization of disposals and transfers	507	1,935	0	2,442
Amortization for the period	-6	-411	0	-417
Impairment	0	0	0	0
Accumulated amortization and impairment at 31 December	**-704**	**-2,225**	**0**	**-2,929**
Revaluations	0	0	0	0
Book value at 1 January	731	4,356	0	5,087
Book value at 31 December	**26**	**2,131**	**0**	**2,157**

NOTE 48 TANGIBLE ASSETS

	Land and waters	Buildings	Machinery and equipment	Advance payments and construction in progress	Total
Acquisition cost at 1 January	90	5,851	29,125	1,282	36,348
Additions	0	31	320	2,207	2,558
Disposals	0	-2,377	-14,790	0	-17,167
Transfer between items	0	0	1,409	-2,261	-852
Acquisition cost at 31 December	**90**	**3,505**	**16,064**	**1,228**	**20,887**
Accumulated depreciation and impairment at 1 January	0	-4,611	-25,181	0	-29,792
Accumulated depreciation of disposals and transfers	0	2,377	14,790	0	17,167
Depreciation for the period	0	-152	-1,349	0	-1,502
Impairment	0	0	0	0	0
Accumulated deprection and impairment at 31 December	**0**	**-2,386**	**-11,740**	**0**	**-14,127**
Revaluations	0	0			0
Book value at 1 January	90	1,240	3,945	1,282	6,556
Book value at 31 December	**90**	**1,119**	**4,325**	**1,228**	**6,761**

NOTE 49 INVESTMENTS

	Group companies	Other shares and holdings	Total
Acquisition cost at 1 January	20,843	53	20,896
Additions	0	0	0
Disposals	0	0	0
Transfer between items	0	0	0
Acquisition cost at 31 December	**20,843**	**53**	**20,896**
Accumulated impairment at 1 January	0	0	0
Impairment	0	0	0
Accumulated impairment at 31 December	**0**	**0**	**0**
Revaluation	0	0	0
Book value at 1 January	20,843	53	20,896
Book value at 31 December	**20,843**	**53**	**20,896**

NOTE 50 COMPANIES OWNED BY PARENT COMPANY

Shares in subsidiaries

Name of company	Registration country	Owned by the parent company	Parent company control
EAM EXL1V Holding	Finland	0%	100%
Exel GmbH	Germany	100%	100%
Exel Composites N.V.	Belgium	100%	100%
Exel Composites GmbH	Austria	100%	100%
Exel Composites (Nanjing) Co. Ltd.	China	100%	100%
Exel Composites (Australia) Pty. Ltd.	Australia	100%	100%
Pacific Composites (Europe) Ltd.	Great-Britain	100%	100%
Exel Composites Store Oy	Finland	100%	100%
Exel Composites (HK) Holding Limited	Hong Kong	100%	100%
Jianhui FRP Trading Co. Limited	Hong Kong	100%	100%
Exel Composites USA Holdings Inc.	USA	100%	100%

All Group companies are consolidated in the parent company's consolidated financial statements.

NOTE 51 INVENTORIES

	2019	2018
Raw materials and consumables	3,524	3,282
Work in progress	2,213	2,064
Finished products/ goods	775	1,076
Other inventories	558	0
Total	**7,070**	**6,422**

NOTE 52 CURRENT RECEIVABLES

Receivables from Group companies

	2019	2018
Trade receivables	4,213	3,373
Loan receivables	13,233	12,614
Total	**17,446**	**15,987**

Receivables from others

	2019	2018
Trade receivables	3,638	2,781
Other receivables	609	495
Prepayments and accrued income	622	347
Total	**4,869**	**3,623**
Total current receivables	**22,315**	**19,610**

Deferred tax assets amounting to EUR 125 (EUR121) thousand have not been booked from cumulative depreciation exceeding the maximum tax depreciations by EUR 624 (604) thousand.

Material items included in prepayments and accrued income

	2019	2018
Tax receivables	618	347
Other receivables	4	0
Total	**622**	**347**

NOTE 53 EQUITY

	2019	2018
Restricted equity		
Share capital 1 January	2,141	2,141
Share capital 31 December	**2,141**	**2,141**
Total restricted equity	**2,141**	**2,141**
Unrestricted equity		
Reserve for invested unrestricted equity fund 1 January	2,539	2,539
Reserve for invested unrestricted equity fund 31 December	**2,539**	**2,539**
Retained earnings 1 January	8,883	8,552
Distribution of dividends	-2,128	-3,546
Correction of a previous financial year error	-11	0
Retained earnings 31 December	**6,745**	**5,006**
Profit/loss for the financial year	**2,297**	**3,877**
Total unrestricted equity	**11,581**	**11,422**
Total equity	**13,723**	**13,564**

Calculation of distributable unrestricted equity 31 December

	2019	2018
Profit from previous financial years	6,745	5,006
Profit /loss for the financial year	2,297	3,877
Reserve for invested unrestricted equity fund	2,539	2,539
Other distributable reserves		0
Amount that must remain undistributed/must be transferred to a reserve virtue of the articles of association		0
Other non-distributable items		0
Capitalised development expenditure		0
Total	**11,581**	**11,422**

NOTE 54 APPROPRIATIONS

	2019	2018
Cumulative accelerated depreciation	417	331
Total	**417**	**331**

NOTE 55 NON-CURRENT LIABILITIES

Liabilities to others

	2019	2018
Loans from financial institutions	10,564	10,781
Total	**10,564**	**10,781**

Liabilities falling due later than in five years

	2019	2018
Loans from financial institutions	0	0
Total	**0**	**0**
Total non-current liabilities	**10,564**	**10,781**

NOTE 56 CURRENT LIABILITIES

Liabilities to Group companies

	2019	2018
Loan from Group companies	4,799	5,383
Trade payables	669	128
Total	**5,467**	**5,511**

Liabilities to others

	2019	2018
Loans from financial institutions	21,098	17,195
Advances received	267	169
Trade payables	2,372	2,048
Other liabilities	598	330
Accruals and deferred income	5,065	5,508
Total	**29,399**	**25,250**
Current liabilities total	**34,866**	**30,761**

Material items included in accruals and deferred income

	2019	2018
Accrued personnel expenses	2,342	2,108
Other accruals and deferred income	2,723	3,400
Total	**5,065**	**5,508**

NOTE 57 FINANCIAL INSTRUMENTS

Derivative financial instruments
Interest rate risk

The Company's long-term loans are exposed to interest rate risk, which is why the Company has tied part of its loans to fixed interest rates with interest rate swaps, which expire in 2014 – 2021.

	2019 Fair value	2019 Nominal value	2018 Fair value	2018 Nominal value
Interest rate swaps	-117	6,231	-50	6,714

Changes in the fair value of derivative financial instruments are recognized in the income statement in financial income and expenses.

NOTE 58 COMMITMENTS AND CONTINGENT LIABILITIES

Liabilities secured by real estate mortgages and enterprise mortgages

	2019	2018
Loans from financial institution	0	27,976
Mortgages given on land and buildings	0	2,783
Business mortgages given	0	12,500
Total mortages	**0**	**15,283**

Credit facilities

	2019	2018
Total amount of credit granted	32,300	12,300
In use	521	5,369

Pension liabilities

The pension liabilities are covered via the insurance company as prescribed by legislation.

Leasing liabilities

	2019	2018
Payable during the following financial year	11	2
Payable in later years	0	2
Total	**11**	**4**

NOTE 59 SHARE OWNERSHIP

Distribution of share ownership on 31 December 2019

	%
Private companies	17.6
Financial and insurance institutions	28.0
Public sector entities	5.3
Non-profit organizations	0.8
Households	47.8
Foreign	0.6
Of which, nominee registration	25.6

Distribution of share ownership on 31 December 2019

Number of shares	Number of shareholders	Percentage of shareholders	Total number of shares	Percentage of total number of shares
1 - 1,000	4,690	85.18	1,346,692	11.32
1,001 – 10,000	732	13.29	2,034,614	17.10
10,001 – 50,000	58	1.05	1,022,421	8.59
over 50,000	26	0.47	7,493,116	62.98

NOTE 60 SHAREHOLDERS

Information on shareholders on 31 December 2019

Shareholder	Number of shares	Percentage of shares and votes
Nordea Bank ABP (Nominee Registered)	2,213,226	18.6
Skandinaviska Enskilda Banken AB (Nominee Registered)	754,406	6.3
Sijoitusrahasto Taaleritehdas Mikro Markka	650,000	5.5
OP-Finland Small Firms Fund	598,259	5.0
Danske Invest Finnish Equity Fund	346,650	2.9
Phoebus Fund	290,000	2.4
Säästöpankki Pienyhtiöt	288,710	2.4
Ilmarinen Mutual Pension Insurance Company	242,733	2.0
Veritas Pension Insurance Company Ltd.	226,163	1.9
Nelimarkka Heikki Antero	222,836	1.9
Other Nominee Registered	72,441	0.6
Others	5,991,419	50.4
Total	**11,896,843**	**100.0**

NOTE 61 SHARE PRICE AND TRADING

Share price

EUR	2019	2018	2017	2016	2015
Average price	4.54	5.40	6.00	5.05	8.65
Lowest price	3.92	3.98	4.84	4.71	6.32
Highest price	6.76	7.28	7.85	6.85	9.85
Share price at the end of financial year	6.48	4.00	6.57	5.02	6.53
Market capitalization, EUR million	76.6	47.3	77.7	59.7	77.7

Share trading

	2019	2018	2017	2016	2015
Number of shares traded	6,048,492	2,513,383	4,244,520	3,080,024	2,445,252
% of the average number of shares	50.8	21.1	35.8	25.9	20.6

Number of shares

	2019	2018	2017	2016	2015
Average number	11,896,843	11,896,843	11,862,199	11,896,843	11,896,843
Number at end of financial year	11,896,843	11,896,843	11,896,843	11,896,843	11,896,843

Exel Composites Plc’s share was quoted on Helsinki Stock Exchange I List from 19 October 1998 to 1 May 2000. As from 2 May 2000, Exel Composites Plc’s share has been quoted on Helsinki Exchange Main List. Exel Composites Plc’s share was split on 21 April 2005. Exel Composites Plc’s share is quoted on Nasdaq Helsinki Ltd’s Nordic List.

PROPOSAL FOR DISTRIBUTION OF PROFIT

Exel Composites Plc's distributable funds amount to EUR 11,581,095.93, of which the profit for the financial year is EUR 2,297,223.73.

The Board of Directors proposes to the General Meeting that the distributable funds are allocated as follows:

- Dividend EUR 0,18 per share	2,141,431.74
- To be retained in equity, EUR	9,439,664.19
	11,581,095.93

Signatures of the Financial Statements and the Report of the Board of Directors

Vantaa, 17 February 2020

Reima Kerttula
Chairman of the Board of Directors

Helena Nordman-Knutson
Member of the Board of Directors

Petri Helsky
Member of the Board of Directors

Maija Strandberg
Member of the Board of Directors

Jouko Peussa
Member of the Board of Directors

Riku Kytömäki
President and CEO

Auditors' note

An auditor's report based on the audit performed has been issued today.

Vantaa, 17 February 2020

Ernst & Young
Authorized Public Accountants

Johanna Winqvist-Ilkka
Authorized Public Accountant

AUDITOR'S REPORT

(Translation of the Finnish original)

To the Annual General Meeting of Exel Composites Plc

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Exel Composites Plc (business identity code 1067292-7) for the year ended 31 December, 2019. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Board of Directors.

Basis for Opinion

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

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

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 9 to the consolidated financial statements.

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

Key Audit Matters

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

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

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of Goodwill We refer to notes 4, 5 and 27.	
Goodwill amounted to 13,0 million euros as of 31 December 2019 comprising 15,2 % of total assets and 49,3 % of equity (2018: 12,8 million euros, 17,1% of total assets and 49,5% of equity). Valuation of goodwill was a key audit matter because • the assessment process related to the annual impairment test is complex and judgmental; • the process contains significant estimates and assumptions relating to market or economic conditions extending to the future; and • because of the significance of the goodwill to the financial statements. There are a number of assumptions used to determine the value-in-use, including revenue growth, operating margin before depreciation and amortization and discount rate applied on cash-flows. Estimated values-in-use may vary significantly when the underlying assumptions are changed and the changes in above-mentioned individual assumptions may result in an impairment of goodwill	Our audit procedures in connection with the valuation of goodwill included involving valuation specialists to assist us in evaluating the assumptions and methodologies by the management. Audit procedures included comparing the management's assumptions to externally derived data and to our own expectations. In particular those relating to the weighted average cost of capital used to discount the cash-flows. In addition we tested the accuracy of the impairment calculations prepared by the management, compared the sum of discounted cash flows to the market capitalization of Exel Composites and evaluated the adequacy of the disclosures in note 27 such as information given with regards to the sensitivity analysis as well as whether a reasonably probable change in key assumptions could result in an impairment.
Revenue Recognition We refer to the Group's accounting policies and notes 5 and 6.	
Revenue is recognized when the control of the underlying products has been transferred to the customer. Revenue is a key performance measure which could create an incentive for revenue to be recognized before the risks and rewards as well as control over the goods have been transferred. Revenue recognition was determined to be a key audit matter and a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).	Our audit procedures to address the risk of material misstatement relating to timing of revenue recognition included among others: • Analysis of the accounting principles applied as well as comparing them to the IFRS standards; • Testing of internal controls addressing the timing of the revenue recognition, including general IT controls over the most significant IT applications; • Substantive analytical procedures, and • Evaluation of the disclosures provided on revenues.

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

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

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

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

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on April 6, 2007 and our appointment represents a total period of uninterrupted engagement of 13 years.

Other information

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

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

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

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

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

Opinions based on assignment of the Board of Directors

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the President and CEO of the parent company should be discharged from liability for the financial period audited by us.

Helsinki, 17 February 2020

Ernst & Young Oy
Authorized Public Accountant Firm

Johanna Winqvist-Ilkka
Authorized Public Accountan

Exel Composites in brief

Exel Composites, a global technology company headquartered in Finland, is the world's largest manufacturer of pultruded and pull-wound composite products. Our global manufacturing, R&D, and sales footprint serves customers across a broad range of industries and applications. With 60 years of composites experience and engineering expertise, we work closely with our customers to design and manufacture high quality composite products using carbon fiber, fiberglass, and other high-performance materials. Our composites help reduce weight, improve performance, and decrease total life cycle costs, all while helping increase energy efficiencies and supporting environmental sustainability.

Exel Composites employs approximately 650 innovative and customer-focused employees around the world and is listed on the Nasdaq Helsinki exchange. To find out more about our offering and company please visit www.exelcomposites.com.