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Annual Report 2005

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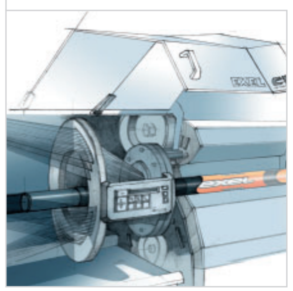
Exel in brief

Exel Group

Industry Division	Sport Division
Exel Oyj Kivara Factory	Exel Oyj Mäntyharju Factory
Exel GmbH Voerde, Germany	Exel Sports Oy Finland
Exel Composites N.V. Oudenaarde, Belgium	Exel GmbH Rohrdorf, Germany
Exel Composites N.V. Munguia, Spain	Exel USA, Inc. Georgia, USA
Exel Composites GmbH Kapfenberg, Austria	International Gateway AB Piteå, Sweden
Exel Composite Materials (Shenzhen) Ltd Shenzhen, China	Nordic Sports Products (Beijing) Ltd Beijing, China



Exel Oyj is a global leader in pultrusion technology. Exel possesses manufacturing technologies that have been developed in-house and that offer a significant competitive advantage.

Exel designs, manufactures and markets composite, glass and carbon fibre reinforced industrial profiles for several market segments, plus sports and recreational products and equipment.

Exel's business operations comprise two divisions: Industry and Sport.

Main product groups
The Industry Division offers over 1000 composite profile applications. All applications are designed together with our clients and custom made for each client individually. Our key product groups include profiles, paper machine applications, tool handles and lattice masts. Segments in which the use of composite profiles is growing most rapidly include the transportation industry, infrastructure, wind energy, the offshore industry, consumer products and construction.

The main consumer product groups of the Sport Division include cross-country skiing poles, alpine skiing poles, and Nordic Walking poles, plus floorball sticks and products for both recreational and professional use. Floorball products are marketed under the Exel and Canadien brand names. Exel is the market leader in several product categories, and the originator of the Nordic Walking concept. Exel also serves the sports equipment industry by supplying clients with composite components. These include laminates for skis, snowboards and ice-hockey sticks, as well as wind-surfing masts for sail and board manufacturers.

International operations account for over 85% of net sales
Exel's total net sales in 2005 amounted to 91.3 million euros. International operations accounted for 85% of this amount. The Industry Division accounted for 62% of net sales and the Sport Division for 38%.

The Group employed 466 persons, of whom 315 were located in Finland and 151 in the Group's other locations in Sweden, Germany, Austria, Belgium, the USA and China.

Exel has six production plants, of which two are located in Finland, two in Germany, one in Belgium and one in Austria. In addition to the Group's own factories, production is subcontracted in Spain. The factory in Austria was acquired by the Group in 2005.

Vision
Exel's goal is to be the market leader in carefully selected market segments based on its expertise in composite technology.

The objective of the Industry Division is to be the global leader in the pultrusion industry in terms of both market share and technologies. The Sport Division aims to be the leading brand in select niche market segments. The main products of the Sport Division in each market segment are also based on the composite technologies developed by Exel.

Vision and strategy

Strategy
Exel strives for profitable growth and a corresponding increase in shareholder value through strong organic growth and strategic acquisitions where necessary. The focus of expansion is on the Industry Division.

Based on in-house technologies and close co-operation with clients in R&D, a competitive advantage is achieved that benefits the product assortment of our clients.

As a continuously increasing number of significant international corporations become clients for our composite profiles, Exel shall expand its service offerings globally and to serve clients locally in each market.

Financial goals

Net sales
- average annual growth at least 15%

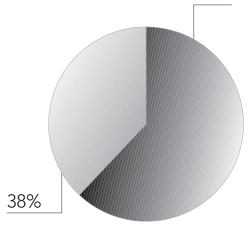
Operating profit
- average annual growth at least 15%

Dividends
- Exel aims to distribute 40% of net income in dividends, as permitted by investments and expansion plans

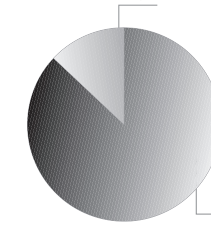
Net gearing
- Exel aims to maintain a strong balance, with a maximum net gearing of 100%

Main events in 2005
- In February the decision was made to establish a factory in Shenzhen in China. The project progressed according to plan during the year, and by the end of 2005 all planning and permits were ready for construction to begin
- In March the establishment of Exel Sports Oy was announced. The company began operations on 1 April and comprised the sales, marketing and logistics operations of the Sport Division's consumer products. Exel board member Mika Sulin was appointed Managing Director
- In early April the operations of Faserprofil GmbH in Austria were acquired and added to the Industry Division
- During the summer the logistics and sales organisation of Exel Sports was reinforced with the aim of opening new Nordic Walking markets
- In June it was announced that Exel Sports would be the main sponsor of the Floorball World Championships in May 2006 in Sweden
- By the end of the year all necessary business licenses and operating permits had been acquired in China for Nordic Sports Products (Beijing) Ltd. to begin operations
- Throughout the year the Industry Division experienced strong organic growth in business operations
- According to market studies Exel became the world's leading pultrusion technology company

Net sales by division 2005



Operating profit by division 2005



Key figures	2005	2004	Change, %
Net sales, millions	91.3	83.9	8.9
Operating profit, millions	12.4	13.7	-9.6
% of net sales	13.6	16.3	-16.9
Net profit, millions	8.9	9.1	-2.5
Return on capital employed (ROCE), %	34.0	45.2	-24.8
Net gearing, %	30.2	36.0	-16.1
Solvency ratio, %	50.0	44.9	11.4
Earnings per share	0.78	0.84	-7.0
Equity/share	2.34	1.84	27.2

Profitable growth for the Industry Division

During the 2005 financial year Exel achieved its strategic goal of becoming the global leader in the pultrusion industry. Our worldwide market share in the pultrusion industry increased to almost 10%. The Industry Division's growth rate, 17%, exceeded as expected average growth in the industry, which was approximately 4-5%. Net sales for the entire Group increased to 91 million euros. Due to the Industry Division's strong growth, its share of total Group net sales increased to over 60%. Two-thirds of this growth was due to a growth in demand for new customer applications and the rest due to the added net sales of Faserprofil, which was acquired on 1 April 2005. An important new commercial application in the industrial sector, for example, was the production of bus profiles by our Belgian unit.

Entering the Chinese market in response to demand

Based on the needs of our global customers, the decision was made to establish a factory in China to serve the markets and our customers in the Far East. All measures connected with establishing the new unit were carried out during the financial year so that the prerequisites exist for beginning the construction project.

The decision to acquire Pacific Composites in Australia that was made after the end of the financial year will further strengthen our position as the leading global pultrusion profile manufacturer and will significantly speed up the beginning of production in China. Pacific Composites has a new factory that is already in operation in Nanjing in Eastern China. Our readiness to serve telecommunications companies in China, for example, has thus improved considerably.

The decision to introduce a 3G telecommunications network in China is expected in early 2006. In response to increased demand in Europe, new production lines were also opened at our profiles plants in Germany and Austria.

Independence for the Sport Division

The 2005 financial year was strategically important also for the Sport Division. Following the establishment of Exel Sports Oy, the division's operations were reorganised and developed under new management in order to handle more independently the global marketing, sales, logistics and R&D for consumer products, poles and floorball products.

The financial performance of the Sport Division amidst increasing competition did not meet expectations, as a result of which we must find more efficient operating methods for our business operations in 2006. As a result, we have commenced personnel negotiations at the Mäntyharju plant regarding the effects of the transfer of the finishing and assembly of pole and floorball products to the Far East.

With the reorganization and resourcing the Sport Division prepares for toughening competition. The establishment of our own marketing and sales companies, for example in the US and Chinese markets, also represents Exel's response to our goals of opening new Nordic Walking markets, as well as to the increased consolidation within the sporting goods industry, new distribution channel solutions, and strengthening co-operation between small brands.

International recognition of Nordic Walking expands

There were clear signs of increasing competition in the Central European Nordic Walking markets, which particularly effected the delivery of poles at the end of the year. Recognised Central European brands entered the markets, and this change in the competitive situation necessitates a rapid response from Exel.

Exel continues to be the image and market leader in Nordic Walking poles, and during 2005 we also succeeded partially in strengthening our position in the traditional cross-country ski pole markets. A strong focus on new markets has brought results, and Nordic Walking is now an outdoor recreational hobby in markets such as the Benelux countries, Denmark, the USA, China and Japan. New markets are expected to enter the important commercial phase in 2-3 years from the time the sport is introduced in each country.

Profitability close to expectations

The Group's operating profit of over 12 million euros remained at a good level. The operating profit of the Industry Division improved due to a growth in net sales and better cost efficiency, and its share of total Group operating profit increased to over 80%. The profitability of the Sport Division was squeezed by investments connected with opening new Nordic Walking markets, which are expected to create an increase in net sales in the coming years. Profitability weakened also in Central Europe, as retail chains sold off excessive stocks, decreasing the demand for new products.

The availability of carbon fibre experienced exceptional problems throughout 2005. The lack of supply also increased price levels, although it was possible to transfer some of the increase in the cost of raw materials to product prices. The main carbon fibre manufacturers have announced considerable increases in production capacity, which will have an effect mainly in 2007. A lack of supply will still be felt in 2006.

The financial position of the Group has remained stable despite an increase in capital expenditure and marketing activities. Cash flow from business operations of the financial year was 7.9 million euros in the positive.

Our solvency at the end of the financial year improved on the previous year and was 50%. The Board of Directors proposes to the Annual General Meeting that from the earnings per share of 0.76 euros, 0.40 euros be distributed as a dividend, which exceeds the 2004 dividend.

Growth continues

The 2005 financial year was marked by a strong investment in growing net sales and profitability in the coming years. As expected relative profitability weakened slightly but created the prerequisites for stronger growth in 2006. The outlook for growth in the Industry Division is strong with good prerequisites for growth. The acquisition of Pacific Composites strengthens our growth further. Although there are signs of a general slowing down of growth and market stagnation for sporting goods, Nordic Walking is one of the few product categories where growth is expected to continue. We at Exel have every reason to believe that 2006 will be a year of growth, when Exel's net sales will increase according to our long-term goals significantly faster than the overall growth of the markets.

Thanks

In recent years Exel has grown to become a major international name in industrial profiles and remained a strong expert in walking and other pole products.

This would not have been possible without knowledgeable and committed employees, our customers' trust, and our owners' support. For the positive development that we have experienced, I would like to thank everyone who works for Exel as well as our partners both in Finland and around the world.

March 2006
Ari Jokelainen
President

Industry Division		Group share 2005, %	Group share 2004, %
Net sales	56.8 million	62.2	57.6
Operating profit	10.8 million	87.0	56.9
Average number of employees	236	50.5	50.8

Industry Division
The main product groups of the Industry Division include profiles, paper machine applications, tool handles and lattice masts. Exel specialises in the development, manufacture and marketing of rigid, durable and lightweight composite profiles. There are already over 1000 fibreglass and carbon fibre applications, all of which are the result of customer-focused R&D. Work on replacing other materials, such as aluminium, steel and wood, with composite materials is ongoing and new applications are being found all the time. The unrivalled lightweight and rigid qualities of composite materials make them unbeatable in terms of durability and functionality. Exel plays a major role as a strategic co-operation partner in R&D.

The operations of the Industry Division developed more favourably than expected with net sales growing by 17% to 57 million euros. Operating profit increased again to 10.8 (7.8) million euros.

Exel achieved its goal to become the leading pultrusion company in the world. In order to serve its global customers, Exel made a strategic decision to establish an own production unit in China. Arrangements to start construction work were completed by the end of the year, but with the acquisition of Pacific Composites at the beginning of the year the Group acquired a new factory in China which is already in operation. Therefore a decision was made to postpone our own construction project in Shenzhen in China.

The composite applications markets are still growing, and the use of new materials in an increasing number of application areas continues. A factor partially limiting operations has become the supply of carbon fibre. Thus far Exel has managed to ensure it receives the carbon fibre it needs, although the price level for this raw material has increased. A significant share of the supply of carbon material is directed to US defence projects, airplanes and infrastructure products.

The supply of this raw material will remain a problem in 2006, but increased production capacity is expected to eliminate the problem in 2007 and to level out the price development.

Specialised factories
Exel profiles are manufactured in five factories, of which the newest is the Kapfenberg factory in Austria that came with the acquisition of Faselprofil in April. In addition to the Austrian market, this production unit serves Exel customers in Germany and Switzerland, as well as to an increasing degree Eastern Europe. Profile applications are designed and manufactured at the factory according to customer demands, as at other Exel factories. The Kapfenberg factory is also specialised in the manufacture of demanding epoxy products.

Other factories producing profiles are located in Kiihtelysvaara and Mäntyharju in Finland, Voerde in Germany, and Oudenaarde in Belgium. In addition, Exel has a subcontracting contract with Bekaert in Munguia in Spain.

Profiles
The profiles product group consists of composite fibreglass and carbon fibre tubes and profiles. Tubes are manufactured using either pultrusion technology or Exel's in-house developed continuous Pull-Winding technology, which allows wall thickness and product weight to be minimised while simultaneously maximising rigidity and durability.

In 2005 the TripleX™ method for producing tubes that are used, for example, in lightweight, moving structures was further developed and proved to be commercially successful. The production capacity reserved for producing these tubes was fully utilised throughout the year.

A significant growing application area consists of blade structures that are used in the production of renewable energy, such as wind energy. There are also good growth expectations regarding transportation industry applications. Profiles used in the manufacture of buses, trailers and platforms have been successfully introduced to commercial production. Composite profiles play an important role in energy efficiency solutions. In the infrastructure sector Exel technology is used in roofing and bridge structures, for example. The production of antenna profiles used in the production of 3G telecommunications networks has got off to a good start, and Exel has developed several new profiles for this sector.

Paper machine products
Doctor blades continued to be the main article among paper machine products in 2005. The price development of raw materials, mainly carbon fibre, continued to lower sales margins. The availability of carbon fibre will remain the key factor in the global market for doctor blades.

Holders once again experienced the biggest growth in net sales among paper machine products. Sales volumes of this product group will continue to experience rapid growth. The LiteAdapt™ adjustable doctor blade holder, which competes against traditional DST type holders made from metal, created a lot of interest among customers. The new range of holders offers superior self-profiling, lightness, ease of use and fast delivery times. This product family was developed in co-operation with Metso Group.

This product group will continue to focus strongly on the development of new products outside the doctor blade product groupfor customers.

Lattice masts
This product line consists of frangible lattice masts, which are primarily marketed as support structures for airport approach lighting systems. The deadline set by the International Civil Aviation Organization (ICAO) for the installation of safely breaking approach lighting masts was 1 January 2005. The national aviation administrations of most industrialised countries fulfilled their obligation to change lighting masts before the deadline, and as we were unable to fully enter other markets mainly due to economic factors, deliveries of lattice masts fell short of expectations.

Exel made an important breakthrough in the Federal Aviation Administration's markets in the USA, which have been dominated up to now by domestic manufacturers. New Glide Path masts and composite airport fences were introduced at the most important industrial trade fair for this sector in the autumn and received even more attention that was predicted.

The expansion of the product family for airports offers the possibility to enter an increasing number of airport projects in western and other markets.

Conventional and telescopic handles
Exel is Europe's leading marketer and manufacturer of composite tool handles and telescopic handle systems. This product line consists of single-section fibreglass handles, a broad selection of fibreglass and carbon fibre telescopic models with a reach of up to 20 metres, and tailor-made profile and tube series. Key application areas include gardening tools and professional cleaning equipment. Telescopic systems made by Exel are used in a variety of applications, ranging from professional window cleaning to precision measuring equipment.

This product group continued to experience strong growth during the financial year. The specialised lightweight and durable telescopic systems developed by Exel are based on unique in-house production technology. Competition in this market is expected to increase significantly in 2006. We intend to meet market demands for even lighter and versatile telescopic systems by introducing a new series of telescopes.

Production technology and optimised material selection enable tailor-made solutions. Exel's strength lies in our ability to serve customers flexibility in markets that differ considerably from each other.

Outlook for the future
In line with the strategy of the Exel Group, the goal of the Industry Division is to grow profitably and faster than the markets also in 2006. A strong basis for this has been created by the good development and increased efficiency in 2005. During 2006 Exel will begin production in China, improving considerably the possibilities to serve customers also in the Far East.

A major challenge in the future for the Industry Division as market leader will also be to increase awareness among designers and other industrial professionals about the utilisation potential of composite materials and new application areas. Exel's strategic goal is to create added value for the customer's business operations through our own business and technological expertise, and this way improve also our customers' competitiveness.

Sport Division		Group share 2005, %	Group share 2004, %
Net sales	34.5 million	37.8	42.1
Operating profit	1.6 million	13.0	43.1
Average number of employees	231	49.5	49.2

Sport Division

Exel's Sport Division has two main areas of activities: consumer products utilising the Exel brand (Sports Brands) and OEM production of components for the sporting goods industry (Sports Industry). The main product groups for Sports Brands include pole and floorball products. The main product groups for Sports Industry include laminates for the ski, snowboard and ice-hockey stick industries, plus windsurfing masts.

During the financial year important decisions were made concerning the company's organisation, including key employees and resources, and better prerequisites were created for reacting to ongoing structural changes in the sporting goods industry and increasing challenges in markets in different areas.

Poles

According to general market opinion, the sporting goods markets are growing annually by 3-5%. One of the fastest growing product categories among sporting goods is Nordic Walking, which has expanded particularly in Central Europe to include also supplementary products, such as walking shoes, gloves and textiles. In the main markets in Central Europe, the growth rate in this sector in 2005 was substantial, corresponding to tens of percentage points.

Research reveals that there are already approximately 6 million people who actively practice Nordic Walking. Around half of these use Exel poles. Exel is the world's leading manufacturer and marketer of Nordic Walking poles. In addition to the traditional Central European markets of Germany, Austria and Switzerland, the popularity of Nordic Walking has grown also in Northern Italy and the Netherlands.

Competition in Central Europe has partly intensified due to increased supplies and price competition. In line with Exel's strategy, the main emphasis of operations in the Nordic Walking markets is on ensuring competitiveness in existing market areas and opening new markets by creating awareness about the Nordic Walking concept. Business operations support the strengthening of the position and competitiveness of the Exel brand among international sports retailers.

Exel is also one of the world's leading manufacturers of cross-country ski poles. The total market for cross-country ski poles is stable. The product range includes poles for top professionals and recreational skiers alike. Exel's racing team includes such names as biathlon world champions Raphaël Poirée, Ole Einar Björndalen and Martina Glagow, as well as legendary cross-country skiing champion Björn Dählie, who also participates in Exel's product development.

Exel also manufactures and markets alpine and trekking poles. The total market in this category is considerably large. Exel's market position as a supplier of composite poles alone has been very small to date; the vast majority of products on the market consists of aluminium poles. Exel's alpine poles continue to be promoted by Kalle Palander and Tanja Poutiainen of Finland, as well as the successful Finnish national freestyle team, including Janne Lahtela, Mikko Ronkainen, Tapio Luusua and Sami Mustonen.

Nordic Fitness Sports™ –concept

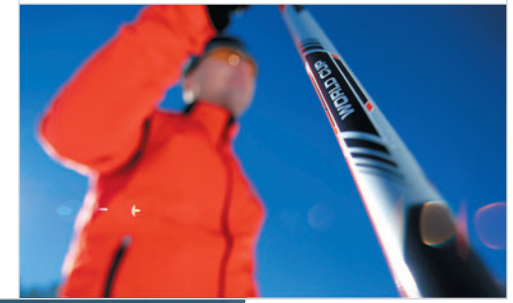
The Nordic Fitness Sports™ (NFS) concept, which has become very popular in Central Europe, was further developed. The summer sports disciplines of the NFS™ concept include Nordic Walking, Nordic Blading and Nordic Hill Walking. Winter disciplines include Nordic Skiing and Nordic Snowshoeing. The concept is based on safe year-round fitness sports that all utilise poles as a central component and that can be enjoyed by everyone.

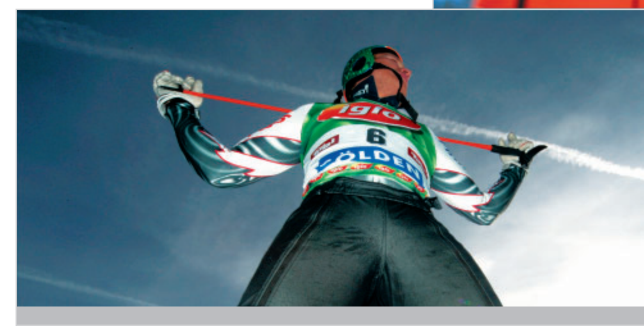
During 2005 Exel signed many new contracts with various ski and recreational centres in co-operation with strategic partners supplying Nordic Fitness Sports Park™ packages. The concept offers travel industry professionals an interesting opportunity to expand their operations on a year-round basis.

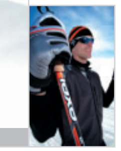
Floorball

Exel is the market leader in floorball sticks, in addition to which Exel's product range includes other floorball supplies and equipment. Floorball products are marketed under the Exel and Canadien brands.

In addition to Scandinavia, floorball is also played in Switzerland and the Czech Republic among Central European countries. The number of people practising floorball can be expected to grow in the future in new market areas, such as Germany and North America.







During the financial year the development and refreshing of Exel's floorball brand was continued by launching a new model range carrying the name of Janne Tähkä, one of the world's most recognisable floorball professionals. This was received very well by the markets.

In June 2005 Exel announced co-operation with the Swedish Floorball Federation and Seger United AB, organisers of the 2006 Floorball World Championships. Exel Sports will be the main sponsor of the Floorball World Championships, to be held in May 2006 at the Globen Arena in Stockholm, Sweden. Exel will launch new floorball products in 2006, further strengthening Exel's position as the leading floorball brand.

Establishment of Exel Sports Oy

On 1 April 2005 Exel incorporated the marketing, sales, logistics and product development operations for its Sport Division's consumer products, poles and floorball products into a separate subsidiary, Exel Sports Oy. Exel board member Mika Sulin was appointed Managing Director of the new company, which has approximately 40 employees in Finland. The company is responsible for the international marketing and sales of consumer products and also includes sales and marketing units in Germany, Sweden, the USA and China. The number of employees in these units is also approximately 40.

During the financial year decisions were made concerning the company's organisation, including key employees and resources, and better prerequisites were created for reacting to ongoing structural changes in the sporting goods industry and increasing challenges in markets in different areas. Major new market areas include the USA and China, where Exel established its own sales organisations.

New market areas in the USA and China

Exel USA

In order to open new markets in the USA, Exel established a new subsidiary at the end of 2004. Exel USA, Inc. is based in Burlington, Vermont, a popular winter sports region close to the Canadian border. Previously, Exel operated in the USA through an importer. With its own eight-person sales and marketing team, Exel is seeking increased market shares in the traditional pole markets, as well as a boost for launching and establishing the Nordic Walking concept in North America, particularly in regions where there is natural potential for practising the sport.

The emphasis of the US unit's operations in 2005 has been on establishing a distribution and sales organisation and, where needed, on training sales staff. As a result of significant efforts, Exel's Nordic Walking poles have been introduced to the product ranges of major retail chains in both Canada and the USA, and our market share in ski poles increased.

Exel China

The decision to establish a marketing and sales joint venture with the China Institute of Sports Science (CISS) was made at the end of 2004. Nordic Sports Products (Beijing) Ltd. was among the first foreign companies to receive a business license at the end of 2005 for importing, wholesaling and retailing products manufactured by Exel.

Work began on introducing the sports of Nordic Walking and floorball to China, and training activities and the creation of a network of influential people were initiated.

Exel continues as the sole supplier of poles to the Chinese Ski Federation, and Chinese athletes have performed excellently in the World Cup.

OEM products

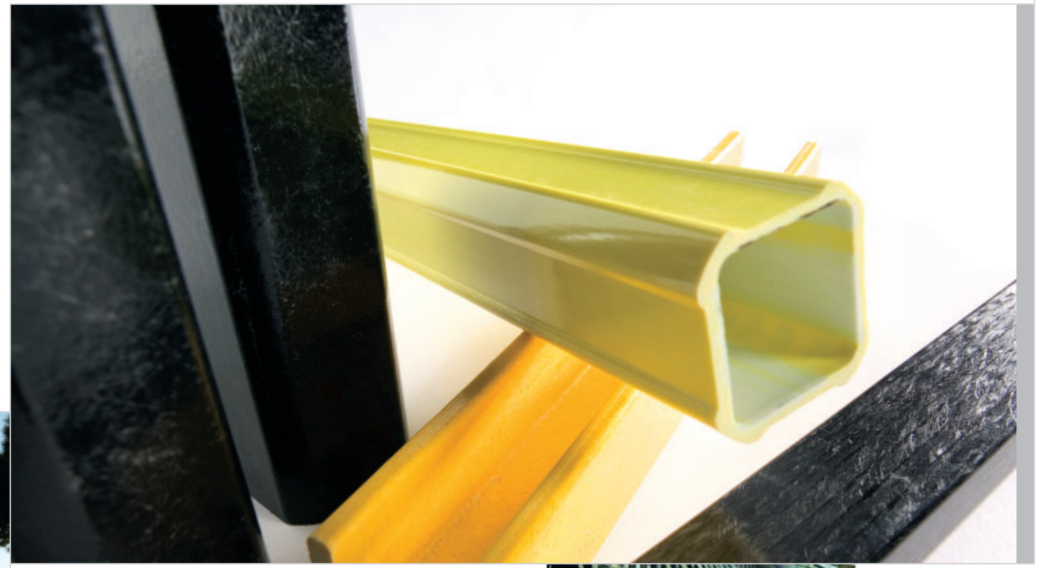
The laminates product group manufactures and markets fibreglass and carbon fibre reinforced laminates for the ski, snowboard and hockey stick industries. This product group is making strong efforts to develop product applications for new markets. This succeeded in 2005, as the first deliveries of laminates were made for the refurbishing of passenger ships. This specific market looks stable for the future, in addition to which new industrial applications are being sought continuously. On the whole, sales of laminate products increased noticeably over the previous year.

Another key OEM product group consists of windsurfing masts, all of which are sold under customers' own brands. The overall market in this product sector is relatively stable, and no major growth is expected due to the limited number of people who practice windsurfing. Exel is the world's leading manufacturer of windsurfing masts.

Outlook for the future

The main goals of the Sport Division involve supporting growth in net sales that outpaces overall market growth. We estimate that growth will come with the expansion of the Nordic Walking concept in new markets, by maintaining our position in the traditional pole markets, and strengthening the market position of the company's other pole and floorball products.

The prerequisites for strengthening growth are good, as Exel offers the leading product in many pole sectors. In 2006 Exel will be active at the Winter Olympics in Torino and at the Floorball World Championships in Stockholm. Prerequisites also exist for strengthening our position in the US and Canadian markets. With increased net sales and more efficient operations, profitability is also expected to improve despite considerable marketing investments.



Composite profiles market
At the end of 2004 the size of the global composite profiles market exceeded one billion US dollars, of which North America accounted for approximately a half and Europe and Asia for around a quarter each.

North America is loosing its dominant position; in 2004 its market share fell from over 63% to under 53%. In Europe growth came from both industrial and sports applications, such as lattice masts, conventional and telescopic handles, rebars, and skiing and Nordic Walking poles. In Asia growth came mainly from platforms, ladder profiles and structural profiles.

This sector is extremely fragmented with over 300 manufacturers. Most of these are small family companies that supply a small product selection as subcontractors for local businesses. In the future these markets will be dominated by major global corporations. Applications manufactured utilising pultrusion technology are expected to become more common over the next five years. According to forecasts, by 2010 the pultrusion market will be almost twice the size as in 2004.

There are around ten major companies active in the pultrusion market, among which Exel has grown over the last five years to become the biggest. Exel offers the broadest and most diverse selection of composite profiles on the market. The products range from thin-walled carbon fibre tubes to large fibreglass pro-files.

The European pultrusion profiles market is grow-ing at an average rate of 4-5% per year, making it one of the fastest growing market segments for composites.

Growing these markets is mainly a question of making these products known and utilising the vastly superior properties of composite materials compared to traditional materials, such as wood and metals, in new application areas.

Market trends
Currently the main utilisers of pultrusion technology applications are the construction industry and consumer product manufacturers.

Growth in the composite profiles markets consists primarily of organic growth from new applications. Thanks to technologically more advanced equipment, raw materials and applications, the markets are expected to continue experiencing steady growth. Sectors that are growing faster include the transportation industry, infrastructure, wind power, the offshore industry, consumer products and construction. Annual growth in these areas is approximately 2-8%, although the growth of special individual applications can be significantly faster.

The pultrusion market is particularly cost sensitive. Margins continue to diminish due to the increase in raw material prices, for example, and competition is becoming stronger, particularly in Europe and North America. The availability of carbon fibre experienced exceptional problems throughout 2005. The lack of supply also increased price levels, although it was possible to transfer some of the increase in the cost of raw materials to product prices.

Personnel

Personnel policy
Highly skilled personnel and state-of-the-art technology play a key role in Exel's operations. A knowledgeable workforce is Exel's most important resource and the prerequisite for our existence, growth and development. The management sees to it that expertise and motivation develop. Personnel development is indeed one of the primary cornerstones of Exel's personnel policy. Annual performance reviews and production team meetings combined with studies charting expertise are used to clarify where knowledge is needed and to support personal development. During the financial year development work on leadership skills and personnel reporting, projects to improve wellbeing at work, and the broadening of development forums to include all personnel groups were initiated.

Equality issues
Together with employee representatives, an equality programme was created for Exel that emphasises the responsibility of leadership actions in equality issues and that supports the equal development of all employees, as well as the rotation of tasks and use of family leave. Current personnel have priority in recruitment. The salary policy motivates employees equally and fairly.

Training programmes
During the financial year, a project was initiated to improve leadership skills through a training programme focusing on a professional management degree. The professional skills of the workforce were developed by arranging professional schooling for plastics workers, as well as training events concerning environment, quality and work safety issues. The amount of training for utilising existing and new IT systems was also increased.

Performance reviews and exit interviews
The content and guidelines for Exel's performance reviews were clarified, and related training was increased. The existing expertise of production personnel and development needs were mapped out through a survey. Exel also began to systematically collect information about issues related to developing operations through exit interviews.

Wellbeing and safety
Projects aimed at improving wellbeing at work were initiated in co-operation with employee and work safety committee representatives. Central themes included chemical and work safety, internal communications, familiarisation and work guidance.

Incentive programmes
Exel Oyj's performance-based incentive programme covers all employees. Management employees receive a monthly salary and an annual bonus tied to the attainment of annually established goals emphasising growth and profitability. Non-management employees are also eligible for incentive compensation, but their annual bonus is based on productivity. Key employees are additionally covered by an option or similar share-based programme designed to enhance their long-term commitment.

Personnel
At the end of 2005 the Group employed 466 (419) personnel. The average number of employees during the period was 467 (441). The number of employees in Finland was 315 (297) and in other countries 151 (122). The Sport Division employed 227 personnel and the Industry Division 239 personnel at the end of 2005. During the financial year Exel Sports Oy was established and employed 36 personnel at the end of the year. The number of employees increased during the financial year due to increased volumes and the acquisition in Austria (25).

Quality and environment

Exel treats quality, the environment and safety as an integrated whole, the development of which is based on the principle of continuous improvement. The goal is to improve the ability of Exel's processes to turn out quality products while preventing accidents and detrimental effects on health and minimising the environmental impact of our operations.

Exel operates a certified quality management system compliant with the ISO 9001 standard, which includes specifications and descriptions of our core processes, forming the basis for controlling and measuring qualitative and environmental effectiveness throughout the entire chain of operations. Continuous improvement is integral to Exel's management system.

Exel has joined the European Composite Recycling Services Company (ECRC), a consortium that develops recycling systems in co-operation with European composite industry companies and raw material manufacturers. In addition, Exel is committed to the objectives of the European Responsible Care programme, according to which Exel applies the principles of continuous improvement to its operations in terms of both quality and environmental issues.

Exel takes an operational approach to environmental matters, according to which the focus is on reducing process waste and utilising raw materials more efficiently, safely and cost effectively.

In 2005 the focus of environmental activities was on enhancing the processing of waste resin at the factories in Finland. All personnel have been trained in order to promote environmental awareness.

The most important goal in 2006 is to further reduce the amount of waste from factories and to complete a development programme to certify the environmental system during the financial year. To better utilise waste from composites, co-operation will be sought with the international reinforced plastics industry in order to find new solutions. This development work will be carried out in part with the ECRC and in co-operation with Finnish universities.

The annual audit of the certified quality system was carried out during the financial year. The primary goal in developing quality is to continue improving the efficiency of quality control during processes and at the same time to invest in the development of more advanced measurement methods.

Board of Directors and Management Group

Matti Virtaala

from left
Vesa Kainu
Torgny Eriksson
Kari Haavisto
Ove Mattsson
Peter Hofvenstam
Esa Karppinen

Chairman
Ove Mattsson, born 1940
Docent, Ph.D. (Chem.)
Management Consultant
On Exel's Board since 2003
No Exel holdings.

Work experience:
Member of Board of Management, Akzo Nobel
COO, Akzo Nobel Coatings
CEO, Nobel Industries AB
Managing Director, Casco Nobel AB

Chairman of the Board, Aromatic AB
Chairman of the Board, XCounter AB
Member of the Board, Arctic Island Ltd
Member of the Board, Biotage AB
Member of the Board, Chumak ZAO
Member of the Board, Kemira Oyj
Member of the Board, Mydata Automation AB
Member of the Board, Ljunghälls
Member of the Board, Mandator
Member of the Board, Rieber & Son
Member of the Board, Sirius

Kari Haavisto, born 1941
Lc.Sc. (Econ.)
On Exel's Board since 2000
Holdings: 30,000 Exel shares.

Work experience:
CFO, Metsäliitto Corporation
Executive Vice President, Metsä-Serla Plc
Controller, Oy Nokia Ab

Vice Chairman of the Board, Suominen Yhtymä Oyj
Member of the Board, Aspo Plc
Member of the Board, EVLI Bank Plc

Torgny Eriksson, born 1947
B.Sc.
Senior Partner, Booz Allen Hamilton, Inc.
On Exel's Board since 2005
No Exel holdings.

Work experience:
Managing Director, CARTA Corporate Advisors AB
Director, Nordic Tissue Business, MoDo AB
Managing Director, Playtex-Wallco AB

Peter Hofvenstam, born 1965
MBA
Vice President, Nordstjernan AB
On Exel's Board since 2001
No Exel holdings.

Work experience:
Financial Analyst, Proventus AB
CFO and Member of Managing Group, AB Aritmos
Partner, E. Öhman J:or Fondkommission AB

Chairman of the Board, Ramirent Oyj
Member of the Board, Engelsberg Industriutveckling AB

Vesa Kainu, born 1947
B.Sc. (Eng.)
Managing Director, Metso Ventures
Member of Metso Executive Board
On Exel's Board since 2000
No Exel holdings.

Work experience:
Executive Vice President, Metso Minerals Oy
Executive Vice President, Metso Paper, Inc.
President, Metso Paper, Inc. Services

Member of the Board, Tamfelt Corp.

Esa Karppinen, born 1952
LL.M.
CEO, Berling Capital Ltd
On Exel's Board since 2005
Holdings: 412,000 Exel shares.

Work experience:
Vice President and CFO, Expaco Ab

Member of the Board, Aspo Oyj

Matti Virtaala, born 1951
Engineer, Industrial Counsellor
President, Abloy Oy
Group Director, Assa Abloy
On Exel's Board since 2005
No Exel holdings.

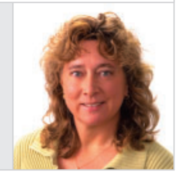
Chairman of the Board, Tulikivi Oyj
Member of the Board, Etteplan Oyj

From left: **Jukka Juselius, Mika Sulin, Ilkka Silvanto**
Ari Jokelainen, Aki Karihtala, Vesa Korpimies

Managing Directors of Subsidiaries

Joacim Bergström
International Gateway AB

Harald Bierbaumer
Exel GmbH



Melissa Cook
Exel USA, Inc.

Mika Sulin
Exel Sports Oy

Eduard Hejl
Exel Composites GmbH

Eric Moussiaux
Exel Composites N.V.

Ari Jokelainen, born 1955
M.Sc. (Econ.)
President & CEO
Employed by the company since 1990
Holdings: 123,400 Exel shares.

Areas of responsibility:
- Creating added value for the Group and its owners
- Managing and developing the Group's business operations to achieve profitable growth
- Developing the corporate strategy
- Implementing the Board of Directors' decisions
- Developing and maintaining a well-functioning organisation
- Key customer and investor relationships
- Other responsibilities of the President & CEO

Work experience:
CFO, Air Systems Group and the Pansio Works of Valmet Paper Machinery Inc.
CFO, Wihuri Oy Wipak

Member of the Board, FY-Composites Oy
Member of the Board, Saunatec Group Oy

Vesa Korpimies, born 1962
M.Sc. (Econ.)
Deputy Managing Director, Director of the Industry Division
Employed by the company since 1987
Holdings: 73,800 Exel shares.

Areas of responsibility:
- Managing and developing the Industry Division's business operations
- Developing Industry's strategy
- Ensuring the profitability of business operations
- Searching for new market areas

Jukka Juselius, born 1953
M.Sc. (Polymer Chem.)
Senior Vice President, R&D
Employed by the company since 1998
No Exel holdings.

Areas of responsibility:
- Raw material and technology development
- Responsibility for immaterial rights
- Responsibility for the maintenance and development of quality and environmental systems

Work experience:
R&D Director, Neste Composite Materials
R&D Director, Ahlström Oy Eurapak
R&D Director, Wihuri Oy Wipak

Aki Karihtala, born 1961
Commercial College Graduate
Senior Vice President, Sport Division
Employed by the company since 1986
Holdings: 24,360 Exel shares.

Areas of responsibility:
- Developing the Sport Division's strategy
- Developing Nordic Walking business
- Expanding Nordic Walking business internationally
- Sport's collection development

Ilkka Silvanto, born 1951
M.Sc. (Econ.), Master of Laws
Senior Vice President, CFO and Administrative Director
Employed by the company since 2004
Holdings: 400 Exel shares.

Areas of responsibility:
- Controlling and finance functions
- Administration and legal matters
- Maintenance and development of IT systems
- Secretary to the company's Board of Directors

Work experience:
CFO, Finnforest Oyj
Director Finance and Controlling, Metsä-Serla, Mechanical Wood Industry
Controller, Huhtamäki Oy Marli

Mika Sulin, born 1958
Commercial College Graduate
Managing Director, Exel Sports Oy
Employed by the company since 2005
No Exel holdings.

Areas of responsibility:
- Managing and developing the business operations of the Sport Division
- Developing and implementing the Sport Division's strategy
- Responsible for the profitability of business operations
- Key customer relationships

Work experience:
Managing Partner, JHC Arena Holding Oy
Managing Director, Hartwall-Areena
Managing Director, Nike Nordic Countries

Member of the Board, D+J Arena GmbH
Member of the Board, Infront Nordic Oy
Member of the Board, Jokerit HC Oy
Member of the Board, Finnish Ice Hockey Association

Report by the Board of Directors

Operations
Exel Oyj is a leading, international Group specialised in composite technology, with a special focus on pultrusion, pull-winding and continuous lamination. The Group's operations include design, manufacturing and marketing of advanced composite products for industrial applications and consumer goods. Exel's most well-known consumer products include cross-country, alpine and Nordic Walking poles, antenna radomes and other industrial applications.

Adoption of International Financial Reporting Standards (IFRS)
Exel adopted the International Financial Reporting Standards (IFRS) in the beginning of 2005, and the financial review for 2005 has been prepared in accordance with the recognition and measurement principles of IFRS. The comparative 2004 figures presented in the review are in line with IFRS.

Group net sales
Net sales for the Exel Group grew in 2005, ending the year at EUR 91.3 (83.9) million. This represents growth on the previous year of 8.9%. The share of net sales from exports and international operations was 85%.

The Group's main line of business, the Industry Division, experienced strong growth; net sales for 2005 amounted to EUR 56.8 (48.4) million, an increase of 17.5%. The majority of this growth was organic and resulted from an increase in demand for new and existing customer applications. The inclusion of Austrian subsidiary Faserprofil as of April 2005 increased net sales for the Industry Division by EUR 3.1 million. The Industry Division accounted for 62.2% of total Group sales.

Net sales for the Sport Division in 2005 fell by 2.9 % from the previous year to EUR 34.5 (35.5) million. The Sport Division accounted for 37.8% of total Group sales. The market for Nordic Walking products in Central Europe grew weaker towards the end of the year. New markets did not yet create a sufficient increase in demand. Floorball products and laminates both achieved their targets of over 10% growth.

Group profit
Operating profit for the Exel Group in 2005 fell by 9.6% to EUR 12.4 (13.7) million but remained at a good level. Operating profit represented 13.6% (16.3%) of net sales.

Operating profit for the Industry Division continued to improve clearly over the previous year to EUR 10.8 (7.8) million. Increased volumes, improved efficiency and stringent cost control are the main reasons behind this improvement.

Operating profit for the Sport Division fell noticeably short of the previous year's, amounting to EUR 1.6 (5.9) million. During 2005 the organisation of the Sports Division was strengthened, and major investments were undertaken in opening new markets (North America, Far East, new European countries). These investments, combined with increased competition and oversupply in the main Central European markets affected profit negatively.

The availability of carbon fibre was exceptionally scarce throughout 2005. The lack of supply also increased raw material price levels, although it was possible to transfer some of the increase to product prices.

The Group's net financial expenses in 2005 were EUR 342 (467) thousand. The Group's profit before taxes

was EUR 12.0 (13.2) million and profit for the financial year EUR 8.9 (9.1) million.

Earnings per share were EUR 0.78 (0.84), diluted EUR 0.76 (0.80). Return on investment was 34.0 % (45.2%).

Research
Product development costs totalled EUR 2.3 (2.0) million, representing 2.5 % (2.3%) of net sales. The main projects are connected with the development of new customer applications, including transportation profiles, poles and floorball products, and the testing and development of the properties of vital raw materials, including polyester and epoxy resins, as well as glass and carbon fibres.

Capital expenditure and depreciation
Group capital expenditure on fixed assets amounted to EUR 4.1 million, of which operative capital investments accounted for approximately EUR 2.3 million. The most significant investment was the acquisition of the operations of Faserprofil GmbH in Austria at the beginning of April 2005. The acquisition accounted for an estimated EUR 2.1 million, of which fixed assets inclusive of goodwill was EUR 1.8 million. This sum includes a surplus payment based on the development of operations that will likely be paid in the future. In addition, investments in maintenance and productivity were continued, and the capacity of the Industry Division was increased by investing in new production lines at both the German and Austrian factories.

Total depreciation of non-current assets during the year under review amounted to EUR 3.6 (3.2) million. Goodwill is not amortized under IFRS. According to impairment tests that have been performed, no write-downs were required.

Financial position and balance sheet
Cash flow from business operations was positive at EUR +7.9 (+15.9) million. The decrease from the previous year was due to the exceptionally low working capital at the turn of the previous year resulting mainly from accounts receivable. In addition, due to the good result in the 2004 financial year, taxes were paid at the start of 2005 for the previous year amounting to EUR 1.5 million. Operative capital expenditure was financed with cash flow from business operations. To fund the acquisition of Faserprofil, interest-bearing liabilities were increased. At the end of the financial year the Group's liquid assets stood at EUR 5.8 (5.1) million.

Cash flow before financing, but after capital expenditure amounted to EUR 3.5 (5.6) million. The company paid total dividends during the financial year of EUR 3.9 (7.0) million. Dividend per share was EUR 0.35 (0.65) calculated according to split shares.

The Group's consolidated total assets at the end of the financial year were EUR 54.6 (46.3) million. The increase was caused by the acquisition in Austria combined with the working capital demand due to the increase in sales volumes.

Equity at the end of the financial year was EUR 27.0 (20.7) and solvency ratio 50.0% (44.9%). Interest-bearing net liabilities amounted to EUR 14.0 (12.6) million, of which short-term liabilities accounted for EUR 4.3 (4.1) million. Net interest-bearing liabilities were EUR 8.2 (7.4) million, and the net gearing ratio was 30.2% (36.0%).

Industry Division
Net sales in Industry Division increased by 17.5% over the previous year to EUR 56.8 (48.4) million. Operating profit improved further to EUR 10.8 (7.8) million. Increased volumes, improved efficiency and stringent cost control are the main reasons behind this improvement.

Exel achieved its strategic goal of becoming the global leader in the pultrusion industry. To be able to serve our customers who operate globally, the decision was made to establish a factory in China. All measures connected with establishing the new unit were carried out during the financial year so that the prerequisites exist for beginning the construction project.

Due to increased demand in Europe and new application areas, new production lines were opened at the profiles factory in Germany and at the Austrian unit that was acquired in the spring.

Sport Division
Net sales for the Sport Division decreased 2.9 % on the previous year to EUR 34.5 (35.5). The Nordic Walking markets weakened and competition intensified in the German-speaking markets towards the end of the year. Exel invested heavily in opening new markets, particularly in North America, China and Japan. These efforts, however, did not offset the decrease in sales in traditional markets.

Floorball operations have developed strongly with new products and strengthened marketing efforts. Exel signed an agreement to be the main sponsor of the 2006 Floorball World Championships.

Operating profit for the Sport Division decreased to EUR 1.6 million from the previous year's EUR 5.9 million due to marketing investments, intensified competition and stock clearance of retailers in Germany and Austria. Major efforts to open new Nordic Walking markets continued, alongside work to strengthen the organisation and develop the Nordic Fitness Sports concept.

Significant efforts are being made to open new markets in North America, where a new subsidiary, Exel USA, Inc., is working to spread the sport, and in China, where joint marketing with our partner CISS is progressing. During the last quarter, the necessary business licenses were granted by Chinese officials, and operations in China began.

The market for OEM products (windsurfing masts and laminate components) was stable. Sales of laminates have increased over the previous year, and new industrial applications are being developed.

Group structure
Exel Composites GmbH in Austria joined the Group due to the acquisition of Faserprofil. In addition, a marketing and distribution company for the Sport Division's products in China, Nordic Sports Products (Beijing) Ltd., and Exel Composite Materials (Shenzhen) Ltd., part of the Industry Division, began operations. In March 2006, Pacific Composites Pty. Ltd and its subsidiaries will join the Group.

As a result of these changes, the Group comprised at the turn of the year the parent company Exel Oyj operating in Finland, plus seven subsidiaries operating abroad: Exel GmbH in Germany, Exel USA, Inc. in the United States, Exel Composites N.V. in Belgium, Exel Composites GmbH in Austria, International Gateway AB in Sweden, and both Nordic Sports Products (Beijing) Ltd. and Exel Composite Materials (Shenzhen) Ltd. in China. Exel Oyj owns 100 percent of all subsidiaries except Nordic Sports Products (Beijing) Ltd, of which it owns 80 percent.

Exel GmbH manufactures thermoplastic components for Central European ski and snowboard manufacturers in Rohrdorf, plus antenna profiles and other profiles in Voerde. It also acts as an importer, marketing company and distributor of poles and floorball products, as do Exel USA, Inc. and Nordic Sports Products (Beijing) Ltd. International Gateway develops and markets a number of floorball product brands under its control. The parent company also owns a subsidiary called Pro Stick Oy, which remained inactive during the financial year.

Exel Oyj's wholly owned subsidiary Exel Sports Oy began operations on 1 April 2005. The new company incorporated the marketing, sales, logistics and product development operations of the Sport Division's consumer products, and 25 personnel transferred to the new company from the parent company.

Group management
Ari Jokelainen is President & CEO and Vesa Korpimies Deputy Managing Director.

In 2005 the President & CEO's salary and other benefits totalled EUR 403 thousand.

Exel board member Mika Sulin was appointed Managing Director of Exel Sports Oy.

Personnel
The number of Exel Group employees on 31 December 2005 was 466 (419), of whom 315 (297) worked in Finland and 151 (122) in other countries. The average number of personnel during the financial year was 467 (441). The increase over the previous year was due to the acquisition of the Austrian unit and an increase in personnel in the Sport Division in Finland.

Incentive programmes
Exel Oyj's performance-based incentive programme covers all employees. Management employees receive a monthly salary and an annual bonus tied to the attainment of annually established goals emphasising growth and profitability. Non-management employees are also eligible for incentive compensation, but their annual bonus is based on productivity. Key employees are additionally covered by an option or similar share-based programme designed to enhance their long-term commitment.

The subscription for the first part (A) of the 2001 warrant programme for key employees commenced on 1 June 2002, and 95,800 subscriptions were made in 2005. Employees have the right to subscribe for a total of 55,400 company shares with 27,700 options using unused option rights remaining at the end of 2005. The subscription for the second part (B) of the warrant programme commenced on 1 October 2003, resulting in 74,150 subscriptions in 2005. Employees have the right to subscribe for a total of 57,100 company shares with 28,500 options using unused option rights remaining at the end of 2005. The subscription period for all option rights ends on 30 April 2006.

In 2004 Exel's Board of Directors launched a share-based incentive system for 2004-2007. According to this system, the Board annually decides on a lump sum to be paid out to key employees based on achieved targets. The rewarded employee is obliged to buy Exel Oyj shares with the incentive bonus plus a 20% contribution and to retain ownership for a minimum period of two years. The purpose of the long-term incentive scheme is to support the exceeding of the financial targets set by the company and achieving the goals for earnings per share and return on capital employed or similar goals.

Shares and share capital
Exel shares are quoted on the Main List of the Helsinki Stock Exchange under Materials.

The Annual General Meeting of Exel Oyj held on 14 April 2005 approved the Board's proposal to distribute a dividend of EUR 0.35 per share (0.70 before share split), representing a total of EUR 3,930,500, for the financial year 2004.

The AGM approved the proposal of the Board of Directors to double the number of shares of the company and to increase the share capital of the company with a bonus issue of EUR 56,150. After the increase the share capital of Exel Oyj increased to EUR 2,021,400 divided between 11,230,000 shares, each with a counter-book value of EUR 0.18. At the same time the AGM authorised the Board of Directors to increase share capital by a maximum of EUR 100,000, to acquire the company's own shares representing no more than 10% of the Company's total share capital, and to convey the company's own shares.

Exel's share capital has increased during the year due to subscriptions made under the warrant programme by EUR 81,372 and due to a bonus issue to EUR 2,069,802, and the number of shares registered in the Trade Register has increased to 11,489,900, each having the counter-book value of EUR 0.18.

There is only one class of shares, and all shares are freely assignable under Finnish law.

Share performance and turnover
During the financial year the highest share price quoted was EUR 14.80 (12.00) and the lowest EUR 11.35 (5.87). At the end of the year, the share price was EUR 13.05 (11.50). The average share price during the financial year was EUR 12.73 (9.02).

A total of 4,114,242 (7,924,940) shares were traded during the year, which represents 35.7% (73.2%) of the average number of shares. On 31 December 2005, Exel's market capitalisation was EUR 150.1 (127.0) million.

Shareholders and disclosures
On 31 December 2005, 4.9 % of the shares and the votes of Exel were owned or controlled, directly or indirectly by the President & CEO and the members of the Board of Directors.

Exel's largest shareholder is the Swedish investment company Nordstjernan AB, which owned 30.4% of shares at the end of 2005. Other major shareholders included Ilmarinen Mutual Pension Insurance Company (6.5%) and Varma Mutual Pension Insurance Company (4.5%). At the end of the year the company had 2,967 (2,380) shareholders. At the end of the year the company had 2,967 (2,380) shareholders.

During the year under review, Exel received no disclosures under Chapter 2, section 9 of the Securities Market Act.

Corporate Governance
The Board of Directors has further refined the Group's corporate governance policies, observing the recommendations issued in December 2003 for the corporate governance of listed companies, which were implemented within Exel as of 1 July 2004. The Board of Directors has also begun self-auditing procedures. The results of these audits are reviewed annually at the last Board meeting of the year.

Exel complies with the general insider trading guidelines issued by the Helsinki Stock Exchange on 1 January 2006. These are supplemented by more detailed instructions on such matters as trading in the company's securities by permanent insiders, for example.

Board of Directors and Auditors
On 14 April 2005 the Annual General Meeting appointed Kari Haavisto, Peter Hofvenstam, Vesa Kainu, and Ove Mattsson to continue on the Board of Directors. Torgny Eriksson, Esa Karppinen and Matti Virtaala were elected as new members. Ove Mattsson was re-elected Chairman of the Board.

The Board of Directors convened 11 times in 2005 and the average attendance rate at these meetings was roughly 96%. The fees paid to the Board of Directors tolalled 142 thousand in 2005.

The Board of Directors has reviewed the independence of Board members in accordance with the recommendation 18 of the Corporate Governance recommendation. The members of the Board are considered to be independent of the company. Ove Mattsson, Torgny Eriksson, Kari Haavisto, Vesa Kainu and Matti Virtaala are independent of major shareholders. Peter Hofvenstam and Esa Karppinen are not independent of major shareholders since Peter Hofvenstam is the senior vice president of Nordstjernan and Esa Karppinen is the president of Berling Capital Oy.

The Board of Directors has been assisted by a compensation committee comprising Ove Mattsson, Peter Hofvenstam and Vesa Kainu. This committee met 3 times in 2005.

In addition, the company has a nomination committee comprising the Chairman and persons nominated by the four largest shareholders as of 15 November before the Annual General Meeting. In 2005 the nomination committee comprised Tomas Billing as chairman (Nordstjernan AB), Mikko Koivusalo (Varma Mutual Pension Insurance Company), Pertti Laine (Veikko Laine Oy), Mikko Mursula (Ilmarinen Mutual Pension Insurance Company) and Ove Mattsson. The committee met 2 times in 2005.

PricewaterhouseCoopers Oy, Authorised Public Accountants, with Christian Savtschenko-Alexandroff, APA, as principal auditor, and Johan Kronberg, APA, served as company auditors.

The fees paid to the auditors totalled EUR 137 thousand in 2005.

Significant events after the financial year
The decision was made at the end of January 2006 to subcontract all finishing, assembly and packaging operations for poles and floorball products to China. This transfer will take place in phases throughout the year with the goal of having all these operations handled completely in China by the beginning of 2007. This will necessitate the restructuring of operations at the Mäntyharju factory. Due to the reorganisation, negotiation procedure with personnel began on 1 February 2006. As a result of these negotiations, the number of personnel is estimated to be decreased by 60-70 persons. The restructuring is estimated to cause non-recurring costs amounting approximately to EUR 2 million during the year 2006. Based on the current sales volume it is estimated to increase the profit before taxes annually with minimum EUR 2 million starting from 2007.

The strategic focus for the Group is the Industry Division, which continues to expand. At the end of February the Australian company Pacific Composites Pty. Ltd was acquired. Through the acquisition of Pacific Composites, Exel establishes itself as the world's first global pultrusion company. The acquisition will extend the product range and reinforce Exel's leading position. The acquisition helps Exel serve international clients globally. At the same time the establishment of operations in China and the Far East markets gathers pace, and the range of products is expanding. Net sales of Pacific Composites during July 2004 - June 2005 were EUR 19.8 million and profit before taxes EUR 1.8 million. Net sales during July - December 2005 were EUR 12.0 million, an increase of 25% compared to the corresponding period previous year. The profit before taxes for the same period amounted to EUR 1.4 million.

The cash consideration for Pacific Composites' shares amounts to EUR 17.5 million (AUD 28 million). In addition, pursuant to the authorization by the AGM on 14 April 2005, Exel's share capital will be increased by a new share issue to Lemarne Corporation Limited of 230,743 shares, with an estimated market value of EUR 2.8 million (AUD 4.5 million).

Outlook for 2006
Pacific Composites will significantly increase net sales for the Industry Division. During 2006 the operations of Pacific Composites will be integrated into the Group. The acquisition strengthens and speeds up the growth of business operations particularly in the Far East markets. The lack of supply of carbon fibre will continue in 2006, which will limit growth opportunities.

The main markets for Nordic Walking products in Central Europe will remain weak during the spring as retail chains continue to sell off existing stocks. Demand is expected to recover by the summer. Efforts to open new Nordic Walking markets continue. New markets are expected to add to sales during the end of the year. The partial subcontracting of pole and floorball products to the Far East will cause non-recurring costs during 2006 but will improve the profitability of the Sport Division from 2007.

Based on the above, Group net sales are expected to increase significantly. Due to major restructuring of sports production and the acquisition of Pacific Composites, the profit will be influenced by a number of non-recurring items, meaning that the profit before taxes is expected to be slightly lower than 2005.

Board proposal for dividend distribution
Exel's strategic goals include distributing dividends equal to at least 40% of the profit for the financial year unless otherwise required by growth and liquidity.

On 31 December 2005 the Group's distributable funds totalled EUR 19,429 thousand and those of the parent company EUR 19,023 thousand.

The Board proposes to the Annual General Meeting that a dividend be paid for the 2005 financial year of EUR 0.40 (0.35) per share for a total of EUR 4,720,257, which represents 53% of the profit for the financial year.

The proposed record date for dividends is 11 April 2006. If the Annual General Meeting approves the Board's proposal, it is estimated that dividend payments will commence on 20 April 2006.

Consolidated income statement, EUR 1,000

	Ref.	1 Jan.-31 Dec. 2005	1 Jan.-31 Dec. 2004
NET SALES	1	**91,288**	**83,857**
Increase (+)/Decrease (-) in inventories of finished goods and work in progress		254	3,347
Production for own use		411	358
Other operating income	3	186	111
Materials and services		-34,238	-32,831
Personnel operating expenses	5	-20,436	-18,229
Depreciation and impairment	7	-3,584	-3,181
Other operating expenses	4, 6	-21,493	-19,731
OPERATING PROFIT		**12,388**	**13,702**
Financial income and expenses	8	164	95
Financial expenses	9	-506	-562
PROFIT BEFORE INCOME TAXES		**12,046**	**13,236**
Income taxes	10	-3,144	-4,110
ATTRIBUTABLE TO		**8,902**	**9,126**
Equity holders of the parent company		8,902	9,126
Minority interest		0	-
Earnings per share for profit of the year attributable to the equity holders of the parent company (EUR per share)			
Basic	11	0.78	0.84
Diluted	11	0.76	0.80

Consolidated balance sheet, EUR 1000

ASSETS	Ref.	31 Dec. 2005	31 Dec. 2004
NON-CURRENT ASSETS			
Goodwill	13	3,877	3,188
Other intangible assets	13	880	926
Tangible assets	14	15,395	13,742
Other non-current investments	15	103	100
Deferred tax assets	21	1,070	346
TOTAL NON-CURRENT ASSETS		**21,325**	**18,302**
CURRENT ASSETS			
Inventories	16	15,361	13,269
Trade receivables and other receivables	17	12,157	9,532
Other liquid assets	18	1,324	2,201
Cash in hand and at bank	18	4,454	2,949
TOTAL CURRENT ASSETS		**33,295**	**27,951**
TOTAL ASSETS		**54,621**	**46,253**
LIABILITIES AND SHAREHOLDERS' EQUITY			
EQUITY			
Share capital		2,070	1,932
Rights issue		287	817
Premium fund		5,142	3,390
Retained earnings		19,530	14,553
Equity attributable to the equity holders of parent company		**27,029**	**20,692**
Minority interest		11	
TOTAL EQUITY		**27,040**	**20,692**
NON-CURRENT LIABILITIES			
Deferred tax liabilities	21	407	297
Non-current interest bearing liabilities	20, 23	9,611	8,456
TOTAL NON-CURRENT LIABILITIES		**10,018**	**8,753**
CURRENT LIABILITIES	20		
Current interest bearing liabilities	19	4,346	4,141
Trade payables and other liabilities		12,284	11,073
Current income tax liabilities		933	1,593
TOTAL CURRENT LIABILITIES		**17,563**	**16,807**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**54,621**	**46,253**

Statement of changes in shareholders´ equity, EUR 1,000

	Share capital	Rights issue	Premium fund	Translation differences	Fair value and other reserves	Retained earnings	Total
EQUITY 1 Jan. 2004	**1,870**	**135**	**3,028**			**12,429**	**17,462**
Rights issue	62	682	357				**1,102**
Exchange rate differences				1			**1**
Other items			5			-5	**0**
Dividend distributed						-6,998	**-6,998**
Profit for the financial year						9,126	**9,126**
EQUITY 31 Dec. 2004	1,932	817	3,390	1		14,552	**20,692**
EQUITY 1 Jan. 2005	1,932	817	3,390	1		14,552	**20,692**
Rights issue	138	-530	1,752				**1,360**
Exchange rate differences				6			**6**
Other items							
Dividend distributed						-3,931	**-3,931**
Profit for the financial year						8,902	**8,902**
EQUITY 31 Dec. 2005	2,070	287	5,142	7		19,523	**27,029**

Consolidated cash flow statement, EUR 1,000

	Ref.	1 Jan.-31 Dec. 2005	1 Jan.-31 Dec. 2004
CASH FLOW FROM BUSINESS OPERATIONS			
Profit for the financial year		8,902	9,126
Total adjustments	30	6,935	7,623
Change in net working capital		-2,760	1,657
Financial expenses paid		-498	-409
Financial income received		162	50
Income taxes paid		-4,823	-2136
CASH FLOW FROM BUSINESS OPERATIONS		**7,918**	**15911**
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisitions	2	-2,056	-7,181
Investments in tangible and intangible assets		-2,377	-3,187
Proceeds from sales of fixed assets		62	44
NET CASH FLOW FROM INVESTING ACTIVITIES		**-4,371**	**-10,324**
CASH FLOW BEFORE FINANCING		3,547	5,587
Share issue		1,360	1,012
Withdrawals of non-current loans		2,000	5,100
Repayments of non-current loans		-2,011	-2,588
Net withdrawals of / repayment of current loans		-30	345
Repayment of finance leases		-307	-157
Dividend distributed		-3,931	-6,998
CASH FLOW FROM FINANCING		**-2,919**	**-3,196**
CHANGE IN LIQUID FUNDS ACCORDING TO CASH FLOW STATEMENT		**628**	**2,391**
Liquid funds at the beginnig of the period		5,150	2,759
Liquid funds at the end of the period		5,778	5,150

(All figures in EUR thousands unless otherwise stated)

ACCOUNTING PRINCIPLES

Listed below are the key accounting principles that have been applied in preparing the consolidated financial statements. The Board of Directors has on 26 February 2006 approved the financial statements to be published.

Transition to international financial reporting standards (IFRS)

Exel has adopted International Financial Reporting Standards (IFRS) from the beginning of 2005. These are the Group's first audited financial statements prepared according to IFRS.

Principal activities

Exel Oyj is a Finnish company specialised in composite technology established in 1960. The Group's operations consist of sporting goods and industrial applications. Exel's best known products include cross-country and Alpine poles, Nordic Walking poles, surfboard masts, floorball clubs and industrial profiles in general. The Group's six factories are located in Finland, Germany, Belgium, Austria and Spain. Sales companies are located in Sweden, Germany, the USA and China. Some 85% of production is exported. Exel's share is listed on the Main List of the Helsinki Stock Exchange. Exel Oyj is domiciled in Mäntyharju, Finland.

ACCOUNTING PRINCIPLES FOR THE FINANCIAL STATEMENTS

Compiling principles

The consolidated financial statements of Exel Oyj have been prepared in compliance with International Financial Reporting Standards (IFRS), applying IAS and IFRS standards, as well as SIC and IFRIC interpretations, valid on 31 December 2005. The transition date was 1 January 2004. The Group has not yet adopted the IFRS 7 standard issued on 18 August 2005, which is not effective until 1 January 2007 and for financial periods starting later than this date. The notes to the consolidated financial statements are also in compliance with the Finnish Accounting and Companies Acts.

When preparing the consolidated opening IFRS balance sheet, Exel has applied exemptions permitted by IFRS 1 ("First-Time Adoption of International Financial Reporting Standards") in the following areas: valuation of property, plant and equipment and intangible assets; business combinations; pension obligations; financial instruments; and cumulative translation differences. The reconciliation statement that is included in section 33, reveals the effects of the IFRS adoption. Comparative data for 2004 were adjusted to IFRS with the exception of financial instruments.

The financial statements have been prepared under the historical cost convention, with the exception of available-for-sale investment securities and certain other financial assets and financial liabilities, which are recognised at fair value.

Use of estimates

The preparation of financial statements may require the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements 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.

Consolidation principles

Exel's consolidated financial statements include the accounts of the parent company Exel Oyj and its subsidiaries. Subsidiaries are viewed as companies in which it owns, directly or indirectly, over 50 percent of the voting rights or in which it is in a position to govern the financial and operating policies of the entity. Subsidiaries have been consolidated from the date that Exel 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.

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 including any costs directly attributable to the acquisition. The excess acquisition cost over the fair value of net assets acquired is recognised as goodwill.

All intercompany transactions, receivables, liabilities and unrealised profits, as well as intragroup profit distributions, are eliminated as part of the consolidation process.

When compiling the opening IFRS balance sheet, Exel 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 goodwill of the opening balance sheet has been tested at the transition date, according to which value adjustment entries have not been necessary.

The Group has no affiliated companies or joint ventures.

Minority interest

Minority 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 Group includes one company that has a minority shareholder, Nordic Sports Products (Beijing) Ltd, in which the minority shareholder has a 20 percent holding. The minority's share of the accumulated losses is allocated to minority interest in the consolidated balance sheet up to the maximum of the investment.

Revenue recognition

Sales of products are recognised as income once the risks and benefits related to ownership of the sold products have been transferred to the buyer and the Group no longer has possession of, or control over, the products. Sales of services are recognised as income once the service has been rendered. Net sales comprise 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 recognised using the effestive interest rate method and dividend income when the right to the dividend has been created.

Foreign currency translations

The consolidation financial statements are presented in euros, which is the functional and presentation currency for the Group's parent company.

The income statements of independent foreign subsidiaries are translated into euros at the average exchange rates for the financial year and the balance sheets are translated at the exchange rate of the balance sheet date. Exchange differences arising from the translation of the net investment in foreign entities are recorded directly to equity. When a foreign operation is sold, such exchange differences are recognised in the in-come statement as part of the gain or loss on sale. Translation differences that have been created before 1 January 2004 are recorded in retained earnings in the transition to IFRS.

As of 1 January 2004 Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the date of the transactions. Monetary items in foreign currencies are recorded at the rate of the balance sheet date. Non-monetary items in foreign currencies that have been adjusted according to fair value are recorded at the rate of the adjustment date. Otherwise non-monetary items are recorded at the rates of exchange prevailing at the date of the transactions. 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 are included in financial items.

Intangible assets

Goodwill

In the case of companies acquired after 1 January 2004, goodwill corresponds to the share of the acquisition cost in excess of the Group's share of the fair value of the acquiree's net assets at the time of acquisition. The goodwill on the consolidation of business functions prior to this date corresponds to the carrying amount as per the previously employed accounting standards, which has been used as the assumed acquisition cost. Neither the classification nor accounting treatment of these acquisitions has been adjusted when drafting the opening consolidated IFRS balance sheet.

Goodwill and the calculation the fair value at the date of acquisition is considered the property of the acquired company and is recorded at the rates of exchange on the date of the acquisition. Goodwill is not amortised but is instead subjected to an annual impairment test. If the estimated future cash flow of a business is lower than its goodwill on the balance sheet, the resulting impairment loss is recorded as an expense in the income statement.

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 utilised commercially, and the product is expected to create a comparable financial benefit. Other development costs are recorded as expenses. Activated development costs are amortised 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 activated development costs during 2005.

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. Activated computer software development costs are expensed and amortised on a straight-line basis during the period they are financially effective.

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

Intangible assets are recognised in the balance sheet only if an asset's acquisition cost can be reliably defined and if the expected financial benefit deriving from the asset is realised for the good of the company. Intangible assets are recognised in the balance sheet at historical costs less accumulated depreciation and impairment losses.

Intangible assets are amortised on a straight-line basis over their estimated useful lives:

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

Property, plant and equipment
Tangible fixed assets are valued 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 cost of acquisition or revaluation 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 recognised as an expense. Expenditure on significant modernisation and improvement projects are recognised in the balance sheet if they are likely to increase the future economic benefits embodied in the specific asset to which they relate. Modernisation and improvement projects are depreciated on a straight-line basis over their expected useful lives.

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 income.

Interest costs on borrowings to finance the construction of these assets and other liability costs are recorded as expenses.

Government grants
Government grants are deducted from the asset's book value. Grants are recorded in the form of minor depreciations during the useful life of the asset.

Other grants are recorded as income for the financial periods during which the related expenses occurred.

Financial assets and liabilities
The Group has applied IAS 39 "Financial Instruments: Recognition and Measurement" as from 1 January 2004. Financial assets are classified in accordance with the purpose underlying the acquisition of the financial asset. The assets are categorised on initial recognition. Transaction costs are included in the original carrying amount of financial assets when the item in question is not measured at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

"Financial assets at fair value through profit or loss" is divided into two subcategories: held-for-trading assets and designated items. The latter includes any financial asset that is designated on initial recognition as one to be measured at fair value with fair value changes in profit or loss. Held-for-trading financial assets have primarily been acquired for the purpose of generating profits from changes in market prices over the short term. Derivatives that do not meet the criteria for hedge accounting have been classified as being held for trading. Held-for-trading financial assets and those maturing within 12 months are included in current assets. The items in this group are measured at fair value. The fair value of all the investments in this group has been determined on the basis of price quotations in well-functioning markets. Both realised and unrealised gains and losses due to changes in fair value are recorded in the income statement in the financial period in which they were incurred.

"Held-to-maturity investments" are financial assets that are not included in derivative assets and whose payments are fixed or definable, which mature on a specific date, and which the Group firmly intends to and is able to hold until maturity. They are valued at the periodised acquisition cost and are included in non-current assets.

"Available-for-sale financial assets" are assets that are not included in derivative assets and which have either been expressly designated for inclusion in this group or not classified into any other group. They are in-cluded in non-current assets, unless it is intended that they will be held for less than 12 months from the closing date, in which case they are included in current assets. Available-for-sale assets can comprise shares and interest-bearing investments, and they are measured at fair value. The fair value of assets in this category is generally defined on the basis of the publicly quoted price, which is the purchase price quoted on the closing date. Changes in the fair value of available-for-sale financial assets are entered in the income statement.

Liquid funds
Liquid funds comprise cash, bank deposits withdrawable on demand and highly liquid short-term investments. The maturity of items classified into liquid funds is no more than three months from the date of acquisition. 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.

Within liquid funds, cash and cash equivalents are recorded at the original amount and financial securities at fair value. In the balance sheet, the use of Group account limits is included in current interest-bearing liabilities.

Financial liabilities
Financial liabilities are originally booked at their fair value on the basis of the consideration received. Transaction costs have been included in the original carrying amount of financial liabilities. Finance lease liabilities are recognised at fair value. All financial liabilities are later valued at the periodized acquisition 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.

Impairment
At each closing 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. 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 semifinished goods. No impairment was recorded for the 2005 financial year.

The recoverable amount is the fair value of the asset item less selling costs or the value in use, whichever is higher. The recoverable amount of financial assets is either the fair value or the present value of future cash flows discounted at the original effective interest. The recoverable amount of financial assets is either the value or a higher value in use, obtained by discounting the present value of the future cash flows from that asset. An impairment loss is recorded if the carrying amount of the asset item is higher than its recoverable amount. The impairment loss is entered in the income statement. An impairment loss is reversed when the situation changes and the amount recoverable from the asset item has changed since the date when the impairment loss was recorded. However, impairment losses are not reversed beyond the carrying amount of the asset exclusive of impairment losses. Impairment losses on goodwill are never reversed.

An impairment test required by the transition-period standards was conducted for goodwill on the IFRS transition date of 1 January 2004.

Lease agreements
Lease agreements concerning tangible assets in which the Group holds a material share of the risks and benefits of ownership are classified as financial lease agreements. A financial lease agreement is entered in the balance sheet at either the fair value of the leased asset on the starting date of the lease agreement or the current value of the minimum rents, whichever is lower. Lease payments are divided into financing costs and instalment payment of the liability so that the interest rate of the remaining liability remains unchanged. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities. The financing cost calculated with the effective interest rate is recorded in the income statement as a financial expense. Tangible fixed assets acquired under financial lease agreements are depreciated over their economic lifetime or the period of lease, whichever is shorter.

Lease agreements in which the risks and benefits of ownership are retained by the lessor are treated as other lease agreements (operational leasing). Rents paid on other lease agreements are expensed in even instalments in the income statement over the duration of the rental period.

Assets leased by the Group in which the risks and benefits of ownership are transferred to the lessee are treated as financial leasing and recorded in the balance sheet as a receivable according to present value. Financial income from financial lease agreements are determined so that the remaining net investment provides the same income percentage over the duration of the rental period.

Assets leased by the Group other than through financial leasing are included in the balance sheet as tangible fixed assets and are depreciated according to their estimated useful economic life in the same way as tangible fixed assets used by the Group. Leasing income is recorded in the income statement in even instalments over the duration of the rental period.

Inventories
Inventories are valued in the balance sheet either at the acquisition cost or at the net realisable 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 labour, 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 liability expenses. The net realisable 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 expected realisation value, which is the original invoice amount less the estimated impairment of these receivables. An impairment of trade receivables

is recognised when there is justified evidence that the Group will not receive all of its receivables on the original terms. Trade receivables are removed from the balance sheet when the credit liability has been realised.

Share capital
Ordinary shares are included in shareholders' equity. Expenses incurred directly from new share issues, but not including expenses incurred from company mergers, are recorded in shareholders' equity as a reduction of received payments.

Deferred 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 taxes.

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 disposal 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 utilised 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.

Employee benefits

Pension liabilities
The Group's pension schemes comply with each country's local regulations and practices. Pension costs are based on pension calculations made by local authorities and are assessed regularly. They are entered in the income statement in the financial period during which the charge applies. The Group applies defined benefit pension schemes. 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 schemes, 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 and adjusted with the actuarial profits and losses and retroactive labour costs. 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 as the interest rate the interest rate of state promissory notes corresponding to the term of the pension liability. Pension costs are recorded in the income statement as an expense with costs periodised over the employees' time of service based on actuarial calculations carried out annually. Actuarial gains and losses, in terms of the portion exceeding a certain limit, are recognised over the employees' average term of service.

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 as an expense in the financial period to which the payments relate.

The disability pension component of Finland's statutory employment pension scheme (TEL) is accounted for as a defined benefit plan 1 January 2004. Due to changes approved by Finnish authorities in December 2004 TEL's disability pension component is accounted for as a defined contribution plan from 1 January 2006. The change in calculation basis is recognised in the financial statements for 2004 and 2005 as a reduction in the disability pension system and entered in the income statement.

Stock options
The Group has granted key personnel stock option certificates that entitle the holder to subscribe to shares at a price based on the weighted average share price on the Helsinki Stock Exchange during a period defined in the stock option programme. The subscription price is lowered after the determining period and before the subscription by the amount of dividends distributed. When shares are subscribed using stock option certificates, the cash payments, adjusted for any transaction costs, received are credited to the share capital and the share premium fund.

The subscription price for stock options granted to company employees is determined on the day they are issued. When stock options are exercised, the cash payments, adjusted for any transaction costs, received are entered in the share capital (nominal value) and the share premium fund.

The Group has applied IFRS 2 Share-Based Payment to all share option schemes in which options have been granted after November 7, 2002, and to which rights have not vested before January 1, 2005. No expenses on prior share option schemes have been presented in the income statement.

Provisions
A provision is recognised in the balance sheet when the Group has a legal or actual obligation on the basis of a prior event, the materialisation 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 recognised 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 balance sheet date.

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

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

Derivative contracts
The Group treats derivative contracts as set forth in IAS 39 "Financial Instruments: Recognition and Measurement" as of 1 January 2004. Derivative contracts are originally recorded at their acquisition cost, which corresponds to their fair value. Following their acquisition, derivative contracts are measured at fair value. Gains and losses arising from measurement at fair value are treated in accounting as dictated by the purpose of the derivative contract. The Group does not apply hedge accounting in accordance with IAS 39. Accumulated changes in fair value are recognised in the income statement. The Group has interest rate derivatives whose non-current financial liabilities have been converted to fixed interest rates. Derivatives are presented in section 25 of the notes. Derivatives are recorded in the balance sheet under accrued expenses and deferred income.

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

Comparative data
Comparative data has been amended as necessary to correspond to changes in the method of presentation made during the financial year.

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.

NEW STANDARDS AND IFRIC INTERPRETATION

IASB has issued new standards and interpretations the adoption of which is mandatory in 2006 or later. The Group has decided not to adopt these standards earlier and will adopt them in future financial years.

Below are listed the standards that have been issued before the publication date of the financial statements, but which have not yet been adopted by the Group. The adoption of the standards requires approval by the EU.

Standards, amended standards and interpretations that the management of the Group estimates not to have any marked effect on consolidated financial statements:

- IAS 21 (amendment) The effects of changes in foreign exchange rates
- IAS 39 (change) Financial instruments: recognition and measurement and IFRS 4 (amendment) Financial guarantee contracts
- IFRS 1 (amendment) First-time adoption of International Financial Reporting Standards and IFRS 6 (amendment) Exploration for and evaluation of mineral resources
- IAS 19 (amendment) Employee benefits
- IAS 39 (amendment) Financial instruments: recognition and measurement (Käypään arvoon arvostamismahdollisuus and cash flow hedge accounting of forecast intragroup transactions)
- IFRS 6 Exploration for and evaluation of mineral resources
- IFRIC 4 Determining whether an arrangement contains a lease
- IFRIC 5 Rights to interests arising from Decommissioning, Restoration and Environmental Funds
- IFRIC 6 Liabilities arising from participating in a specific market – Waste electrical and electronic equipment
- IFRIC 7 Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies
- IFRIC 8 Scope of IFRS 2

IFRS 7 Financial instruments: Disclosures
The Group estimates that the adoption of the standard has an effect primarily on the notes to the accounts.

IAS 1 (amendment) Capital disclosures
The Group estimates that the adoption of the amendment has an effect primarily on information presented in the balance sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SEGMENT INFORMATION

Segment information is presented according to the Group's business and geographical segment distribution. The Group's primary segment reporting form is based on business segments. Business segments are based on the Group's internal organisational structure and internal financial reporting.

Business segments consist of asset groups and businesses whose risks and profitability relative to products or services differ from other business segments. Geographical segments' 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 segments.

Transactions between segments are based on market prices.

Business segments
The Group's business segments are Industry and Sport. The company has no discontinued operations.

Geographical segments
The Group's geographical segments are the Nordic Countries, Other European Countries, and Other Countries. Net sales of geographical segments are presented according to the location of the customers, while assets are presented according to the location of the assets.

Primary reporting format – business segment information 1 Jan.-31 Dec. 2005

EUR 1,000	Industry	Sport	Eliminations	Group
External net sales	56,795	34,493		91,288
Group internal sales		2	-2	
Total sales	56,795	34,495		91,288
Segment operating profit	10,808	1,580		12,388
Net financing costs				-342
Income taxes				-3,144
Profit for the financial year				8,902
Segment assets	24,702	22,625		47,327
Unallocated assets				7,294
Total assets				54,621
Segment liabilities	6,621	5,857		12,478
Unallocated liabilities				15,103
Total liabilities				27,581
Capital expenditure	2,972	1,227		4,119
Depreciation	-1,884	-1,700		-3,584
Other non-payment-related expenses				

Segment assets include other assets except liquid assets and tax assets.
Segment liabilities include other non-interest-bearing liabilities except tax liabilities.

Primary reporting format – business segment information 1 Jan.-31 Dec. 2004

EUR 1,000	Industry	Sport	Eliminations	Group
External net sales	48,351	35,506	-2	83,857
Group internal sales				
Total sales	48,351	35,506		83,857
Segment operating profit	7,846	5,857		13,702
Net financing costs				-467
Income taxes				-4,110
Profit for the financial year				9,126
Segment assets	20,869	19,347		40,216
Unallocated assets				6,036
Total assets	20,869	19,347		46,253
Segment liabilities	4,295	3,229		7,524
Unallocated liabilities				18,037
Total liabilities	4,295	3,229		25,560
Capital expenditure	3,902	1,901		5,803
Depreciation	-1,710	-1,471		-3,181
Other non-payment-related expenses				

Secondary reporting format

Net sales outside the Group according to location of customers

EUR 1,000	2005	2004
Nordic Countries	21,410	21,124
Other European Countries	64,000	58,792
Other Countries	5,877	3,941
Total	**91,288**	**83,857**

Total assets according to secondary segment

EUR 1,000	2005	2004
Nordic Countries	31,348	26,617
Other European Countries	15,090	13,415
Other Countries	771	184
Total	**47,209**	**40,216**

Capital expenditure according to secondary segment

EUR 1000	2005	2004
Nordic Countries	1,723	2,956
Other European Countries	2,357	2,811
Other Countries	39	36
Total	**4,119**	**5,803**

2. BUSINESS ACQUISITIONS

The Group acquired on 1 April 2005 the Austrian company Faserprofil GmbH that was combined with the Group company Exel Composites GmbH. The acquisition included the business operations of Faserprofil GmbH, specialised in glass fibre profiles, as well as its fixed assets and inventories. The Group also took on certain obligations, primarily related to personnel. The acquisition cost was EUR 2,056 thousand, which was paid in cash. In addition to the purchase price paid in cash, acquisition expenses included consulting fees of EUR 159 thousand. The 9-month result of Exel Composites GmbH is included in the consolidated income statement for the 2005 financial year. The transferred assets were acquired at fair value. The acquisition created goodwill of EUR 688 thousand, which includes a surplus payment totalling EUR 300 thousand that is dependent on achieving sales targets in 2006 and 2007.Goodwill is considered as describing the segment know-how gained through the acquisition, as well as the improved utilisation of the entire Group's marketing and sales capacity and the synergy benefits that are made possible through this. The Group's net sales would have been approximately EUR 1.0 million and result EUR 0.1 million greater if the acquisition would have been made at the beginning of the financial year.

The Group acquired on 2 January 2004 the company Bekaert S.A. that was combined with the Group company Exel Composites N.V. The acquisition included its pultrusion business operations, as well as fixed assets and inventories. The Group also took on certain obligations. The acquisition cost was EUR 7,181 thousand, which was paid in cash. In addition to the purchase price paid in cash, acquisition expenses included consulting fees of EUR 355 thousand. The result of Exel Composites N.V. is included in the Group as of 1 January 2004. The acquisition created goodwill through synergy benefits of EUR 485 thousand.

The following assets and liabilities arising from the acquisitions have been recognised:

Assets and liabilities of acquired business operations	2005	2004
Intangible assets	4	0
Property, plant and equipment	1,105	2,084
Inventories	471	1,761
Trade receivables	8	4,272
Obligations	-220	-1,420
Net assets	1,369	6,696
Goodwill	688	485
Acquisition cost	**2,056**	**7,181**

3. OTHER OPERATING INCOME

EUR 1,000	2005	2004
Rental income	4	4
Other operating income	175	90
Profit from sale of non-current assets	7	17
Total	**186**	**111**

4. OTHER OPERATING EXPENSES

EUR 1,000	2005	2004
Rental expenses	1,072	723
Other operating expenses	20,420	19,008
Total	**21,493**	**19,731**

5. EMPLOYEE BENEFIT EXPENSES

EUR 1,000	2005	2004
Salaries	16,362	14,999
Pension costs – defined contribution schemes	2,228	1,561
Pension costs – defined benefit schemes	-82	-344
Other post-employment obligations	1,928	1,999
Total	**20,436**	**18,229**

Average number of personnel	2005	2004
Industry	236	224
Sport	231	217
Other		
Total	**467**	**441**

6. RESEARCH AND DEVELOPMENT EXPENDITURE

The income statement includes research and development costs entered as costs amounting to EUR 2,323 thousand in 2005 (EUR 1,955 thousand in 2004). These costs are included in the income statement under Salaries and Other Operating Expenses.

7. DEPRECIATION, AMORTISATION AND IMPAIRMENT

Depreciations of assets

EUR 1,000	2005	2004
Intangible assets	411	461
Tangible assets		
Buildings	442	431
Machinery and equipment	2 ,731	2,289
Total	**3,584**	**3,181**

8. FINANCE INCOME

EUR 1,000	2005	2004
Interest income	60	45
Dividend income	1	1
Foreign exchange gains	104	30
Change in fair value of financial assets recognised at fair value	-8	14
Other finance income	5	6
Total finance income	**164**	**95**

9. FINANCE EXPENSES

EUR 1,000	2005	2004
Interest expenses	482	483
Foreign exchange losses	26	20
Change in fair value of financial assets recognised at fair value	-63	59
Other finance expenses	61	
Total finance expenses	**506**	**562**

Exchange differences for sales (+EUR 101 thousand) and purchases (-EUR 202 thousand) are entered in the income statement in the appropriate sales and purchase accounts.

10. INCOME TAXES

EUR 1,000	2005	2004
Income tax based on taxable income for the financial year	3,504	4,049
Income taxes from previous financial periods	6	2
Deferred taxes	-366	59
Total income taxes	**3,144**	**4,110**

Income tax reconciliation

EUR 1,000	2005	2004
Profit before taxes	12,046	13,236
Tax calculated at Finnish statutory tax rate of 26% (29%)	3,132	3,838
Difference between Finnish and foreign tax rates	-104	234
Non-deductible expenses and tax exempt income	116	38
Total income taxes	3,144	4,110
Effective tax rate	26.1%	31.0%

11. EARNINGS PER SHARE

Undiluted earnings per share is calculated by dividing the profit attributable to shareholders of the parent company by the weighted average number of outstanding shares during the financial year.

	2005	2004
Profit for the financial year (EUR 1,000) attributable to shareholders of the parent company, continued operations	8,902	9,125
Weighted average number of outstanding shares during the financial year (1,000 shares)	11,313	10,826
Undiluted earnings per share (EUR/share), continued operations	0.78	0.84

The calculation of the diluted earnings per share takes into account the dilutive effect of converting all potential shares to shares. The Group uses stock options as a dilutive financial instrument that increase the number of shares. Stock options have a dilutive effect when the exercise price of the options is lower than the fair value of the share. The amount of the dilution is the number of shares that can be considered as issued for no consideration, since the Group could not issue the same number of shares at fair value with the funds received from share subscriptions. The fair value is based on the average price of the share during the financial year. The dilution effect has no impact on the result for the financial year.

	2005	2004
Weighted average number of shares, 1,000	11,313	10,826
Effect of stock options, 1,000	237	638
Weighted average number of shares for diluted earnings per share, 1,000	11,550	11,464
Diluted earnings per share (EUR/share), continued operations	0.76	0.80

12. DIVIDENDS PER SHARE

The Annual General Meeting held on 14 April 2005 approved the Board's proposal to distribute a dividend for the 2004 financial year of EUR 0.70 per share (equal to EUR 0.35 per share following the share split), amounting to a total dividend payment of EUR 3,931.

In 2004 a dividend of EUR 1.30 per share was distributed (equal to EUR 0.35 per share following the share split), or a total of EUR 6,998.

13. INTANGIBLE ASSETS

The Group has no internally created intangible assets.

Goodwill EUR 1,000	2005	2004
Acquisition cost at 1 Jan.	5,751	5,544
Additions	688	207
Translation differences	1	0
Acquisition cost at 31 Dec.	6,440	5,751
Accumulated amortisation at 1 Jan.	-2,563	-2,563
Accumulated amortisation at 31 Dec.	-2,563	-2,563
Book value at 1 Jan.	3,188	2,980
Book value at 31 Dec.	3,877	3,188

Goodwill is allocated to cash-flow generating business units as follows:

Distribution of goodwill, EUR 1,000	2005	2004
Sport Division, Finland	1,541	1,541
Industry Division, Finland	135	135
Industry, Germany	1,305	1,305
Industry, Belgium	207	207
Industry, Austria	688	-
Total	**3,877**	**3,188**

Impairment tests are made annually on goodwill and intangible assets with an unlimited economic lifespan. On the closing date the Exel Group had no other intangible assets with an unlimited economic lifespan than goodwill.

The Group has allocated goodwill to 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 next five years. Forecasts for periods further ahead in the future have been calculated on the assumption of 3.5 percent annual growth in the medium long term and 2 percent annual growth in the long term. The level of sales margins in these forecasts is expected to remain on average at the current level.

Discount rates are defined separately for each business sector in order 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 before taxes used in the calculations varied between 9.11%-8.31% depending on the cash-generating unit.

On the basis of the impairment test, the recoverable amounts of all cash-generating units exceeded the carrying amounts. Therefore, the Group has not recorded any impairment losses on goodwill on the closing date.

Other intangible assets, EUR 1,000	2005	2004
Acquisition cost at 1 Jan.	775	593
Additions	82	182
Decreases		
Translation differences		
Acquisition cost at 31 Dec.	857	775
Accumulated amortisation at 1 Jan.	-490	-408
Disposals	-75	-82
Decreases		
Translation differences		
Accumulated amortisation at 31 Dec.	-565	-490
Book value at 1 Jan.	284	184
Book value at 31 Dec.	291	284

All intangible assets are other than internally created.

Other long-term expenses, EUR 1,000	2005	2004
Acquisition cost at 1 Jan.	1,969	1,238
Additions	283	731
Decreases		
Translation differences		
Acquisition cost at 31 Dec.	2,252	1,969
Accumulated amortisation at 1 Jan.	-1,327	-948
Disposals	-336	-379
Decreases		
Translation differences		
Accumulated amortisation at 1 Jan.	-1,663	-1,327
Book value at 1 Jan.	642	290
Book value at 31 Dec.	589	642

14. PROPERTY, PLANT AND EQUIPMENT

Land and water areas, EUR 1,000	2005	2004
Acquisition cost at 1 Jan.	123	123
Additions		
Decreases		
Acquisition cost at 31 Dec.	123	123
Book value at 1 Jan.	123	123
Book value at 31 Dec.	123	123

Buildings and structures, EUR 1,000	2005	2004
Acquisition cost at 1 Jan.	4,179	4,117
Additions	380	62
Decreases		
Acquisition cost at 31 Dec.	4,558	4,179
Accumulated amortisation at 1 Jan.	-1,875	-1 604
Disposals	-282	-271
Decreases		
Translation differences		
Accumulated amortisation at 31 Dec.	-2,157	-1,875
Book value at 1 Jan.	2,305	2,513
Book value at 31 Dec.	2,402	2,305

Machinery and equipment, EUR 1,000	2005	2004
Acquisition cost at 1 Jan.	22,810	18,436
Additions	2,798	4,474
Decreases	-62	-100
Reclassifications		
Translation differences	25,546	22,810
Acquisition cost at 31 Dec.	-14,520	-12,231
Accumulated amortisation at 1 Jan.	-2,559	-2,289
Disposals		
Decreases	-2	-4
Reclassifications	17,079	14,520
Translation differences	8,286	6,205
Accumulated amortisation at 31 Dec.	8,465	8,286
Book value at 1 Jan.		
Book value at 31 Dec.		

Advance payments and construction in progress, EUR 1,000	2005	2004
Acquisition cost at 1 Jan.	1,511	1,629
Additions		
Decreases	-67	-118
Acquisition cost at 31 Dec.	1,444	1,511
Book value at 1 Jan.	1,511	1,629
Book value at 31 Dec.	1,444	1,511

Finance lease arrangements	2005	2004
Buildings	1,677	1,677
Acquisition cost at 1 Jan.		
Additions	160	
Accumulated amortisation at 1 Jan.	160	160
Disposals	320	160
Accumulated amortisation at 31 Dec.	1,517	1,677
Book value at 1 Jan.	1,358	1,517
Book value at 31 Dec.		

Finance lease arrangements	2005	2004
Machinery and equipment		
Acquisition cost at 1 Jan.	0	0
Additions	1,775	0
Accumulated amortisation at 1 Jan.	0	0
Disposals	172	0
Accumulated amortisation at 31 Dec.	172	0
Book value at 1 Jan.	0	0
Book value at 31 Dec.	1,603	0

15. INVESTMENTS

The Group holds a small number of publicly traded shares (14 at the end of 2005) that are recognised at fair value and that are classified under available-for-sale investments. The remaining long-term assets consist of connection fees and apartment and telephone shares.

EUR 1,000	2005	2004
Book value at 1 Jan.	100	99
Change in fair value	3	1
Book value at 31 Dec.	103	100

16. INVENTORIES

EUR 1,000	2005	2004
Raw materials	7,007	5,201
Work in progress	2,264	1,939
Finished products and goods	6,090	6,129
Total inventories	**15,361**	**13,269**

During the 2005 financial year an expense of EUR 103 thousand was recognised to reduce the book value of inventories to their net realisable value (EUR 250 thousand in 2004)

17. TRADE AND OTHER RECEIVABLES

EUR 1,000	2005	2004
Trade receivables	10,161	8,744
Deferred income	1,333	414
Other receivables	663	374
Total receivables	**12,157**	**9,532**

During the 2005 financial year credit losses of EUR 44 thousand were recorded (EUR 126 thousand in 2004).

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash-in-hand and bank reserves amounting to EUR 4,454 thousand (2,949), and short-term interest-bearing deposits amounting to EUR 1,324 (2,201) thousand.

19. TRADE AND OTHER NON-INTEREST-BEARING LIABILITIES

EUR 1,000	2005	2004
Trade payables	6,513	5,053
Accrued expenses	3,840	4,884
Advance payments	562	123
Other non-interest-bearing liabilities	1,369	1,013
Total	**12,284**	**11,073**

20. INTEREST-BEARING LIABILITIES

Non-current interest-bearing liabilities, EUR 1,000	2005	2004
Loans from financial institutions	6,752	6,666
Pension loans	160	222
Finance lease liabilities	2,699	1,568
Total	**9,611**	**8,456**

Current interest-bearing liabilities, EUR 1,000	2005	2004
Short-term loans from financial institutions	1,995	1,978
Current portion of long-term debt (repayments)	1,976	2,012
Finance lease liabilities	375	160
Total	**4,346**	**4,141**

Maturity of non-current interest-bearing liabilities, EUR 1,000	2005	2004
2006	1,976	1,937
2007	1,585	1,987
2008	1,215	1,578
2009	1,215	1,215
2010	778	1,215
2011+	1,944	722
Total	**8,715**	**8,652**

Maturity of finance lease liabilities, EUR 1,000	2005	2004
Finance lease liabilities – total value of minimum lease payments		
Not later than 1 year	444	195
1-5 years	1,775	779
Later than 5 years	435	374
Finance lease liabilities – present value of minimum lease payments		
Not later than 1 year	375	160
1-5 years	1,582	668
Later than 5 years	411	529
Future finance charges	286	185
Total finance lease liabilities	**3,074**	**1,610**

Among current liabilities, EUR 1,748 thousand has been converted to fixed interest rates thorough interest rate swap agreements.

21. DEFERRED INCOME TAXES

Deferred tax assets, EUR 1,000	1 Jan. 2005	Recognised in income statement	Recognised in sharehol-ders´ equity	Translation differences	31 Dec. 2005
Intercompany profit in inventory	234	229			462
Losses		302			302
Other temporary taxes	111	194			305
Offset with deferred tax liabilities					
Other temporary taxes					
Net deferred tax assets	346	725			1 070

Deferred tax liabilities, EUR 1,000	1 Jan. 2005	Recognised in income statement	Recognised in sharehol-ders´ equity	Translation differences	31 Dec. 2005
Accumulated depreciation		22			22
Other temporary differences	297	88			385
Offset with deferred tax assets					
Net deferred tax liabilities	**297**	**110**			**407**

The Group had taxable net losses on 31 December 2005 of EUR 965 thousand, of which the company has recorded deferred tax assets of EUR 302 thousand.

22. FINANCIAL RISK MANAGEMENT

The objective of financial risk management is to protect against unfavourable 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.

Various financial instruments are used to manage financial risks.

Foreign exchange risk
The Group operates primarily in the euro zone. Other main currencies are USD, SEK and GBP. The foreign exchange position is monitored generally for the following 12 month period. Foreign exchange exposure is hedged with forward agreements and currency options.

The Group's net investments in foreign business units are mainly in euros.

Interest rate risk
The Group's currency-denominated borrowings are in the domestic currencies of Group companies. The nominal values of interest-bearing liabilities on 31 December 2005 were divided to the currencies as follows:

Currency	Amount EUR 1,000
EUR	13,494
USD	383
Total	13,957

Non-current loans are partially protected against interest rate risks by interest rate swaps.

Liquidity and refinancing risk
The Group aims to ensure adequate liquidity under all circumstances. Cash reserves are invested only in financial items that can be realised quickly. In addition to cash reserves and interest rate investments, the Group had unused credit limits on 31 December 2005 amounting to EUR 13 million.

To minimise refinancing risks, the Group strives to achieve a balanced maturity distribution of its loans and long terms of maturity.

Credit risk
Trade receivables are secured with credit insurance. The credit limits and financial situation of customers are monitored continuously.

Counterparty risk
Counterparty risk refers to a situation in which a contracting party is unable to fulfil 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 2005 financial year, the Group's only counterparties were financial institutions.

23 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 (TEL) according to which benefits are directly linked to the employee's earnings. The TEL pension scheme is mainly arranged with insurance companies. The disability share of the TEL pension scheme is recognised as a defined benefit scheme. As a result of changes to the Finnish employee pension scheme, disability insurance is recognised as a contribution scheme from the beginning of 2006. Accordingly, EUR 471 thousand of pension obligations were eliminated in 2004 and EUR 43 thousand in 2005.

Pension schemes elsewhere than in Finland include both benefit and contribution pension schemes. Benefit pension schemes are not significant.

Amounts recognised in the income statement, EUR 1,000	**2005**	**2004**
Service cost for the financial year	2,228	1,561
Differences in benefit schemes	-82	-334
Total included in personnel expenses	**2,146**	**1,230**

Amounts recognised in the balance sheet, EUR 1,000	**2005**	**2004**
At the beginning of financial period	222	556
Pension expenses in the balance sheet	-82	-334
At the end of financial period	**160**	**222**

24. PROVISIONS

The Group has no provisions.

25. DERIVATIVE FINANCIAL INSTRUMENTS

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 as at the balance sheet date. Foreign currency options are fair valued based on quoted market prices as at the balance sheet date.

Net fair values and nominal values of derivative financial instruments:

EUR 1,000	**2005 Net fair value**	**2005 Nominal value**	**2004 Net fair value**	**2004 Nominal value**
Interest rate swap agreements	-9	1,748	-27	2,636
Forward contracts			-27	877
Currency options bought			10	750
Currency options sold			-18	371

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

26. CONTINGENT LIABILITIES

EUR 1,000	**2005**	**2004**
Commitments on own behalf		
Mortgages	2,953	2,954
Guarantees	12,500	12,500
Guarantees on behalf of others		
Not later than 1 year	216	223
1-5 years	263	1,563
Later than 5 years		
Other liabilities	66	67

27. SHARE CAPITAL, SHARE PREMIUM RESERVE AND OTHER RESERVES

EUR 1,000	**Number of shares (1000)**	**Share capital**	**Share premium**	**Total**
1 Jan. 2004	5,343	1,870	3,028	4,898
Share issue				
Adjustment from retained earnings				
Exercise of stock options	178	62	357	419
31 Dec. 2004	5,521	1,932	3,390	5,322
Exercise of stock options before share split	94	20	424	444
Share split	5,615			
Share issue		56	-56	
Exercise of stock options	269	62	1,384	1,436
31 Dec. 2005	11,499	2,070	5,142	7,212

Under the articles of association of the Company, the authorised share capital may not be less than EUR 1,750,000 and more than EUR 7,000,000. All released shares have been paid for in full.

On 14 April 2005 the Annual General Meeting authorised the Board to increase the share capital by one or more rights issues in such a way that the company's share capital may be increased by a maximum of EUR 100,000, which represents approximately 5 percent of the company's share capital. This authorisation has not been exercised during the year.

On 14 April 2005 the Annual General Meeting authorised the Board to acquire the Company's own shares using funds available for distribution of profits so that thee total accounting per value of the own shares held by the Company or its subsidiary organizations, or the number of votes they carry after the acquisition, corresponds to no more than ten (10) per cent of the Company's total share capital or the total number of votes they carry. The Annual General Meeting authorized the Board to resolve to convey the Company's own shares so that the authorization covers all such own shares of the Company that are acquired on the basis of the acquisition authorization granted to the Board. The authorizations are valid until the next Annual General Meeting. These authorisations have not been exercised during the year.

28. OPTION PROGRAMMES

On 28 March 2001 the Annual General Meeting decided to issue option rights to the key personnel of the Exel Group and to Exel Oyj's wholly owned subsidiary. The number of option rights is 370,000, of which half is marked with the letter A and half with the letter B. The subscription period for this option programme ends on 30 April 2006.

The 2001 option programme and its principal terms	2001 A	2001 B
Number of warrants	185,000	185,000
Number of shares subscribed *)	370,000	370,000
Maximum increase in share capital, EUR		
Number of shares subscribed at 31 Dec. 2005		
Options not distributed, or returned	13,500	36,000
Number of shares not subscribed on the basis of options	55,400	57,100
Maximum increase in share capital, EUR	9,972	10 278
Subscription price, EUR	10.77**)	10.27***)
Subscription period	1 Jun.2002-30 Apr.2006	1 Oct.2003-30 Apr.2006

The total number of shares that can be subscribed under warrants represents 3.9% of the company's share capital and voting rights. The A warrants related to Exel Oyj's 1998 warrant bond have been quoted on the Main List of the Helsinki Stock Exchange from 5 November 2001 and B warrants from 1 October 2002. The A warrants related to Exel Oyj's warrant programme have been quoted on the Main List of the Helsinki Stock Exchange from 7 October 2002 and B warrants from 27 October 2003.

*) Numbers after share split
**) The subscription price of the shares will be reduced by the amount of dividend per share distributed after 30 April 2001 and before subscription on the record date of each dividend distribution.
***) The subscription price of the shares will be reduced by the amount of dividend distributed after 31 October 2001 and before subscription on the record date of each dividend distribution.

29. DISTRIBUTABLE FUNDS, 31 DEC

EUR 1,000	2005
Retained earnings	10,628
Profit for the financial year	8,902
Translation differences	
Transfer of accumulated depreciation difference to equity	-101
Distributable assets, 31 Dec.	19,429

The parent company's distributable funds on 31 December 2005 were EUR 19,023 thousand.

30. CASH FLOW FROM BUSINESS OPERATIONS

Adjustments to the result for the financial year	2005	2004
Depreciation	3,584	3,181
Taxes	3,144	4,110
Financial expenses	506	532
Financial income	-164	-65
Other adjustments	-135	-135
Total	**6,935**	**7,623**

31. SUBSIDIARIES

Name of subsidiary	Domicile	Group share of holding
Exel Sports Oy	Finland	100 %
Exel GmbH	Germany	100 %
Exel Composites N.V.	Belgium	100 %
Exel Composites GmbH	Austria	100 %
Exel USA, Inc.	USA	100 %
International Gateway AB	Sweden	100 %
Exel Composite Materials (Shenzhen) Ltd	China	100 %
Nordic Sports Products (Beijing) Ltd	China	80 %
Pro Stick Oy	Finland	100 %

Management remuneration

Senior management salaries, fees and bonuses, EUR 1,000	2005	2004
President & CEO	262	245
Members of the Board of Directors	142	83
Pension costs in the income statement	141	0
Total	**545**	**328**

Salaries and fees per person:	EUR 1,000
Ari Jokelainen , Prsident & CEO	403
Ove Mattsson, Chairman of the Board	37
Members of the Board	
Torgny Eriksson	14
Kari Haavisto	20
Peter Hofvenstam	20
Vesa Kainu	20
Esa Karppinen	14
Mika Sulin	6
Matti Virtaala	11

32. EVENTS AFTER THE BALANCE SHEET DATE

The decision was made at the end of January 2006 to subcontract all finishing, assembly and packaging operations for poles and floorball products to China. This transfer will take place in phases throughout the year with the goal of having all these operations handled completely in China by the beginning of 2007. This will necessitate the restructuring of operations at the Mäntyharju factory. Due to the reorganisation, negotiation procedure with personnel began on 1 February 2006. As a result of these negotiations, the number of personnel is estimated to be decreased by 60-70 persons. The restructuring is estimated to cause non-recurring costs amounting approximately to EUR 2 million during the year 2006. Based on the current sales volume it is estimated to increase the profit before taxes annually with minimum EUR 2 million starting from 2007.

The strategic focus for the Group is the Industry Division, which continues to expand. At the end of February the Australian company Pacific Composites Pty. Ltd was acquired. Through the acquisition of Pacific Composites, Exel establishes itself as the world's first global pultrusion company. The acquisition will extend the product range and reinforce Exel's leading positions. The acquisition helps Exel serve international clients globally. At the same time the establishment of operations in China and the Far East markets gathers pace, and the range of products is expanding. Net sales of Pacific Composites during July 2004 – June 2005 were EUR 19.8 million and profit before taxes EUR 1.8 million. Net sales during July – December 2005 were EUR 12.0 million, an increase of 25% compared to the corresponding period previous year. The profit before taxes for the same period amounted to EUR 1.4 million.

The cash consideration for Pacific Composites' shares amounts to EUR 17.5 million (AUD 28 million). In addition, pursuant to the authorization by the AGM on 14 April 2005, Exel's share capital will be increased by a new share issue to Lemarne Corporation Limited of 230,743 shares, with an estimated market value of EUR 2.8 million (AUD 4.5 million).

33. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

As stated under Accounting Policies, these are the Group's first audited financial statements prepared according to IFRS. Before adopting IFRS, the Exel Group's financial statements were prepared in accordance with Finnish Accounting Standards (FAS).

The adoption of IFRS reporting has changed the reported financial statement calculations, the notes to the financial statements, and the accounting policies in comparison with previous financial statements. The accounting policies presented in the Principles Applied in the Consolidated Financial Statements have been applied in preparing the financial statements for the year ending 31 December 2005, the comparative data for the year ending 31 December 2004, and the opening IFRS balance on 1 January 2004 (the Group's transition date to IFRS reporting with the exception of standards 32 and 39).

The IFRS adjustments and explanations presented below describe the differences in the IFRS financial statements compared to Finnish Accounting Standards (FAS) in 2004 and the IFRS transition date 1 January 2004.

Finnish Accounting Standards have been applied to the 2004 comparative data used in financial instrument reporting under IAS 32 and 39 applying exemptions permitted by IFRS 1. Adjustments between the closing date of the comparative period on 31 December 2004 and the opening balance of the first IFRS financial year are presented below in separate tables.

Reconciliation of shareholders' equity 1 January 2004

EUR 1,000	Ref.	FAS 31 Dec. 2003	Effect of transition to IFRS	IFRS 1 Jan. 2004
ASSETS				
NON-CURRENT ASSETS				
Goodwill	d)	2,980		2,980
Other intangible assets		475		475
Tangible assets	e)	10,470	1,677	12,147
Other non-current assets	k)	95	4	99
Deferred tax assets		0	121	121
NON-CURRENT ASSETS		14,021	1,802	15,822
CURRENT ASSETS				
Inventories	f)	8,747	540	9,287
Trade receivables and other receivables		8,626	-85	8,541
Cash and cash equivalents		2,753	6	2,759
CURRENT ASSETS		20,126	461	20,587
TOTAL ASSETS		34,147	2,262	36,409

EUR 1,000	Ref.	FAS 31 Dec. 2003	Effect of transition to IFRS	IFRS 1 Jan. 2004
EQUITY AND LIABILITIES				
EQUITY	i)			
Share capital		1,870		1,870
Share issue		135		135
Premium fund		3,028		3,028
Retained earnings		12,503	-74	12,429
Capital and reserves attributable to equity holders		17,536	-74	17,462
Minority interest				
TOTAL EQUITY		17,536	-74	17,462
NON-CURRENT LIABILITIES				
Deferred tax liabilities		14		14
Non-current interest bearing liabilities	e)	4,077	1,610	5,687
Provision for pension liabilities	b)		556	556
TOTAL NON-CURRENT LIABILITIES		4,091	2,166	6,257
CURRENT LIABILITIES	e)			
Current interest bearing liabilities		3,830	157	3,987
Trade payables and other liabilities		8,106	14	8,120
Current income tax liabilities		584		584
TOTAL CURRENT LIABILITIES		**12,520**	**171**	**12,691**
TOTAL EQUITY AND LIABILITIES		**34,147**	**2,262**	**36,409**

Reconciliation of shareholders' equity 31 December 2004

EUR 1,000	Ref.	FAS 31 Dec. 2004	IEffect of transition to IFRS	IFRS 1 Jan. 2004
ASSETS				
NON-CURRENT ASSETS				
Goodwill		2,545	643	3,188
Other intangible assets		1,214	-288	926
Tangible assets		12,225	1,517	13,742
Other non-current assets		95	5	100
Deferred tax assets		319	26	346
NON-CURRENT ASSETS		16,398	1,904	18,302
CURRENT ASSETS				
Inventories		12,397	872	13,269
Trade receivables and other receivables		9,522	46	9,532
Cash and cash equivalents		5,140	10	5,150
CURRENT ASSETS		27,059	892	27,951
TOTAL ASSETS		**43,457**	**2,796**	**46,253**

EUR 1,000	Ref.	FAS 31 Dec. 2004	Effect of transition to IFRS	IFRS 1 Jan. 2004
EQUITY AND LIABILITIES				
EQUITY	i)			
Share capital				
Share issue		1,932	0	1,932
Premium fund		817	0	817
Retained earnings		3,390	0	3,390
Capital and reserves attributable		13,824	729	14,553
to equity holders				
Minority interest		19,963	729	20,692
TOTAL EQUITY		**19,963**	**729**	**20,692**
NON-CURRENT LIABILITIES				
Deferred tax liabilities	h)	3	294	297
Non-current interest bearing debt	e)	6,784	1,450	8,234
Provision for pension liabilities	b)		222	222
TOTAL NON-CURRENT LIABILITIES		**6,787**	**1,966**	**8,753**
CURRENT LIABILITIES				
Current interest bearing debts	e)	3,981	160	4,141
Trade payables and other liabilities		11,133	-60	11,073
Current income tax liabilities		1,593	0	1,593
TOTAL CURRENT LIABILITIES		**16,707**	**100**	**16,807**
TOTAL EQUITY AND LIABILITIES		**43,457**	**2,796**	**46,253**

Reconciliation of profit for the financial year 1 Jan.-31 Dec. 2004

EUR 1,000	Ref.	FAS 1 Jan.-31 Dec. 2004	Effect of transition to IFRS	IFRS 1 Jan. -31 Dec. 2004
Net sales		**83,857**		**83,857**
Increase(+)/Decrease(-) in inventories				
of finished goods and work in progress	f)	3,015	332	3,347
Production for own use		358		358
Other operating income		111		111
Materials and services	f)	-32,554	-277	-32,831
Personnel operating expenses	b)	-18,694	465	-18,229
Depreciation	d, e)	-3,654	473	-3,181
Other operating expenses	e)	19,909	178	-19,731
Operating profit		**12,531**	**1,172**	**13,702**
Financial income	g, k)	79	15	94
Financial expenses	e)	-481	-80	-561
Profit before income taxes		**12,129**	**1,107**	**13,236**

EUR 1,000	Ref.	FAS 1 Jan.-31 Dec. 2004	Effect of transition to IFRS	IFRS 1 Jan. -31 Dec. 2004
Income taxes	h)	-3,807	-303	-4,110
Profit for the year		8,322	-804	9,126
Attributable to				
equity holders of the parent company		8,322	-804	9,126
Minority interest				
Earnings per share for profit of the year attributable to the equity holders of the parent company (EUR per share)				
Basic		0.77	0.07	0.84
Diluted		0.73	0.07	0.80

Notes to the reconciliation of shareholders' equity on 1 January 2004 and 31 December 2004 and reconciliation of profit for the financial year 1 Jan.-31 Dec. 2004

a) Currency-denominated items
Foreign currency denominated transactions are converted using the exchange rate on the day of the transaction. Currency denominated receivables and liabilities are converted in the financial statements using the current exchange rate at the end of the accounting period. Exchange rate differentials pertaining to normal business are recorded in the corresponding accounts in the income statement before operating profit, and those pertaining to financing are recorded as net amounts in financial income and expenses.

According to IFRS 1.22, all cumulative translation differences accumulated before 1 January 2004 are deemed to be zero.

b) Costs from pension liabilities and employee benefits
When complying with FAS, pension costs of Group companies were booked according to local regulations. Upon transition to IFRS, all arrangements have been divided into defined contribution and defined benefit arrangements, and those categorised as defined benefit arrangements have been treated as required by IAS 19.

Employees in Finland are covered by statutory Finnish employee pension insurance (TEL) handled by insurance companies. Pension arrangements for employees elsewhere comply with local legislation and pension regulations. Payments related to defined contribution arrangements are recorded in the income statement for the financial periods in which they apply. Defined benefit arrangements are recorded on the basis of actuary calculations, and the costs are recorded in the income statement.

The effect on income of defined benefit arrangements in Exel's foreign subsidiaries in 2004 was –EUR 5 thousand.

The provisions for employee disability pensions in the opening balance on 1 January 2004 were mainly released in the 2004 result due to changes in the payment system for employee disability pensions. The effect on the 2004 results was +EUR 471 thousand.

c) Stock options
The IFRS 2 standard has been applied to stock options that were granted subsequent to 7 December 2002 and vesting subsequent to 1 January 2005. These options are valued at fair value on the day they were granted and expensed in the income statement over the vesting period. Since Exel's valid stock options were granted before 7 December 2002 and their vesting period began before 1 January 2005, the IFRS 2 standard has not been applied to these.

d) Goodwill
In compliance with Finnish Accounting Standards, Group goodwill is calculated as the difference between the initial acquisition cost and the Group's share of the fair value of the acquiree's net assets at the time of acquisition. Goodwill is allocated to the designated items responsible for the difference. In the IFRS financial statements, the assets and liabilities of the acquiree are valued at fair value at the time of acquisition, as a result of which the share of goodwill usually decreases.

According to the IFRS 3 standard, goodwill is not amortised but is instead subjected to an annual impairment test. Goodwill is allocated to cash-generating units. If the estimated future cash flow of a business is lower than its carrying amount on the balance sheet, the resulting impairment loss is recorded as an expense in the income statement.

Impairment tests were carried out on the opening balance 1 January 2004 and the closing balance 31 December 2004. On the basis of these tests, no impairment was recorded.

The effect of the absence of amortisation on goodwill in the result for 2004 was +EUR 632 thousand.

e) Finance leases
Under Finnish Accounting Standards, leases were categorised as other leases. Upon transition to the IFRS, some leases are classified as finance leases. In compliance with IAS 17, finance lease agreements are recognised in the balance sheet as assets and liabilities according to the fair value of the leased asset items at the start of the lease period. Asset items acquired through finance leases are amortised during their economical life, and they create financial expenses.

Exel has a finance lease agreement for the expansion of production facilities in Mäntyharju that complies with IAS 17. The effect on the 2004 result was –EUR 3 thousand. At the end of 2004, property, plant and equipment includes fixed assets of EUR 1,518 thousand that are financed through finance lease agreements. The lease obligations of the finance lease agreements are recorded in the balance sheet under interest bearing debts. At the end of 2004 these debts amounted to EUR 1,568 thousand.

f) Inventories
Previously, Exel's inventories have been calculated according to varying costs, and not by the share of fixed general production costs. In compliance with IAS 2, the purchase price of inventories includes the share of general costs in addition to the purchase expenditure on materials, immediate labour and other immediate expenses.

The increase on the balance sheet total and the improvement in shareholders' equity at the end of 2004 due to the activation of fixed costs is EUR 872 thousand. The effect on the 2004 result was EUR 332 thousand. The final share of the change in inventories is due to the allocation of acquisition costs related to the Belgian acquisition according to IFRS 3.

g) Financial instruments
In compliance with IAS 39, interest and currency swap agreements are valued at fair value. The total effect of reconciliation on the 2004 result was –EUR 43 thousand, and the effect on shareholders' equity at the end of the year was –EUR 51 thousand.

h) Income taxes
The balance sheet includes deferred taxes according to IFRS in their entirety. Changes caused by differences between Finnish Accounting Standards and IFRS in tax liabilities amounted to –EUR 267 thousand in shareholders' equity at the end of 2004 and –EUR 303 thousand in the 2004 result.

i) Shareholders' equity
The following table presents a summary of the effects of the transition to IFRS on the Group's retained earnings.

EUR 1,000	1 Jan.2004	31 Dec.2004
Shareholders' equity according to FAS	**17,536**	**19,963**
IFRS 3 Impairment of goodwill	0	632
IAS 2 Inventories	540	595
IAS 17 Finance leases	-90	-93
IAS 19 Employee benefits	-556	-90
IAS 27 Group financial statements	3	3
IAS 39 Financial instruments	-8	-51
IAS 12 Deferred taxes	36	-267
Shareholders' equity according to IFRS	**17,462**	**20,692**

j) Translation differences
Translation differences created before the IFRS transition date by foreign business units are not presented as separate items under shareholders' equity. This has no effect on the Group's net assets or result.

k) Other financial assets
Non-current investments include Finnish listed shares valued at EUR 103 thousand. According to Finnish Accounting Standards these are valued at their acquisition price. According to IFRS 39 shares are classified as available-for-sale investments and valued at fair value.

Parent Company
Income statement, EUR 1,000

	Ref.	1.1.-31.12.2005	1.1.-31.12.2004
NET SALES	1,16	59,081	62,323
Increase(+)/Decrease(-) in inventories of finished goods and work in progress		215	248
Production for own use		74	358
Other operating expenses		137	231
Materials and services		-21,403	-23,789
Personnel operating expenses	2	-12,258	-13,139
Depreciation	3	-2,341	-2,644
Other operating income	4	-10,801	-13,117
OPERATING PROFIT	16	12,705	10,471
Financial income and expenses	5	189	30
PROFIT BEFORE EXTRAORDINARY ITEMS		12,894	10,501
Extraordinary items			
PROFIT BEFORE APPROPRIATIONS AND INCOME TAXES		12,894	10,501
Appropriations	6		47
Direct taxes	7	-3,462	-3,101
PROFIT FOR THE YEAR		**9,432**	**7 448**

Parent Company
Balance sheet, EUR 1,000

	Ref.	31.12.2005	31.12.2004
ASSETS			
NON-CURRENT ASSETS	8		
Intangible assets			
Intangible rights		76	265
Goodwill		689	1,046
Other capitalized expenditure		564	635
		1,329	1,945
Tangible assets			
Land and water		123	123
Buildings		2,402	2,305
Machinery and equipment		3,747	5,092
Other shares and holdings		687	1,509
		6,959	9,029
Investments			
Holdings in Group companies		5,680	1,282
Other shares and holdings		93	93
		5,773	1,375
TOTAL NON-CURRENT ASSETS		**14,061**	**12,350**
CURRENT ASSETS			
Inventories			
Raw materials and consumables		4,464	4,294
Work in progress		2,116	1,609
Finished products		1,839	2,131
		8,419	8,034
Current receivables	10		
Trade receivables		4,144	4,742
Receivables from Group companies		12,501	9,525
Other receivables		176	233
Prepaid expenses and accrued income		105	234
		16,925	14,734
Cash in hand and at bank		2,538	3,928
TOTAL CURRENT ASSETS		27,883	26,696
		41,944	**39,046**

	Ref.	31.12.2005	31.12.2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
EQUITY	11		
Share capital		2,070	1,932
Premium fund		287	817
Retained earnings		5,137	3,385
Profit for previous financial years		9,591	6,074
Profit for the financial year		9,432	7,448
TOTAL EQUITY		26,517	19,656
APPROPRIATIONS			
PROVISIONS			
LIABILITIES			
Non-current liabilities	12		
Loans from financial institutions		6,729	6,665
Other liabilities		23	118
		6,752	6,784
Current liabilities	13		
Loans from financial institutions		1,988	3,967
Trade payables		47	123
Accounts payable		3,213	3,323
Liabilities to Group companies		125	85
Other liabilities		343	424
Accrued liabilities and deferred income		2,958	4,683
		8,675	12,606
TOTAL LIABILITIES		15,426	19,390
		41,944	**39,046**

	2005	2004
Cash flow from business operations		
Profit for the year	9,432	7,447
Profit for the year adjustments	5,613	5,668
Change in net working capital	-5,775	-3,227
Interest paid and other financial expenses	-319	-385
Interest received	502	872
Income taxes paid	-4,363	-2,100
Cash flow from business operations	**5,090**	**8,275**
Net cash flow from investments		
Acquisitions		
Investments in property, plant and equipment (PPE) and tangible assets	-1,958	-3,003
Income from surrender of tangible and intangible assets		
Proceeds from sale of PPE and intangible assets		44
Net cash flow from investments	**-1,958**	**-2,959**
Cash flow before financing	**3,132**	**5,316**
Cash flow		
Rights issue	1,360	1,102
Withdrawals of non-current loans	2,000	5,100
Repayments of non-current loans	-1,951	-2,588
Net withdrawals of/repayment of current loans	-2,000	500
Dividend paid	-3,931	-6 998
Cash flow from financing	**-4,522**	**-2,884**
Change in liquid funds	**-1,390**	**2,432**
Liquid funds on January 1	3,928	1,496
Liquid funds on December 31	**2 ,538**	**3,928**

1. NET SALES

By division, EUR 1,000	Parent Company	2005	2004
Sport Division		24,225	30,282
Industry Division		34,856	32,041
Total		**59,081**	**62,323**

By market area	2005	2004
Nordic countries	26,265	21,055
Other European countries	28,320	37,716
Other countries	4,496	3,552
Total	**59,080**	**62,323**

2. PERSONNEL EXPENSES

Management salaries and remunerations, EUR 1,000	2005	2004
President	262	245
Members of the Board	142	83
Total	**404**	**328**

Average personnel employed by the Group and the parent company	2005	2004
Salaried employees	68	82
Non-salaried employees	232	242
Total	**300**	**324**

Fixed assets have been entered in the balance sheet at cost after deduction of planned depreciation. Planned depreciation is calculated on the basis of economic life, as a straight-line depreciation on the original cost.

3. DEPRECIATION

Planned depreciation periods	YEARS
Buildings	5-20
Machinery and equipment	3-8
Other capitalized expenditure	3-8
Goodwill	10
Intangible rights	3-5

Goodwill from the parent company's acquisitions and the purchase of Fiberspar Inc.Performance Products are depreciated over 10 years, which is the estimated income expectation period.

Planned depreciation	Parent Company	2005	2004
Intangible rights		36	69
Goodwill		236	300
Other capitalized expenditure		324	310
Buildings		281	271
Machinery and equipment		1,464	1,695
Total		**2,341**	**2,644**

Change in depreciation difference	2005	2004
Buildings	0	15
Machinery and equipment	0	-56
Patents	0	-6
Total	**0**	**-47**

4. OTHER OPERATING EXPENSES

EUR 1,000	2005	2004
Rents	597	566
Marketing expenses	1,052	1,713
Other expense	9,152	10,838
Total	**10,801**	**13,117**

5. FINANCIAL INCOME AND EXPENSES

EUR 1,000	2005	2004
Other interest and financial income		
From Group companies	462	414
From others	54	43
Total	**516**	**457**
Interest and other financial expenses		
To others	327	427
Total financial income and expenses	**189**	**30**

6. APPROPRIATIONS

EUR 1,000	2005	2004
Difference between planned depreciation and depreciation made in taxation	0	47
	3,462	**3,101**

7. DIRECT TAXES

EUR 1,000	2005	2004
Income tax on actual operations	3,462	**3,101**

8. INTANGIBLE AND TANGIBLE RIGHTS

EUR 1,000	Parent Company	2005	2004
Intangible rights			
Acquisition cost Jan. 1		699	531
Increase 1.1.-31.12.		6	168
Decrease 1.1.-31.12.		-158	0
Acquisition cost Dec. 31		547	699
Accumulated planned depreciation Jan. 1		-435	-366
Planned depreciation 1.1.-31.12.		-36	-69
Book value Dec. 31		76	265
Goodwill			
Acquisition cost Jan. 1		3,141	3,141
Increase 1.1.-31.12.		0	0
Decrease 1.1.-31.12.		-122	0
Acquisition cost Dec. 31		3,019	3,141
Accumulated planned depreciation Jan. 1		-2,095	-1,795
Planned depreciation 1.1.-31.12.		-236	-300
Book value Dec. 31		688	1,046
Capitalized expenditure			
Acquisition cost Jan. 1		1,874	1,220
Increase 1.1.-31.12.		254	654
Acquisition cost Dec. 31		2,128	1,874
Accumulated planned depreciation Jan. 1		-1,239	-929
Planned depreciation 1.1.-31.12.		-324	-310
Book value Dec. 31		564	635
Land and water			
Acquisition cost Jan. 1		123	123
Increase 1.1.-31.12.		0	0
Acquisition cost Dec. 31		123	123
Book value Dec. 31		123	123
Buildings			
Acquisition cost Jan. 1		4,147	4,085
Increase 1.1.-31.12.		380	65
Acquisition cost Dec. 31		4,527	4,147
Accumulated planned depreciation Jan. 1		-1,842	-1,571
Planned depreciation 1.1.-31.12.		-282	-271
Book value Dec. 31		2,402	2,305
Machinery and equipment			
Acquisition cost Jan. 1		17,304	15,265
Increase 1.1.-31.12.		1,103	2,126
Decrease 1.1.-31.12.		-987	-87
Acquisition cost Dec. 31		17,420	17,304
Accumulated planned depreciation Jan. 1		-12,315	-10,620
Accumulated depreciation on decreases		104	104
Planned depreciation 1.1.-31.12.		-1,462	-1,695
Conversion difference			
Book value Dec. 31		3,747	5,092
Undepreciated acquisition cost of production machinery and equipment		3,453	4,659

EUR 1,000	Parent Company	2005	2004
Accumulated planned depreciation Dec. 31			
Intangible rights		471	436
Goodwill		2,331	2,095
Capitalized expenditure		1,563	1,238
Buildings		2,124	1,841
Machinery and equipment		13,673	12,315
Total		20,162	17,925
Accumulated difference between total and planned depreciation Jan. 1		0	47
Decrease in depreciation difference 1.1.-31.12.		0	-47
Accumulated difference between total and planned depreciation Dec. 31		0	0
Shares			
Group companies			
Acquisition cost Jan. 1		1,282	1,191
Increase Dec. 31		4,398	100
Decrease Dec. 31			-9
Acquisition cost Dec. 31		5,680	1,282
Other shares and holdings			
Acquisition cost Jan. 1		93	93
Decrease Dec. 31			
Acquisition cost Dec. 31		93	93

9 . COMPANIES OWNED BY PARENT COMPANY

SHARES IN SUBSIDIARIES	PROPORTION OWNED %
Owned by the parent company	
Name of company	
Pro Stick Oy, Mäntyharju, Finland	100
Exel USA, Inc, Georgia (VT), USA	100
Exel GmbH, Rohrdorf, Germany	100
International Gateway AB, Piteå, Sweden	100
Exel Composites N.V., Oudenaarde, Belgium	100
Exel Composites GmbH, Kapfenberg, Austria	100
Exel Sports Oy, Mäntyharju, Finland	100
Exel Composite Materials (Shenzhen) Ltd, China	100
Nordic Sports Products (Beijing) Ltd, China	80

10 . RECEIVABLES

Current receivables, EUR 1,000	2005	2004
Receivables from Group companies		
Trade receivables	2,810	2,630
Loan receivables	9,280	6,800
Prepaid expenses and accrued income	411	95
Total	**12,501**	**9,525**

Receivables from others, EUR 1,000	Parent Company	2005	2004
Trade receivables		4,144	4,742
Other receivables		176	233
Prepaid expenses and accrued income		105	234
Total		**4,424**	**5,209**
Deferred tax assets			
Total current receivables		**16,925**	**14,734**

11 . EQUITY

EUR 1,000	2005	2004
Share capital on Jan. 1	1,932	1,870
Increase in share capital	81	62
Transfer from premium fund	56	0
Share capital Dec. 31	**2,070**	**1,932**
Share issue Jan. 1	817	135
Increase	1,360	1,102
Transfer to share capital and premium fund	-1,890	-419
Share issue Dec. 31	**287**	**817**
Premium fund Jan. 1	3,385	3,028
Increase in share capital	1,808	357
Transfer to share capital	-56	0
Premium fund Dec. 31	**5,137**	**3,385**
Premium fund Dec. 31	13,521	13,072
Dividend distributed	-3,930	-6,998
Retained earnings	**9,591**	**6,074**
Profit for the financial year	**9,432**	**7,448**
Total equity	**26,517**	**19,656**

The 94,200 shares related to the warrant programme 2001 targeted at Exel's key personnel (48,000 shares with A option rights and 46,200 shares with B option rights) were entered in the Trade Register on 1 March 2005. A total of EUR 817,164 was paid for the shares, and EUR 784,194 of this was entered in the premium fund. As a result of the subscriptions, Exel's share capital rose by EUR 32,970.

The 110,800 shares related to the warrant programme 2001 targeted at Exel's key personnel (63,600 shares with A option rights and 47,200 shares with B option rights) were entered in the Trade Register on 9 September 2005. A total of EUR 443,588 was paid for the shares, and EUR 423,644 of this was entered in the premium fund. As a result of the subscriptions, Exel's share capital rose by EUR 19,944.

The 158,100 shares related to the warrant programme 2001 targeted at Exel's key personnel (74,400 shares with A option rights and 83,700 with B option rights) were entered in the Trade Register on 14 November 2005. A total of EUR 628,866 was paid for the shares, and EUR 600,408 of this was entered in the premium fund. As a result of the subscriptions, Exel's share capital rose by EUR 28,458.

Exel's registered share capital was EUR 2,069,802 or 11,498,900 shares on 14 November 2005.

The 53,600 A option rights and 17,400 B option rights related to the warrant programme of 2001 have not been entered in the Trade Register. A total of 287,460 was paid for the shares, and it was entered in the premium fund.

The equivalent book value of the shares was EUR 0.35 until 20 April 2005, and EUR 0.18 since 21 April 2005. There is only one type of share.

Calculation of funds distributable as profit Dec. 31 Parent Company	2005	2004
Retained earnings	9,591	6,074
Profit for the financial year	9,432	7,448
Total	**19,023**	**13,522**

12. NON-CURRENT LIABILITIES

Liabilities to others	2005	2004
Loans from financial institutions	6,729	6,665
Other non-current liabilities	23	118
Total non-current liabilities	6,752	6,784
Liabilities falling due in a period longer than five years	1,944	722

13. CURRENT LIABILITIES

EUR 1,000	2005	2004
Liabilities to Group companies		
Trade payables	125	85
Liabilities to others		
Loans from financial institutions	1,988	3,967
Advance payments	47	123
Trade payables	3,213	3,323
Other liabilities	343	424
Accrued liabilities and deferred income	2,958	4,683
Total	**8,550**	**12,521**
Total current liabilities	8,675	12,606
Breakdown of accrued liabilities and deferred income		
Salaries, wages and holiday pay, including social security expenses	1,806	2,492
Deferred tax liabilities	684	1,585
Other accrued liabilities and deferred income	469	607
Total	**2,958**	**4,683**

14. CONTINGENT LIABILITIES

Derivatives

Interest rate risk
The company's long-term debt is subject to interest rate risk, which is why it has fixed the rate of interest on some of its borrowings through swap agreements that extend to the years 2007-2009.

EUR 1,000	Face value	Fair market value
Interest swaps (NPV)		
Interest swaps	1,748	-9

EUR 1,000	2005	2004
Liabilities for which a corporate mortgage and real estate mortgages have been provided as collateral		
Financial institution loans	8,665	10,652
Mortgages given on land and buildings	2,953	2,954
Corporate mortgage given	12,500	12,500
Collateral for Group companies		
Credit limit guarantee	383	13

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

15. LEASING AND RENTAL LIABILITIES

EUR 1,000	2005	2004
Leasing liabilities		
Falling due in 2006	406	223
Falling due later	1,665	1,563
Rental liabilities		
Falling due in 2006	195	195
Falling due later	1,153	1,347
Other liabilities	66	67

16. DISTRIBUTION OF NET SALES, OPERATING PROFIT AND PERSONNEL BY DIVISION

Parent company	Sport	Industry	Total
Net sales			
2005	24,225	34,856	59,081
2004	30,282	32,041	62,323
Operating profit			
2005	4,478	8,226	12,705
2004	4,602	5,869	10,471
Personnel on Dec. 31			
2005	140	139	279
2004	162	135	297

17. SHARE OWNERSHIP

Distribution of share ownership on 31 December 2005	%
Private companies	18.3
Financial and insurance institutions	11.7
Public sector entities	14.3
Non-profit organizations	1.2
Households	21.0
Foreign	33.5
Of which, nominee registration	3.1

Distribution of share ownership on 31 Dec. 05	Shares	Number of shareholders	Percentage of shareholders	Total number of shares	Percentage of total number of shares
			%		%
	1 -1,000	2,507	84.50	904,451	7.87
	1,001-10,000	405	13.65	1,094,710	9.52
	10,001-50,000	27	0.91	632,108	5.50
	over 50,000	28	0.94	8,867,631	77.12

18. SHAREHOLDERS

Information on shareholders on 31 December 2005	Number of shares	Percentage of shares and votes
Shareholder		%
Nordstjernan AB	3,496,506	30.4
Ilmarinen Mutual Pension Insurance Company	749,400	6.5
Varma Mutual Pension Insurance Company	513,600	4.5
Veikko Laine Oy	418,800	3.6
Berling Capital Oy	412,000	3.6
Ulkomarkkinat	346,600	3.0
OP-Suomi Kasvu Investment Fund	335,800	2.9
Suutarinen Matti	294,400	2.6
Eläke-Fennia Mutual Insurance Company	226,100	2.0
Nordea Bank Finland (nominee reg.)	219,199	1.9
Nominee registration	134,426	1.2
Other	4,352,069	37.8
	11,498,900	**100.0**

19. MANAGEMENT INTERESTS

The aggregate holding of the members of the Board of Directors and the President was 565,400 shares on 31 December 2005. This accounts for 4.9% of corporate shares and 4.9% of the votes carried by all shares. The members of the Board of Directors and the President do not have any unsubscribed option rights.

20. SHARE ISSUE AND OPTION PROGRAMMES

On 14 April 2005 the Annual General Meeting authorized the Board to decide to raise the share capital through a new issue by 14 April 2006, up to a maximum of EUR 100,000.00. The authorisation includes the right to derogate from the shareholders' pre-emptive right. The Board has not decided to exercise this authorization to raise to share capital.

On 28 March 2001 the annual General Meeting decided to issue option rights to the key personnel of the Exel Group and to Exel Oyj's wholly owned subsidiary. The number of option rights is 370,000 of which half is marked with the letter A and half with the letter B.

The 2001 option programme's principal terms	2001 A	2001 B
Number of warrants	185,000	185,000
Number of shares to be subscribed	185,000	185,000
Maximum increase in share capital EUR	64,750	64,750
Number of shares subscribed on 31 Dec. 2005	143,800	120,350
Warrants not distributed or returned	13,500	36,000
Shares not subscribed on the basis of warrants.	27,700	28,550
Number of shares not subscribed on the basis of options	55,400	57,100
Maximum increase in share capital EUR	9,972	10,278
Subscription price EUR	4.11*	3.86**
Subscription period	1.6.2002-30.4.2006	1.10.2003-30.4.2006

The total number of shares that can be subscribed under warrants represents 1.0% of the company's share capital and voting rights. The A warrants related to Exel Oyj's warrant programme 2001 have been quoted on Helsinki Exchanges Main List from 7 October 2002 and B warrants from 27 October 2003.

* The subscription price of the shares will be reduced by the amount of dividend per share distributed after 30 April 2001 and before subscription, on the record date of each dividend distribution.

** The subscription price of the shares will be reduced by the amount of dividend distributed after 31 October 2001 and before subscription, on the record date of each dividend distribution.

21. SHARE PRICE AND TRADING

Share price (EUR)	2001	2002	2003	2004	2005
Average price	10.87	8.00	8.40	18.04	12.73
Lowest price	7.65	5.25	5.50	11.75	11.35
Highest price	12.26	10.05	12.95	24.00	14.80
Share price at end of financial year	9.90	6.38	11.90	23.00	13.05
Market capitalization, EUR million	52.1	33.8	63.6	127.0	150.0
Share trading					
Number of shares traded	1,396,691	686,996	1,435,573	3,962,470	4,114,242
% of total	26.6	13.1	27.1	73.2	35.7
Number of shares adjusted for share issues					
Average number	5,252,099	5,261,549	5,300,711	5,412,764	11,549,554
Number at end of financial year	5,257,900	5,294,900	5,343,100	5,520,800	11,498,900

Exel Oyj's share was quoted on Helsinki Stock Exchange I List from 19 October 1998 to 1 May 2000.
As from 2 May 2000 Exel Oyj's share has been quoted on Helsinki Stock Exchange Main List.
Exel Oyj's share was split on 21 April 2005.

22. KEY INDICATORS

Key indicators illustrating financial trends

Figures given in EUR 1,000 unless otherwise stated	**2001**	**2002**	**2003**	**2004**	**2005**
Net sales	49,362	51,203	57,281	83,857	91,288
Operating profit	5,300	3,802	5,345	13,702	12,388
% of net sales	10.7	7.4	9.3	16.3	13.6
Profit before extraordinary items	4,780	3,147	4,910	13,236	12,046
% of net sales	9.7	6.1	8.6	15.8	13.2
Profit before provisions and income taxes	4,780	3,147	4,910	13,236	12,046
% of net sales	9.7	6.1	8.6	15.8	13.2
Total assets	33,306	31,807	34,147	46,253	54,621
Return on equity, %	24.6	15.2	20.8	47.8	37.3
Return on investment, %	21.9	14.3	20.8	45.2	34.0
Solvency ratio, %	43.3	47.2	51.7	44.9	50,0
Net gearing, %	73.3	55.3	29.4	36.0	30.2
Gross investment in fixed assets	5,474	2,014	2,519	5,803	4,119
% of net sales	11.1	3.9	4.4	6.9	4.5
R&D expenses	1,216	1,113	1,707	1,956	2,323
% of net sales	2.5	2.2	3.0	2.3	2.5
Average personnel	356	374	355	441	467
Personnel at year end	371	359	355	419	466
Share data					
Earnings per share (EPS), EUR	0.64	0.42	0.64	0.84	0.78
Adjusted earnings per share (EPS), EUR*			0.62	0.80	0.76
Equity per share, EUR	2.72	2.82	3.26	1.84	2.34
Dividend per share, EUR	0.35	0.20	1.30	0.35	0.40
Payout ratio, %	54.4	47.3	204.3	41.5	53.0
Effective yield of shares, %	3.51	3.13	10.92	3.04	3.07
Price/earnings (P/E), %	15.48	15.09	18.70	13.64	16.65

*Adjusted for the dilution of option rights
Share data for 2004 and 2005 have been calculated for split shares.

COMPUTATION FORMULAE

Return on equity %

$$\frac{\text{profit before extraordinary items, provisions and income taxes less income taxes}}{\text{equity + minority interest + voluntary provisions and depreciation difference less deferred tax liabilities (average)}} \times 100$$

Return on investment %

$$\frac{\text{profit before extraordinary items, provisions and income taxes + interest and other financial expenses}}{\text{total assets less non-interest-bearing liabilities (average)}} \times 100$$

Solvency ratio %

$$\frac{\text{equity + minority interest + voluntary provisions and depreciation difference less deferred tax liabilities}}{\text{total assets less advances received}} \times 100$$

Gearing %

$$\frac{\text{net interest-bearing liabilities (= interest-bearing liabilities less liquid assets)}}{\text{equity}} \times 100$$

Earnings per share (EPS) EUR

$$\frac{\text{profit before extraordinary items, provisions and income taxes less income taxes +/- minority interest}}{\text{average adjusted number of shares in the financial period}}$$

Equity per share EUR

$$\frac{\text{equity + voluntary provisions + depreciation difference less deferred tax liabilities and minority interest}}{\text{adjusted number of shares on closing date}}$$

Dividend per share EUR

$$\frac{\text{dividend for the financial period}}{\text{adjusted number of shares on closing date}}$$

Payout ratio %

$$\frac{\text{dividend per share}}{\text{earnings per share (EPS)}} \times 100$$

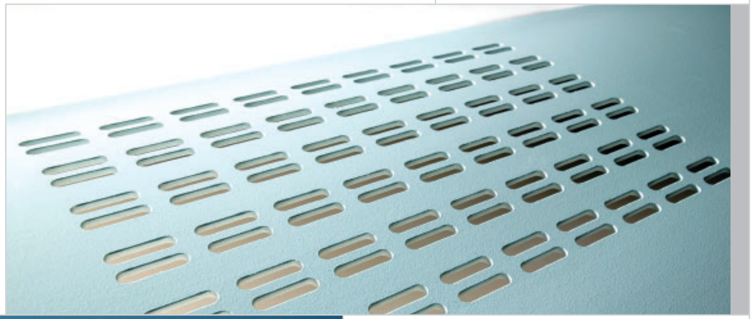
Effective yield of shares %

$$\frac{\text{dividend per share x 100}}{\text{adjusted average share price at year end}} \times 100$$

Price/earnings (P/E) %

$$\frac{\text{adjusted average share price at year end}}{\text{earnings per share}} \times 100$$

Proposal for Distribution of Profit



On 31 December 2005 the Groups distributable funds totalled EUR 19,428,755.05. Exel Oyj's distributable funds totalled EUR 19,022,726.68, of which profit for the financial period accounted for EUR 9,431,929.56.

The Board proposes that the profit funds be distributed as follows:

- a dividend of EUR 0.40 per share	EUR 4,720,257.20
- carried over as equity	EUR 14,302,469.48
	EUR 19,022,726.68

Vantaa, 26 February 2006

Ove Mattsson
Chairman

Peter Hofvenstam

Vesa Kainu

Matti Virtaala

Kari Haavisto

Torgny Eriksson

Esa Karppinen

Ari Jokelainen
President

The above financial statements and the report of the Board of Directors have been prepared in accordance with generally accepted accounting principles in Finland. Our auditors´ report has been issued today.

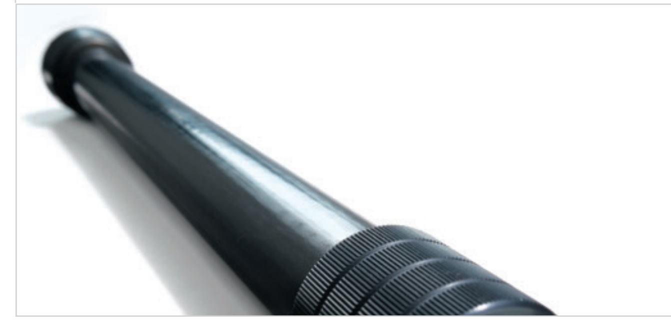
Vantaa, 26 February 2006

PricewaterhouseCoopers Oy
Authorized Public Accountants

Christian Savtschenko-Alexandroff
Authorized Public Accountant

Johan Kronberg
Authorized Public Accountant

Auditors´ Report



To the shareholders of Exel Oyj
We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Exel Oyj for the period January 1 - December 31, 2005. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report of the Board of Directors and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies Act.

Consolidated financial statements
In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration
In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies Act.

Helsinki, 26 February 2006

PricewaterhouseCoopers Oy
Authorised Public Accountants

Christian Savtschenko-Alexandroff
Authorised Public Accountants

Johan Kronberg
Authorised Public Accountants

Exel's corporate governance principles
Exel's 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 follows the recommendations issued by Helsinki Stock Exchange, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers on the governance of listed companies.

Annual General Meeting
The highest decision-making power in the company is exercised by shareholders at the Annual General Meeting. The Annual General Meeting (AGM) shall consider matters presented for its attention in the Articles of Association, including approving the financial statements, deciding on the distribution of dividends, amending the Articles of Association and electing the members of the Board of Directors and the auditors. The AGM also confirms the remuneration paid to members of the Board. The AGM is convened by the Board of Directors and held annually either in Mäntyharju or Helsinki, on a date before the end of June, as determined by the Board. The AGM invitation is published no earlier than two months and no later than 17 days before the AGM, in newspapers designated by the Board.

Shareholders must notify the company of their intention to attend the AGM at the latest on the day given in the notice of the AGM, which may be no earlier than ten days before the meeting.

Board of Directors

Composition and term
The Board comprises at least three and no more than eight full members, elected by the Annual General Meeting for one year at a time. The AGM nominates one member of the Board to serve as Chairman.

At its meeting on 26 April 2004, Exel's Board of Directors confirmed written rules of procedure that specify the Board's duties, matters to be handled, meeting practice and decision-making process. The rules of procedure are 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 CFO, who acts as the meeting secretary.

At least two of the members of the Board shall be independent on major shareholders, and a majority of the Board shall be independent of the Company.

Duties
The Board of Directors is responsible for the management of the company and the proper organisation 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 draws up interim reports, the financial statements and the report on operations, appoints the President and the Deputy Managing Director and decides on the President's salary. The Board monitors the company's financial position with the help of information provided by the Management Group.

The Board shall review yearly its work and working practices yearly at the first meeting following the AGM.

The Board shall, at the first meeting following the AGM, estimate the independence of each member of the Board.

Meetings, remuneration and other benefits
The Board of Directors convenes approximately 10 times a year. The AGM shall determine the remuneration of the Board members.

2005

Evaluation of independence
Exel's Board of Directors has evaluated the Board members' independence of the company in accordance with item 18 of the Corporate Governance Recommendation. The members of the Board are considered to be independent of the company. Ove Mattsson, Torgny Eriksson, Kari Haavisto, Vesa Kainu and Matti Virtaala are independent of the significant shareholders. Peter Hofvenstam and Esa Karppinen are not independent of the major shareholders as the former is Vice President of Nordstjernan AB and the latter the Managing Director of Berling Capital Oy.

Exel's Annual General Meeting held on 14 April 2005 elected Torgny Eriksson, Kari Haavisto, Peter Hofvenstam ,Vesa Kainu, Esa Karppinen, Ove Mattsson and Matti Virtaala to the Board of Directors. Ove Mattsson was re-elected as Chairman of the Board. Mika Sulin resigned from the Board of Directors at the Annual General Meeting.

The Board convened 11 times in 2005 and the average attendance rate at these meetings was 96%.

Based on a decision made at the AGM, the monthly and meeting fees paid in 2005 to the Board members were:

Annual fee for the Chairman EUR 26,000
Annual fee for each Board member EUR 11,500
Remuneration per meeting EUR 1000 per capita

Remuneration paid to the Board members in 2005 for their duties in the Group totalled EUR 142,000. Board members are also entitled to per diem allowances and travel allowances in accordance with Exel's general travelling compensation regulations.

Exel has no such incentive programme by which the company rewards the Board members with option rights or company shares.

Board of Directors' committees
The Board has set up among its members two permanent committees, a Compensation Committee and a Nomination Committee, which are supervised by the Board.

The Compensation Committee comprises the Chairman of the Board and two other board members. The task of the committee is to analyse the competitiveness of Exel's internal rewarding and incentive programmes and to prepare proposals to the Board concerning the President's salary and other benefits.

In addition, the Compensation Committee carries out annually in February-March an evaluation of the President's competitive total compensation compared to similar tasks on the market. The Compensation Committee draws up a proposal of the compensation to the Board of Directors. The President presents a proposal of Management Group of a competitive compensation to the members of the Management Group annually in February-March. The Compensation Committee handles the proposal and proposes it as is or amended to the Board of Directors, which then makes a decision on the matter.

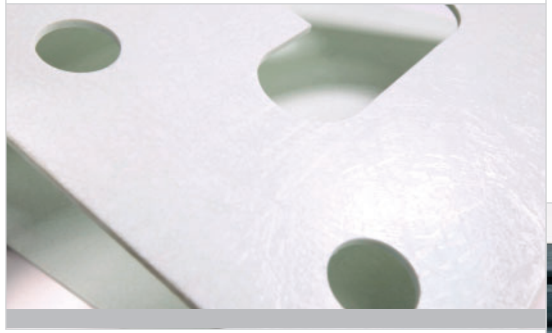
The Nomination Committee comprises the Chairman of the Board and the persons selected by the four largest shareholders (as of the shareholder register situation on 15 November preceding the Annual General Meeting). The task of the Nomination Committee is to prepare a proposal to the Annual General Meeting regarding the Board for the following year.

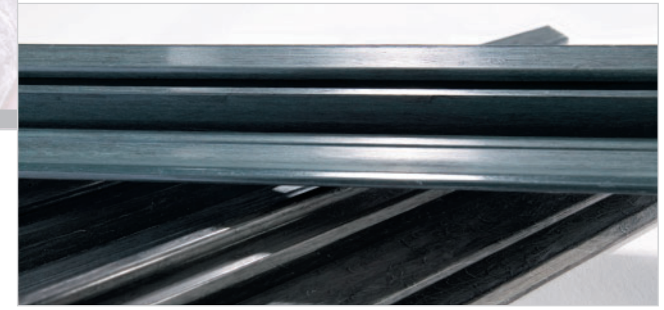
2005
The Compensation Committee included Ove Mattsson as Chairman, Peter Hofvenstam and Vesa Kainu. In 2005 the Committee met 3 times to prepare the Company's future incentive programmes. In 2005 the Nomination Committee included Tomas Billing as Chairman, Mikko Koivusalo, Pertti Laine and Mikko Mursula as well as Ove Mattsson.

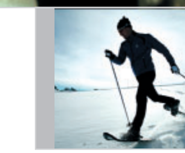
President and Management Group
The President is appointed by the Board to run the company on a day-to-day basis in compliance with existing laws and regulations, as well as instructions and decisions given by the Board. The areas of responsibility of the President & CEO include, in addition to the above mentioned legal requirements, and implementing the Board's decisions, specifically also securing growth of the business, acquisitions and strategic projects, the increase in shareholder value, profitability and efficiency of operations, and investments within the limits defined by the Board.

The President has a managing director contract that defines the responsibilities, powers, remuneration and termination procedure applying to the position. The President has no separate pension agreement.

The President is aided by the Management Group and is also a member of it. The Management Group includes, in addition to the President, the Deputy Managing Director, the Senior Vice President of the Sport Division, the CFO, the Senior Vice President of R&D, and the Managing Director of Exel Sports Oy. The President chooses the members of the Management Group and directs its activities. The Group meets 6 to 10 times a year. Its duties inclu-de, in addition to daily running of the business and development of all areas of the business, also drawing up business and strategic plans and implementing them.







2005
Ari Jokelainen, M.Sc. (Econ.) is Exel's President and CEO.

Salaries, bonuses and fringe benefits
In 2005, the salaries, bonuses and fringe benefits paid to Ari Jokelainen, President totalled EUR 403 thousand. In addition to salary in money he has a phone benefit and car allowance.

As a part of management's incentive programme, Ari Jokelainen has earlier been granted 76,000 warrants of the 1998 option right system and 60,000 warrants of the 2001 option right system.

At the end of 2005, Ari Jokelainen did not hold any 1998 or 2001 warrants.

Long-term incentive programme
The company runs an options system functioning as an incentive for key staff, and comprising two programmes. The first consisted of a warrant bond repaid in a single sum in October 2001. A total of 284 bonds at EUR 168.19 were issued, each with 1,000 warrants, 500 of them marked with the letter A and 500 with the letter B.

The second options programme comprises 370,000 stock options, of which 185,000 are A stock options and 185,000 B stock options. These stock options have been issued to the Group's key personnel and Exel Oyj's fully owned subsidiary.

According to a new share-based incentive system for 2004-2007 that Exel's Board of Directors decided to launch in 2004, the Board decides every year to pay out a certain sum to key staff on the basis of targets set and met. The rewarded employee is obliged to buy Exel Oyj shares with the incentive bonus plus a 20% contribution from him or herself, and retain ownership for a minimum period of two years.

Auditors and audit system
The company has two auditors elected by the Annual General Meeting for an indefinite period. At least one of these auditors must be an Authorised Public Accountant approved by the Central Chamber of Commerce.

Ultimate responsibility for accounting and financial management lies with the Board. The auditors give a statutory report to the shareholders in connection with the closing of the company accounts each year. The purpose of the auditing process throughout the year is to ensure that the financial statements give a true and fair view of the Group's financial performance and status during the financial year. Foreign subsidiaries are included in the yearly audit programmes.

The Board meets the auditors at least once a year.

Apart from this, the auditors carry out supervisory audits as they deem necessary and as agreed on with the company.

2005
The 2005 AGM elected one auditor for the company: Authorised Public Accountants PricewaterhouseCoopers Oy, with APA Christian Savtschenko-Alexandroff as principal auditor and APA Johan Kronberg. The fees paid to the auditors in Finland totalled EUR 137,000 in 2005.

Financial reporting and control of the Group
Implementation and control of financial and other business targets are monitored through Group-wide financial reporting, and through constant management meetings in each of the business units. The financial reports include actual results, plans and up-to-date forecasts for the current year. The management meeting business reviews include financial reports, follow-up of business plans, monitoring of new plans, follow-up of internal and external projects, quality and personnel issues.

Risk management

Currency risk
Most invoicing and purchases are carried out in euros. Possible changes in the exchange rates of the USD and SEK may affect the Company's result. The company seeks to hedge itself against exchange rate risks by means of currency clauses in purchase and sales agreements, as well as hedging instruments.

Interest rate risk
Exel's financing policy involves using a small number of banks as partners to secure its long-term needs for borrowed capital. Exel's liquidity is based on long-term financial arrangements and on short-term financial products, such as lines of credit and credit accounts. To balance interest rate risk the Company strives at using both changing and fixed interest loans.

Credit risk
Exel is exposed to credit risk mainly through accounts receivable. The company has a global customer base, and there are no significant risk concentrations. Exel normally uses credit insurance.

Insurance risk
Insurance risk denotes the risk of Exel's profits being affected by insufficient insurance protection in the event of unforeseen events or accidents. To minimise insurance risks, the company shall acquire insurance policies covering property and liability risks, the responsibility for the CEO and Board of Directors and risk exposure during business travels. Other insurance risks are to be evaluated case over case.

Internal control, risk management and internal audit
The Board is responsible for the Company's internal control.

The Management Group of the Company has adopted the risk management guidelines based on the principles approved by the Board. The divisions are responsible for implementing risk management and identification of risks. The Management Group monitors the development of risks and risk concentrations.

Risks relative to assets, interruption and liability risks arising from business operations have been provided for with appropriate insurances.

Insider regulations
On 1 March 2000 Exel adopted insider regulations complying with the general insider trading guidelines issued by the Helsinki Stock Exchange. The Board of Directors has further confirmed insider regulations for Exel that give instructions for permanent and project-specific insiders, and defined the administrative organization and procedures regarding insiders.

Exel's statutory insiders include the members of the Board and the Management Group. Exel's insider register is maintained by the Finnish Central Securities Depository. Ownership data on insiders is available from HEXGate and Exel's website at www.exel.net.

Trading by permanent insiders in securities issued by the company is forbidden 14 days before interim reports and financial statement bulletins are issued.

Exel's insider register shall be available on the Company's website by 1 July 2006.

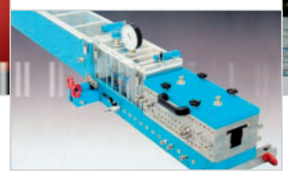
Principles of investor relations
Exel continually produces correct and up-to-date information for the markets as a basis for the formation of Exel's share price. The aim is to make Exel's activities better known, to profile the company and to increase the attraction of Exel as an investment target.

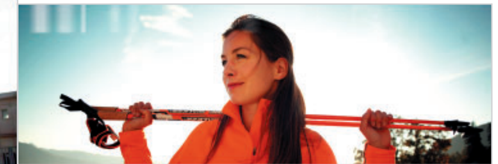
Exel follows the principle of impartiality and publishes all investor information on its website in Finnish and English. Exel publishes a printed annual report in Finnish and English. Financial statements and three interim reports are published in Finnish and English on the company's website. A printed copy of the interim reports can be ordered from Exel's Corporate Communications. Stock exchange releases and annual/interim reports can be obtained by joining Exel's mailing list on the company's website.

Exel arranges briefing sessions for analysts and the media at the time of announcing interim reports and significant news. Exel observes a two-week silent period before publishing information on its results. At other times, the enquiries of analysts and investors are answered by phone or email, or at investor meetings.

Exel's communications policy
The purpose of Exel's communications is to promote the business of the Group by taking the initiative in providing stakeholders and other interest groups with correct information on the Group's goals and operations. The communications of the Group shall be self-initiated, logical and systematic. The responsibility for Group Communications lies with the President and the Communications Manager, and the members of the Management Group, each in his respective field. The responsibility for communications in the subsidiaries lies with the Managing Directors. Exel's Corporate Communications unit, who reports to the President, produces communications material including stock exchange releases.

Vocabulary





Antenna profile
The framework structure for antennas of wireless data networks, inside which the actual antenna will be placed. The profile protects the antenna from the weather, acts as the framework for the antenna and allows free radio wave propagation.

DST doctor blade holder
Holder for doctor blades used in paper machine roll maintenance, allowing adjustment of doctoring pressure. In comparison with metallic holders, composite holders have the advantage of greater capability in profiling, entailing that the composite doctor blade conforms to the roll surface with much higher precision.

Doctor blade
Product used in the control of paper web and maintenance of paper machine rolls.

Composite
A general term for all combinations of two or several materials in which they act together without dissolving or blending with each other. Plastic composites are one of the key sub-groups of composites. Composites consisting of strong fibres and plastic substances are called (glassfibre) reinforced plastic, which is an extremely lightweight and particularly strong material. Composite is used in structures requiring high strength and lightness, typical examples including aircraft and boat structures. Composites are highly durable in sunlight, ultraviolet radiation and temperature variations, and they are very impact resistant and tolerate mechanical wear well. In addition, composite is recyclable.

Select niche market
A narrow market segment; specialisation in carefully selected narrow special areas where the aim is to become market leader

Profile
A composite product structure produced with the pultrusion method, custom-made for each customer.

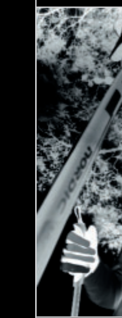
Pull-Winding
A continuously working production method developed by Exel, combining the pultrusion and reeling methods.

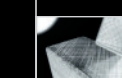
Pultrusion
Pultrusion refers to pulling plastic raw material through a preformer. This production method is particularly suitable for tubes, profiles etc. reinforced with continuous fibres, involving pulling of impregnated fibres via preformers providing the form as, simultaneously, the plastic is hardened with heat (thermoset) or cooled until solid (thermoplast).

Pultruder
A company manufacturing products with pultrusion technology.

Responsible Care
The chemical industry's self-initiated worldwide environmental and safety programme.

Lattice mast
A composite product patented by Exel used mostly as support structure for airport approach lighting masts.





Investor information

Annual General Meeting
The Annual General Meeting of Exel Oyj will be held on Thursday 6 April 2006 at 10.00 a.m. in the banqueting hall of at the Satakuntatalo's festival hall at Lapinrinne 1 A, Helsinki, Finland.

To attend the Annual General Meeting, shareholders must inform the Company of this by 4.00 p.m. on 27 March 2006 at the latest, either in writing to Exel Oyj, P.O. Box 29, 52701 Mäntyharju, Finland, by telephone +358 20 7541 221/Merja Mäkinen, by fax +358 20 7541 201, or by e-mail merja.makinen@exel.fi. When registering for the meeting in writing, the letter must reach the company before the end of the registration period. Any proxies should be sent to the same address alongside the registration.

Dividend
The Board of Directors has decided to propose to the Annual General Meeting that a dividend of EUR 0.40 per share be paid for 2005. Shareholders registered on the list of shareholders maintained by the Finnish Central Securities Depository on the record date of 11 April 2006 are entitled to a dividend, which will be paid on 20 April 2006.

Changes of address
We request shareholders to send information on any changes of address or personal data to the book-entry register maintaining their account.

Financial reports 2006
In addition to this Annual Report for 2005, Exel will issue three interim reports during the year: on 5 May, 26 July and 26 October 2006. The annual report, interim reports and stock exchange releases will be available in Finnish and English on the Internet at www.exel.net. Interim reports will not be available in print, but paper copies can be ordered from Exel's Corporate Communications. Stock exchange releases, annual and interim reports can be obtained by joining our mailing lists on the Exel website.

Financial reports are also available by order from Exel's Corporate Communications:
Exel Oyj, Corporate Communications
P.O. Box 29, FI-52701 Mäntyharju, Finland
Tel. +358 20 7541 225
Fax +358 20 7541 202
e-mail: sari.huoso@exel.fi

Precis/Kirjapaino Öhrling 2006, Photos: Mikko Harma, Agence Zoom