



# Corporate Governance Statement 2017

Exel Composites' corporate governance complies with the Finnish Companies Act, the legislation covering the securities markets and other official regulations related to the governance of public joint stock companies. The principles set out here complement the applicable legislation.

Furthermore, Exel Composites complies with the Finnish Corporate Governance Code issued by the Securities Market Association applicable at any time. This Corporate Governance Statement is prepared in accordance to the Finnish Corporate Governance Code effective as of 1 January 2016 and available at [www.cgfinland.fi](http://www.cgfinland.fi).

This Corporate Governance Statement has been reviewed by the Exel Composites Board of Directors, and it is issued separately from the Board of Directors' report. Exel Composites' auditors, Ernst & Young Oy, have checked that a corporate governance statement has been issued and that the description of the main features of the internal control and risk management systems in relation to the financial reporting process is consistent with the financial statements.

Further information concerning Exel Composites' Corporate Governance matters is available on the company's website at [www.exelcomposites.com](http://www.exelcomposites.com).

## General Meetings

The highest decision-making power at Exel Composites is exercised by shareholders at General Meetings convened by Exel Composites' Board of Directors. All shares carry equal voting rights at General Meetings.

The Annual General Meeting, AGM, is held on a date before the end of June, as determined by the Board of Directors. An Extraordinary General Meeting is held when the Board considers it necessary or when the Company auditor or shareholders holding a minimum of one tenth of all shares so request in writing for the handling of a specific matter.

## The Board of Directors

According to the Articles of Association, the Board of Directors comprises at least three and no more than eight full members, elected by the AGM for one year at a time.

In addition to the Finnish Companies Act, other applicable legislation and the Articles of Association, Exel Composites' Board of Directors has confirmed a written charter that specifies the Board's duties, matters to be handled, meeting practice and decision-making process. The charter is reviewed and updated annually in the first meeting following the election of the Board in the AGM. Board meetings are attended by the President and CEO and the CFO, who acts as the secretary of the Board.

The Board of Directors is responsible for the management of the Company and the proper organization of its activities in accordance with the Finnish Companies Act and the Company's Articles of Association. The Board's principal duties include confirmation of the corporate strategy and budget by function, and decisions on funding agreements, major investments and the purchase or sale of assets. The Board approves business reviews and half year financial reports, financial statements and the Board of Directors' report on operations, appoints

and dismisses the President and CEO and decides on the President and CEO's compensation. The Board also approves the composition and remuneration of the Group Management Team upon proposal by the President and CEO.

The Board monitors the Company's financial position with the help of information provided by the Group Management Team. Sufficient information including the agenda for the Board meetings with all relevant information on the Company's structure, operations and markets is usually distributed at least seven days before the meeting. The Board of Directors holds at least seven ordinary meetings per year.

The Board of Directors is evaluated within the framework of the Shareholders' Nomination Board's work. In addition, the Board performs an annual self-evaluation of its organization, working methods and fulfillment of its duties.

To achieve a diverse and balanced composition of the Board of Directors the Nomination Board shall consider the company's principles of diversity for the Board of Directors, which are available at the company's website at [www.exelcomposites.com](http://www.exelcomposites.com). When electing the members of the Board of Directors, attention is paid to the members' expertise, know-how and viewpoint as well as age and gender. The majority of the Board members must be independent of the company and at least two of said majority must be independent of the company's significant shareholders. The Board evaluates the independence of each member of the Board at the first meeting following the AGM, and thereafter each time any change occurs.

In consideration of the Board of Directors' small size, the Company has decided not to have any permanent Board committees, and that the Board of Directors carries out the duties of the Audit Committee. These duties include, amongst others, review and supervision of financial reporting process, monitoring the efficiency of the Company's internal control and risk management systems, review of auditor's reports as well as preparation of auditor's election.

## Composition of the Board of Directors in 2017

On 4 April 2017 the AGM appointed Reima Kerttula, Petri Helsky and Jouko Peussa to continue on the Board of Directors. Kai Kauto and Helena Nordman-Knutson were elected as new members of the Board of Directors as Matti Hyytiäinen and Heikki Hiltunen were no longer available for re-election. The AGM elected Reima Kerttula as Chairman of the Board of Directors.

• **Petri Helsky** (born 1966) holds an M.Sc. in Economics and an M.Sc. in Engineering and is CEO of Metsä Tissue. Petri Helsky is independent of the Company and its major shareholders. At the end of 2017 his holdings were 2,663 Exel Composites shares.

• **Kai Kauto** (born 1966) holds a M.Sc. in Mechanical Engineering and is President of Teknoware Oy. Kai Kauto is independent of the Company and its major shareholders. At the end of 2017 his holdings were 1,521 Exel Composites shares.

• **Reima Kerttula** (born 1955) holds an M.Sc. in Engineering. Reima Kerttula is independent of the Company and its major shareholders. At the end of 2017 his holdings were 9,252 Exel Composites shares.

• **Helena Nordman-Knutson** (born 1964) holds an M.Sc in Political Sciences as well as an M.Sc Economics and is Senior Director at Hallvarsson & Halvarsson. Helena Nordman-Knutson is independent of the Company and its major shareholders. At the end of 2017 her holdings were 1,521 Exel Composites shares.

• **Jouko Peussa** (born 1957) is a Licentiate of Technology and is Innovation & Technology Director of Ingersoll Rand Compression Technologies. Jouko Peussa is independent of the Company and its major shareholders. At the end of 2017 his holdings were 2,663 Exel Composites shares.

The term of the current Board members expires at the end of the AGM 2018.

Further information on the Board (biographical details and shareholdings) is presented on the Company's website at [www.exelcomposites.com](http://www.exelcomposites.com).

## Operations of the Board of Directors in 2017

The Board of Directors convened eight times in 2017 and the average attendance rate at these meetings was 84.0%.

## Attendance of Board members at Board meetings in 2017

Name and position	Board Meetings
Reima Kerttula Chairman (as of 17 March 2016, member until 17 March 2016)	100% (8/8)
Petri Helsky Member (as of 17 March 2016)	100% (8/8)
Kai Kauto Member (as of 4 April 2017)	100% (7/7)
Helena Nordman-Knutson Member (as of 4 April 2017)	86% (6/7)
Jouko Peussa Member (as of 17 March 2016)	100% (8/8)
Heikki Hiltunen Member (until 4 April 2017)	0% (0/1)
Matti Hyytiäinen Vice Chairman (as of 17 March 2016 and until 4 April 2017, member until 17 March 2016)	100% (1/1)

Besides the regular annual Board work during the financial year 2017, the key priorities included supervision of initiatives in accordance to the company's strategy, including the downsizing of the Australian unit, the acquisition of Nanjing Jianhui and the implementation of the new ERP system.

## Shareholders' Nomination Board

Exel Composites' shareholders have considered it essential that the AGM annually appoints a Shareholders' Nomination Board for the preparation of a proposal for election of Board members and fees to be paid to the Board members to be presented to the AGM. The Nomination Board is elected annually by the AGM on proposal of the Board of Directors. The charter of the Nomination Board is available at the company's website at [www.exelcomposites.com](http://www.exelcomposites.com).

In 2017 the Nomination Board consisted of the representatives of the four largest shareholders and of the Chairman of the Board of Directors, acting as an expert member. The Company's largest shareholders entitled to appoint members to the Nomination Board were determined on the basis of the registered holdings in the Company's shareholder register held by Euroclear Finland Oy as of 30 September of the year preceding the AGM. In addition, shareholders who under the Finnish Securities Markets Act have an obligation to disclose changes in ownership (shareholder subject to disclosure notification by flagging) were taken into account when forming the Nomination Board provided that they notified their shareholdings to the Board of Directors in writing by 30 September preceding the next AGM. Should a shareholder not wish to use its right to nominate, this right would be passed on to the next largest shareholder.

If a shareholder who has distributed his/her holdings e.g. into several funds and has an obligation under the Finnish Securities Markets Act to take these holdings into account when disclosing changes in his/her share of ownership, or whose holdings are nominee registered, makes a written request to such effect to the Board of Directors by 30 September preceding the next AGM, such shareholder's holdings in several funds or nominee register will be considered together with the potential directly registered holdings of said shareholder when calculating the share of votes which determines the nomination right. The request must be accompanied by sufficient evidence of title to the nominee registered shares or of the obligation to take the holdings into account under the Finnish Securities Markets Act.

In 2017 the Shareholders' Nomination Board comprised of Magnus Skåniger (Swedbank Robur Fonder), Claes Murander (Lannebo Fonder), Kalle Saariaho (OP Fund Management Company) as Chairman, Malin Björkmo (Handelsbanken) and Reima Kerttula, Chairman of Exel Composites' Board of Directors, acting as an expert member. The Nomination Board met six times.

- **Magnus Skåniger** (born 1971) holds a M.Sc. in Politics and represents Swedbank Robur Fonder in the Nomination Board.
- **Claes Murander** (born 1981) holds an M.Sc. in Business and Economics and is Portfolio Manager at Lannebo Fonder.
- **Kalle Saariaho** (born 1972) holds an M.Sc. in Economics and is Director, Investment Products and CEO, OP Fund Management Co at OP Financial Group.
- **Malin Björkmo** (born 1962) holds a PhL in Financial Economics. She is an independent advisor in governance and financial regulation as well as a board member of Handelsbanken Fonder.

## President and CEO

The President and CEO is appointed by the Board of Directors to run the Company on a day-to-day basis in compliance with existing laws and regulations, as well as instructions and decisions given by the Board. Since duties of the Board include supervision of President and CEO, Exel Composites' President and CEO shall not be elected as member of the Board. The areas of responsibility of the President and CEO include, in addition to the above mentioned legal requirements, and implementing the Board's decisions, specifically also securing growth of the business, preparations for acquisitions and implementation of strategic projects, the increase in shareholder value, profitability and efficiency of operations, and investments within the limits defined by the Board.

The Board of Directors has adopted Rules of Procedure for the President and CEO containing guidelines and instructions regarding the Company's day-to-day management. In fulfilling his duties the President and CEO shall be assisted by the members of the Group Management Team of Exel Composites and any other corporate bodies established by the Board of Directors.

**Riku Kytömäki** is Exel Composites Plc's President and CEO. He was born in 1971 and holds an M.Sc. in Electrical Engineering. At the end of 2017 he held 35,100 Exel Composites shares.

## Group Management Team

The President and CEO is supported by the Group Management Team. The Group Management Team includes, in addition to the President and CEO as chairman, the CFO, the SVP Human Resources, the SVP Operations, the SVP R&D and Technology and the SVP Sales and Marketing. The Team meets eight to ten times a year. The duties of the Group Management Team include, in addition to daily running of the business and development of all areas of the business in line with the approved strategy, also drawing up business and strategic plans and implementing the approved plans.

Members of the Group Management Team in 2017 were:

- **Mikko Kettunen** (born 1976), CFO, is responsible for finance and controlling, investor relations, administration and information and communications technology, ICT. He is secretary to the Company's Board of Directors. At the end of 2017 he held 1,000 Exel Composites shares.
- **Tiina Bies**, previously Hiltunen (born 1966), SVP Human Resources, is responsible for leading the HR function and creating, establishing and implementing the HR strategy, processes and procedures globally. At the end of 2017 she held no Exel Composites holdings.
- **Callum Gough** (born 1960), SVP Operations, is responsible for continuous productivity improvement, quality, environment and safety, strategic purchasing, investments and strategic site planning. At the end of 2017 he held 10,837 Exel Composites shares.
- **Kari Loukola** (born 1962), SVP Sales and Marketing, is responsible for sales and marketing, sales management, leading the sales organization, optimization of sales channels and product management. At the end of 2017 he held 6,000 Exel Composites shares.
- **Kim Sjö Dahl** (born 1974), SVP R&D and Technology, is responsible for Group-wide development of products, product platforms and product technology and tooling. He is also in charge of leading, coordinating and developing product development activities in the Group as well as of leading R&D and IPR management activities. At the end of 2017 he held 10,000 Exel Composites shares.

## Internal control

Exel Composites Plc is the parent company for the whole Group. It manages and directs the operations for the whole Group. The main responsibility for the internal control and risk management relating to the financial reporting process lies with the Board of Directors. Exel Composites' internal control framework and roles and responsibilities for internal control have been defined in Internal Control Policy approved by the Board of Directors. Internal control is organized within the framework of regular management, reporting and reviews.

Exel Composites' internal control and risk management related to financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with applicable laws and regulations, generally accepted accounting principles and other requirements for listed companies.

Exel Composites has established a Controller's manual (accounting and reporting rules), which is regularly updated and communicated throughout the organization. Other internal policies and rules related to the financial reporting process include the Code of Conduct, the Anti-corruption Policy, the Decision-making and Signing Policy, the Treasury Policy as well as the Credit Management Policy.

Group accounting maintains a common chart of accounts that is applied in all units. A common enterprise resource planning system (ERP) and customer relationship management system (CRM) are in use in all the units of the Group. Subsidiaries submit their figures to Group reporting system for consolidation purposes. The reported figures are reviewed both in the subsidiaries and in Group accounting.

The consolidated financial statements of Exel Composites have been prepared in compliance with International Financial Reporting Standards (IFRS), applying International Accounting Standards (IAS) and IFRS standards, as well as Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) interpretations, valid on 31 December 2017. The notes to the consolidated financial statements are also in compliance with the Finnish Accounting and Companies Acts.

The ultimate responsibility for the appropriate arrangement of the control of the Company accounts and finances falls on the Board of Directors. In accordance with the Charter of the Board of Directors, the Board performs the duties of an Audit Committee. These duties include overseeing of the accounting and financial reporting process, the audit of the financial statements, and the review of internal control procedures as well as communication with the Company's auditors. The President and CEO is responsible for the implementation of internal control and risk management processes and ensuring their operational effectiveness. The President and CEO is also responsible for ensuring that the Company accounting practices comply with the law and that financial matters are handled in a reliable manner. The Group's management assigns responsibility for the establishment of more specific internal control policies and procedures to personnel responsible for the unit's functions. Management and employees are assigned with appropriate levels of authority and responsibility to facilitate effective internal control over financial reporting.

Exel Composites' common controls include variety of activities such as approvals, authorizations, verifications, reconciliations, reviews of operating performance, safeguarding of assets and segregation of duties.

In financial reporting, the Controller's manual sets the standards of financial reporting as well as accounting rules and procedures within the Group. The Group controller function assists the business units and functions in setting up adequate control activities in cooperation with the business controllers. The Group controller function is also responsible for ensuring that external financial reporting is correct, timely and in compliance with applicable regulations.

Ongoing monitoring activities include the follow-up of monthly financial reports in relation to budget and targets, follow-up of business plans, monitoring of new plans and follow-up of internal and external projects. The scope and frequency of separate evaluations depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures such as business unit self-assessments of control effectiveness. Internal control deficiencies are identified and communicated in a timely manner to those parties responsible for taking corrective action, and to management and the Board as appropriate. Implementation and control of financial and other business targets are monitored through Group-wide financial reporting, and through regular management meetings in each of the business units.

## Risk management

At Exel Composites risk management is a continuous process, which is integrated with the daily decision making and continuous monitoring of operations as well as with the preparation of half year financial reports, business reviews and annual financial statements.

The Board of Directors governs the risk management of the company through a risk management policy. In addition, the Board of Directors makes a risk assessment 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 operative risk management, including risk monitoring, is part of the key duties of the operative management. Risks are considered and evaluated in conjunction with each business decision. Additionally, they are also monitored by the President and CEO and other group management on a monthly basis when the team reviews the business development and any near and long-term risks upon presentation of the business unit heads and controllers.

Risks and uncertainties related to Exel Composites can be categorized as strategic, operational, financial as well as hazard and environmental risks.

### Strategic risks

With respect to strategic risks, a significant portion of Exel Composites' revenues is generated from certain key clients and market segments. Whereas production capacity and cost structure of the company is planned for growing business volume, negative development of such key clients or market segments could lead to deterioration of Exel Composites' profitability. This risk is mitigated by a close cooperation with key clients. The development of key markets and consequently business volumes are actively followed and forecasted in order to be able to adjust our business and cost structures to the forecasts. New products and applications are also continuously developed in order to limit the dependency of any individual clients or market segments.

Strategic risks also include risks related to acquisitions where the realized level of benefits and synergies may differ from the planned.

### Operational risks

The most significant operational risks relate to product development and sales as well as production. Exel Composites' product range is very broad and often customer customized, which adds complexity to the product development and production. Designing, producing and selling a product that does not meet the requirements agreed with a client could potentially lead to substantial losses and damages as well as negative impact on the company reputation. In addition, availability of skilled employees and knowledge retention, protection of self-developed proprietary technology, fraud, possible human rights or other Code of Conduct violations in the company or within its supply chain, availability and pricing of key raw materials and health problems due to long-term exposure to chemicals or accidents belong to the most significant operational risks. The availability of skilled employees and knowledge retention, protection of self-developed proprietary technology, fraud prevention and detection, and the availability and pricing of key raw materials are critical for the profitability of the business, while possible human rights or other Code of Conduct violations or the realization of significant health and safety risks causing damage to people or the environment could potentially lead to reputational loss, sanctions or even influence its operational permits. Pre-emptive management of operational risks through careful contracting as well as appropriate business processes and working instructions are in key roles to prevent possible damages.

### Financial risks

Financial risks consist of currency, interest rate, liquidity and funding risks, as well as credit and other counter party risks. Currency and interest rate risks are managed primarily by natural hedging or by using derivative instruments. Credit insurance is in place to cover risks related to trade receivables.

### Hazard and environmental risks

Hazard risks include damages caused to property because of fire, floods or chemical spill. If realized, these have an impact first and foremost on the surrounding environment, but also in the company's own business and losses due to related business interruptions, either in the company's own operations or in its supply chain. The realization of environmental hazard risks could potentially lead to sanctions, reputational loss or influence its operational permits. Exel Composites' primary aim is to actively prevent any such accidents and its environmental program is based on the identified risks, legislative requirements and certifications such as the ISO 9001, OHSAS 18001 and ISO 14001. Environmental monitoring and measuring are carried out at all sites. If realized, despite all pre-emptive measures, damages from hazard risks are mainly covered by insurance policies. This type of risks are also regularly audited by third parties that provide recommendations for improvement to reduce risk probability.

Of the before mentioned risks, the probability of individual strategic or operational risks can be deemed relatively high. The consequences, however, of any such risk, if realized, are typically not substantial. With the company's current operating model, the probability of financial risks is deemed medium or low. The probability of hazard and environmental risks is also low.

## Internal audit

Based on the effective operation of the group financial control, including the established controller function, the Company does not have a separate internal audit function. The Board of Directors or the President and CEO can assign Exel Composites' controller function or an external service provider to perform internal audit assignments as needed.

## Auditor

Company auditor is elected annually by the AGM based on the proposal by the Board of Directors.

Ernst & Young, Authorized Public Accountants, with Antti Suominen, APA, as principal auditor, were elected to serve as company auditor in the AGM in 2017.

The fees paid to the auditors for audit services totaled EUR 168 thousand (149) and for non-audit services EUR 64 thousand (71) in 2017.

## Significant related-party transactions

Exel Composites' related parties comprise the Board of Directors, the President & CEO, the Group Management Team, as well as the associated companies and joint ventures. 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.

No significant related-party transactions were conducted between the Group and its related parties in 2017.

## Insider management

Exel Composites' Board of Directors has adopted and regularly reviews the "Policy on inside information and managers' transactions", which complies with the Market Abuse Regulation as well as the insider guidelines of Nasdaq Helsinki. In addition to information concerning the disclosure of managers' transactions, the policy contains regulations on insider information, the prohibition against unlawful practices related to inside information, the disclosure of inside information, insider lists, and on insider administration.

Exel Composites maintains project-specific insider lists, which include all persons who in their duties have access to inside information. All project-specific insiders are strictly forbidden to trade in Exel Composites financial instruments or to make any unlawful disclosure of inside information. The company does not maintain any permanent insider lists.

The Chief Financial Officer of the company acts as the Insider Officer, who together with the financial department of the company monitor insider compliance.