exel COMPOSITES

50 YEARS OF EXCELLENCE

# 2010 ANNUAL REPORT

# 2010

Exel Composites – Annual report

# Contents





# Our strategy

**EXEL COMPOSITES CONCENTRATES** on demanding, customer-tailored composite profiles and products for industrial applications in selected market segments. Exel Composites' target is growth ahead of the market while maintaining good profitability. Acquisitions may be used to strengthen Exel Composites' competences or market position globally or locally.

# Our vision

**EXEL COMPOSITES AIMS** to be the global leader of advanced composite profiles to the selected niche market segments. Our objective is to reinforce our market position by organic growth and acquisitions. We aim at generating good returns for the Company's shareholders. Exel Composites' specialized total service, high quality products and long-term partnerships earn Company the trust and confidence of its customers. In doing this Exel Composites offers its employees an exciting and rewarding place of employment.

## GROUP STRUCTURE

EXEL COMPOSITES PLC

**Exel Composites Plc**
- Joensuu, Finland
- Mäntyharju, Finland

**Exel GmbH**
- Voerde, Germany

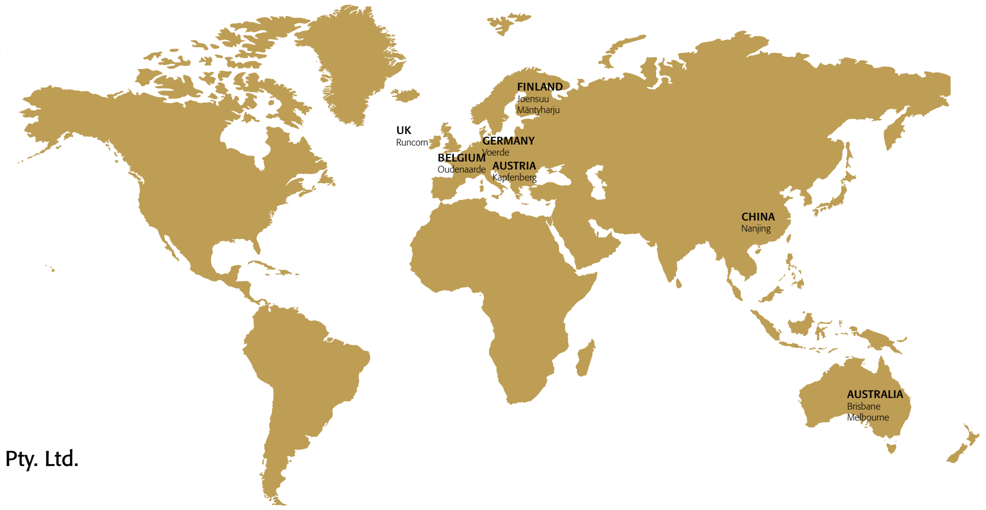
**Exel Composites N.V.**
- Oudenaarde, Belgium

**Exel Composites GmbH**
- Kapfenberg, Austria

**Exel Composites Australia Pty. Ltd.**
- Melbourne, Australia
- Brisbane, Australia

**Exel Composites Nanjing Ltd.**
- Nanjing, China

**Exel Composites UK Ltd.**
- Runcorn, UK




## GEOGRAPHICAL PRESENCE

Exel Composites is the world's largest international pultrusion company, with manufacturing sites in seven countries: Australia, Austria, Belgium, China, Finland, Germany and the United Kingdom.

# Exel Composites in brief

**EXEL COMPOSITES IS** a technology company which designs, manufactures and markets composite profiles and tubes for industrial applications. The Group is the leading composite profile manufacturer in the world and concentrates on growing niche segments.

The core of the operations is based on proprietary, internally developed composite technology, product range based on it and a strong market position in selected segments with a strong quality and brand image. Profitable growth is pursued by a relentless search for new applications and development in co-operation with customers. The personnel's expertise and high level of technology play a major role in Exel Composites' operations.

Exel Composites' share is listed in the Small Cap segment of the NASDAQ OMX Helsinki Ltd.



# Information for investors

**Annual General Meeting**

The Annual General Meeting of Exel Composites Plc will be held at 10.30 a.m. on Wednesday 6 April 2011 at Kansallissali, Aleksanterinkatu 44, 00100 Helsinki, Finland. The Annual General Meeting will be conducted in Finnish.

To be eligible to attend the Annual General Meeting, shareholders must be on the Company's shareholder register maintained by the Finnish Securities Depository Ltd. by 25 March 2011.

**Registration**

Registration of notices to attend begins on 2 March 2011 and ends at 4 p.m. Finnish time on 30 March 2011.

A notice of participation may be submitted either:

a) on the Company's website www.exelcomposites.com/agm; or
b) by email to investor@exelcomposites.com; or
c) by telephone at +358 20 7541 221 from Monday to Friday between 9 a.m. and 4 p.m.; or
d) by telefax at +358 20 7541 201; or
e) by regular mail to the address Exel Composites Plc, P.O. Box 29, 52701 Mäntyharju, Finland.

In connection with the notification, a shareholder should notify his/her name, personal identification number, address, telephone number and the name of a possible assistant or proxy representative. The personal data given is used only in connection with the Annual General Meeting and with the processing of related registrations. Notices of participation must be received by the abovementioned deadline. Any powers of attorney are also to be sent to the above addresses during the same registration period.

**Dividend**

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.50 per share including an extraordinary dividend on EUR 0.25 per share due to Exel Composites' 50$^{th}$ anniversary in 2010 be paid for the 2010 financial year 2010. Shareholders registered on the list of shareholders maintained by the Finnish Central Securities Depository on the record date of 11 April 2011 are entitled to a dividend, which will be paid on 18 April 2011.

**Changes of address**

Shareholders should notify the bank in which they have a book-entry securities account of the Finnish Central Securities Depository of any change in their address.

**Financial reporting in 2011**

The publication dates for Exel Composites' financial reports during 2011 are as follows:

- Annual Report 2011: week 10 in March 2011
- Interim report Q1/2011: Thursday 5 May 2011
- Interim report Q2/2011: Friday 22 July 2011
- Interim report Q3/2011: Wednesday 26 October 2011

Exel Composites' annual report, interim reports and stock exchange releases will be available in Finnish and English on the Company website at www.exelcomposites.com. Stock exchange releases, annual and interim reports can be obtained in electronic format by joining our mailing lists on the Company website or by sending an email to investor@exelcomposites.com. •

1960 EXEL'S OPERATIONS BEGIN
1960's PRODUCTON OF SILENTA HEARING PROTECTORS
1970's START OF COMPOSITE PRODUCTS
1973 START OF CROSS-COUNTRY SKI POLE PRODUCTION


PHOTO: Teemu Granström

# CEO's review

**We could see signs** of recovery in the second quarter of 2010 and market conditions continued to improve in the third and fourth quarter of the year. However, the global downturn that begun in late 2008 continued to impact the pultrusion market in the outset of 2010. The first quarter of 2010 was very challenging with weak demand in all geographical markets and market segments. We maintained our focus on cost efficiency and improving productivity, but we also took action to strengthening our sales and technical sales organization. Our strategy to invest in the sales teams and to continuously work close together with customers paid off when the market improved. Net sales increased with 4.1 per cent in 2010 compared to the same period in 2009. Demand was strong in the telecommunication and paper industry segments, electrical and machine industries and in the cleaning and maintenance market. Building and construction industry continued to suffer from poor demand, but there is growing interest in composite window and door profiles due to new energy regulations.

It was not only the recovery that put a mark on 2010; Exel Composites celebrated its 50th anniversary in 2010. Continuous innovation has always played a key role in Exel's development. One of our major breakthroughs was the launch of carbon fiber ski poles in the 1970s, which became a true success in the Innsbruck Olympic Games 1976. Another important milestone was the launch of one of the first industrial applications, carbon fiber parts for high speed textile machines. The 1980s and 1990s were hectic decades with the introduction of numerous new products made of composite materials; laminates, radomes, pull-wound tubes and profiles for several industrial applications.

In 1998 Exel was listed on the Helsinki Stock Exchange. The commencing decade marked an important period of Exel's development and an era of acquisitions. We were an active consolidator of the pultrusion industry, acquiring the pultrusion businesses of Menzolit Fibron, Bekaert, Faserprofil and Pacific Composites. The pultrusion industry is still fragmented and will offer interesting consolidation possibilities also in the future. We aim to continue to play an active role in this respect and we have a strong balance sheet to support our strategy. Throughout the downturn we took robust measures to improve cash management, reduce working capital and prioritize capital spending. Net interest-bearing liabilities have been reduced from EUR 6.1 million at the end of 2009 to EUR -1.4 million at the end of 2010 and net gearing has been improved from 23.7 per cent to -4.3 per cent in the same period.

Today Exel Composites is the world's leading composite profile manufacturer able to offer unique service to customers both locally and internationally. Our success is, as already mentioned, based on continuous innovation and close product development together with customers. We are committed to offering our customers improved efficiency and productivity with high-performance, tailor-made products. Although we are reasonably satisfied with the overall performance, there is still room for improvement. Measures to improve the Chinese and British units' efficiency are underway and a positive outcome is expected by the end of 2011.

In 2011 we aim to continue to pursue our strategy of profitable growth. We are well-positioned to capitalize on the growth opportunities on the gradually recovering markets. We are looking for bolt-on acquisitions to strengthen our business portfolio and market position. We will also continue to invest in the sales teams as well as to develop applications together with customers. We are convinced that satisfied customers are the best way of ensuring continued profitable growth as well as safeguarding shareholders' interests.

Finally, I would like to thank everyone working at Exel Composites for their hard work, commitment and professionalism in 2010. Many thanks also to our shareholders and all other stakeholders for their continued support. •

**MARCH 2011**
**VESA KORPIMIES, PRESIDENT AND CEO**

1976 BRAEKTHROUGH OF CROSS-COUNTRY SKI POLES IN INNSBRUCK OLYMPICS

1978 FIRST DEMANDING CARBON FIBER PROFILE FOR TEXTILE MACHINES

1980's START OF LAMINATE PRODUCTION FOR THE SPORTS INDUSTRY

Q1 Q2 Q3 Q4

### January–March 2010 highlights

- Net sales from continuing operations were EUR 15.7 (18.5) million in the first quarter of 2010, down by 15.4 per cent on the previous year
- Operating profit from continuing operations was EUR 1.0 million in the first quarter of 2010 compared to EUR 2.0 million in the first quarter of 2009, or 6.3 (10.8) per cent of net sales
- Net operative cash flow was positive at EUR +0.8 (+3.0) million
- Fully diluted earnings per share were EUR 0.06 (0.14), of which continuing operations accounted for EUR 0.06 (0.13)
- Due to the market uncertainty and poor visibility, Exel will not give any profit guidance

### April–June 2010 highlights

- Net sales from continuing operations were EUR 19.2 (19.3) million, down by 0.6 per cent on the previous year
- Operating profit from continuing operations was EUR 2.7 (2.4) million, representing 13.8 (12.4) per cent of net sales
- Net operative cash flow was positive at EUR +3.3 (+3.2) million
- Fully diluted earnings per share were EUR 0.16 (0.16), of which continuing operations accounted for EUR 0.16 (0.16)
- Due to the market uncertainty and poor visibility, Exel will not give any profit guidance

### July–September 2010 highlights

- Net sales from continuing operations were EUR 18.7 (15.9) million, an increase of 17.3 per cent on the previous year
- Operating profit from continuing operations was EUR 2.7 (1.2) million, representing 14.3 (7.8) per cent of net sales
- Net operative cash flow was positive at EUR +2.8(+2.4) million
- Fully diluted earnings per share improved to EUR 0.16 (0.07), of which continuing operations accounted for EUR 0.16 (0.06)
- Due to the market uncertainty and poor visibility, Exel will not give any profit guidance

### October–December 2010 highlights

- Net sales from continuing operations in the fourth quarter of 2010 were EUR 19.3 (16.2) million
- Operating profit from continuing operations in the fourth quarter of 2010 was EUR +3.1 million including EUR +0.9 million non-recurring items (EUR +2.4 million including net reversal of the restructuring provisions of EUR +0.7 million), or 16.1 (14.5) per cent of net sales
- Fully diluted earnings per share were EUR 0.20 (0.18), of which continuing operations accounted for EUR 0.20 (0.15)

### Outlook for 2011

Demand amongst the pultrusion industry clientele has improved gradually in 2010. The first signs of recovery were visible in the 2nd quarter of 2010, and market conditions improved further in the 3rd and 4th quarter. We believe that Exel Composites is well positioned to take advantage of the growth opportunities as the markets gradually recover. As a result of improved profitability, good cash flow generation and reduced debt level we believe in Exel Composites' long-term performance. Exel Composites recorded a strong year end, but maintains its cautious stance in 2011, since market uncertainties persist.

1991 LATTICE MAST PRODUCTION STARTED

1992 LAUNCHING OF FLOORBALL CLUBS

1993 PAPER MACHINE APPLICATIONS STARTED

1993 LAUNCHING OF FLOORBALL RANGE

# From challenges back to growth track

The global financial crisis continued in the outset of 2010. The year was challenging, but Exel Composites emerged from the downturn stronger than ever.

THE first quarter of 2010 was very challenging and our sales decreased in almost all geographical areas. We continued to focus on cost efficiency and improving productivity. We also invested in sales and in developing new application with customers which paid off as the markets started to recover gradually.

Sales started to improve in the third quarter of the year and they continued to improve in the fourth quarter in telecommunication and paper industry segments, electricity and machine industry and in cleaning and maintenance markets. The building and construction industry continued to suffer from poor demand, but there is growing interest in composite glass fiber window and door profiles because of new energy regulations.

Exel Composites' net sales from continuing operations increased in 2010, ending the year at EUR 72.9 (70.0) million. This represents an increase on the previous year of 4.1 per cent.

The Group's operating profit from continuing operations in 2010 was EUR +9.4 including EUR +1.4 million non-recurring items compared to EUR +8.0 million including net reversal of the restructuring provisions and other non-recurring items of EUR +1.2 million in 2009. •

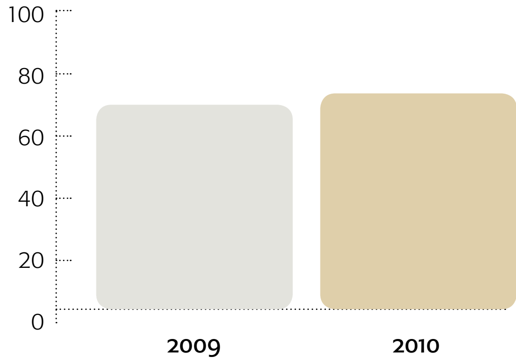
**4.1** Net sales increased by 4.1 per cent in 2010.



| CONSOLIDATED KEY FIGURES | 2010 | 2009 |
|---|---|---|
| Net sales, continuing operations, EUR millions | 72.9 | 70.0 |
| Operating profit, continuing operations, EUR millions | 9.4 | 8.0 |
| % of net sales | 12.9 | 11.4 |
| Profit for the period, continuing operations, EUR millions | 6.8 | 5.9 |
| Return on capital employed (ROCE), % | 21.8 | 20.9 |
| Equity ratio, % | 57.4 | 44.6 |
| Net gearing, % | -4.3 | 23.7 |
| Earnings per share, EUR | 0.57 | 0.56 |
| Equity/share, EUR | 2.73 | 2.15 |

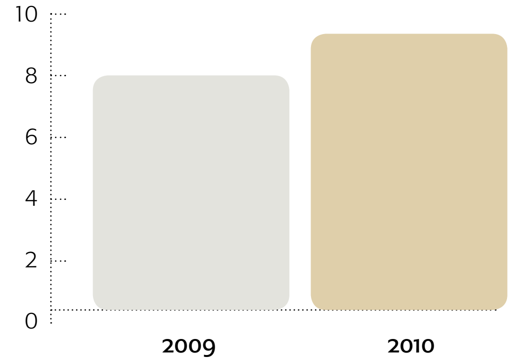
**NET SALES FROM CONTINUING OPERATIONS**

2010: EUR 72.9 million
2009: EUR 70.0 million

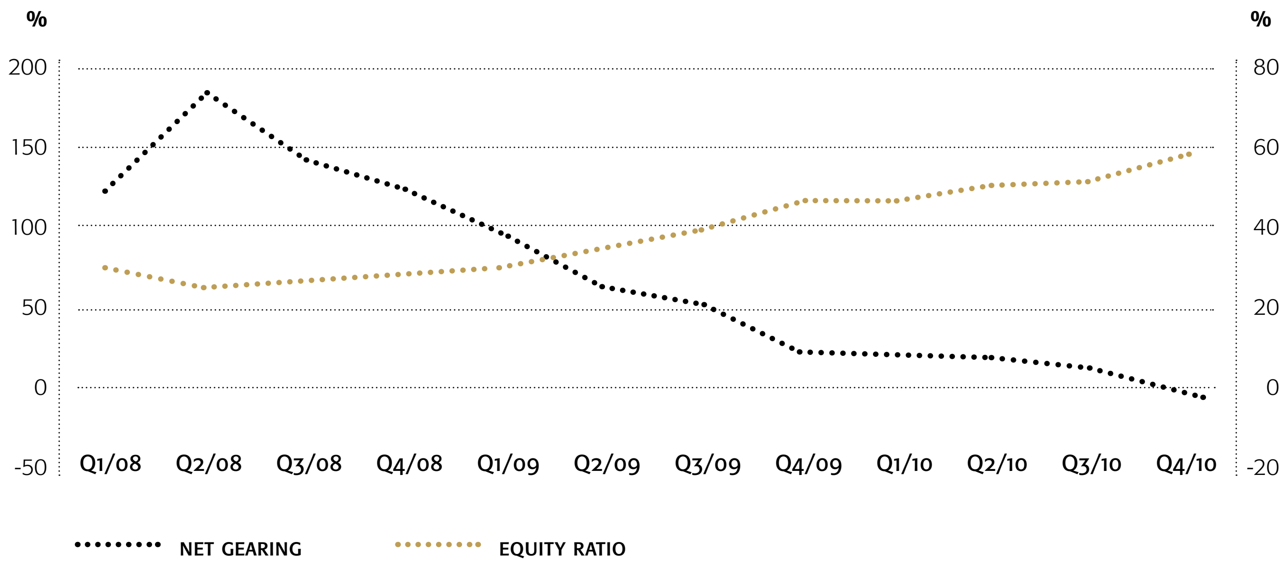



**OPERATING PROFIT FROM CONTINUING OPERATIONS**

2010: EUR 9.4 million
2009: EUR 8.0 million




**NET GEARING AND EQUITY RATIO**





# Good basis for growth

Exel Composites' vision is to be the global leader of advanced composite profiles to the selected niche market segments. Exel Composites strengthens its competences and strives for growth with organic growth and acquisitions.

**Strategy**

Exel Composites concentrates on demanding, customer-tailored composite profiles and products for industrial applications in selected market segments. Exel Composites' target is growth ahead of the market while maintaining good profitability. Acquisitions may be used to strengthen Exel Composites' competences or market position globally or locally.

According to its strategy Exel Composites focuses on continuous production technologies including pultrusion, pullwinding and lamination.

The composite profile market grows at an annual rate of 4–5 per cent. Exel Composites is the world's leading composite profile manufacturer with an 11 per cent market position. The industry is fragmented and globally there are around 350 manufacturers. Growth in the industry is generated by new applications. Exel Composites has been one of the few consolidators of the industry over the years.

Profitable growth is ensured by concentrating on OEM customers in selected market segments chosen for their profitability and growth potential. Currently Exel Composites delivers products for the following industries and market segments: transportation, building, construction and infrastructure, energy, telecommunications, paper industry, electrical industry, cleaning and maintenance, sports and leisure industry, machine industry and general industries.

Basis for profitable growth is also formed by Exel Composites' total service, customer-oriented operations and close co-operation with customers. Besides innovative and high-quality products, Exel Composites' total service consists of expertise in sales and customer service, technical support and long-term partnerships.

To meet the targets of the growth strategy Exel Composites invests in product and technology development and in technical sales. The objective behind innovative product and technology development is to generate competitive advantages for Exel Composites' customers. Investments are focused on strengthening Exel Composites' position in the selected market segments. Profitable growth also requires continuous improvement of productivity and efficiency, which will be achieved through focused best practice initiatives and optimized site planning.

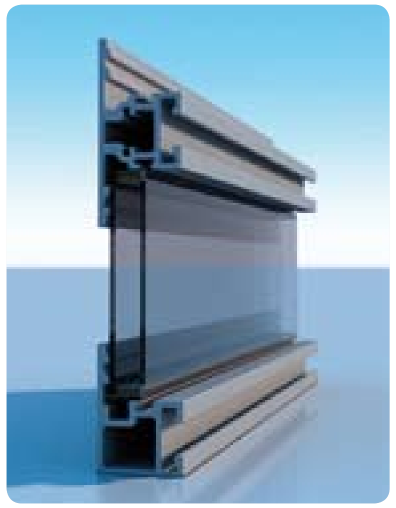
**Vision**

Exel Composites aims to be the global leader of advanced composite profiles to the selected niche market segments. Our objective is to reinforce our market position by organic growth and acquisitions. We aim at generating good returns for the Company's shareholders. Exel Composites' specialized total service, high quality products and long-term partnerships earn

2004 NORDIC WALKING MARKET GROWS RAPIDLY

2001–2006 ERA OF ACQUISITIONS

2006 EXEL BECOMES WORLD'S BIGGEST PULTRUSION COMPANY BY ACQUIRING PACIFIC COMPOSITES



Company the trust and confidence of its customers. In doing this Exel Composites offers its employees an exciting and rewarding place of employment.

**Financial targets**

Exel Composites Group's financial targets over a business cycle are as follows:

GROWTH

The objective is that Exel Composites Group's average organic growth annually exceeds market growth of the industry. Growth achieved through acquisitions is part of Exel Composites' strategy.

OPERATING PROFIT

Exel Composites' target is the operating profit to exceed 10 per cent of net sales.

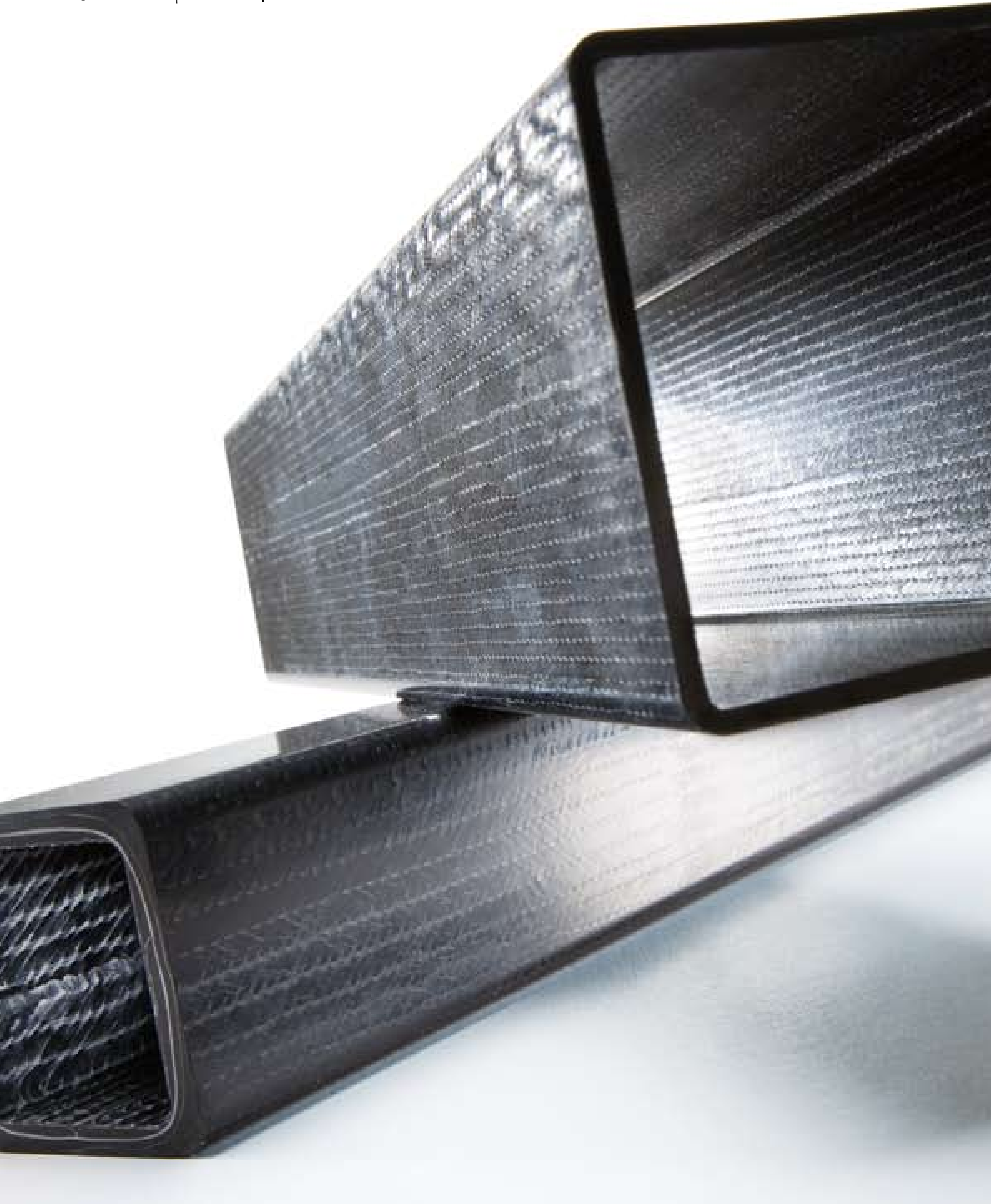
DIVIDEND POLICY

Exel Composites aims to distribute at least 40 per cent of net income in dividends, as permitted by the financial structure and growth opportunities.

**Summary of the stock exchange releases published in 2010**

8 January 2010
Exel Composites Plc's subsidiary merger entered into Trade Register
29 January 2010
EF Team Sports becomes Exel Floorball Brands' license holder
11 February 2010
Invitation to Exel Composites' press conference
19 February 2010
Exel Composites Plc's financial statements release 2009
4 March 2010
Notice to Exel Composites Plc Annual General Meeting
5 March 2010
Exel Composites Annual Report 2009 and Corporate Governance Statement published
31 March 2010
Decisions of the Annual General Meeting of Exel Composites Plc
30 April 2010
Invitation to Exel Composites' press conference
7 May 2010
Exel Composites Plc's interim report for January 1–March 31, 2010
23 July 2010
Exel Composites Plc's interim report for January 1–June 30, 2010
21 October 2010
Invitation to Exel Composites' press conference
29 October 2010
Exel Composites Plc Interim Report for January 1–September 30, 2010
12 November 2010
Exel Composites' Annual General Meeting and financial calendar in 2011
17 December 2010
E-Sports Group becomes license holder for Exel Floorball trademarks •

# Regeneration is our strength







# Competitive edge for customers

Exel Composites invests in product development. New applications are regularly being found. Our success is based on professionalism and co-operation with the very best experts.

**Introduction**

Exel Composites specializes in the developing, designing, manufacturing and marketing of strong, durable and lightweight composite profiles. There are already over 1,000 glass and carbon fiber profile applications, all of which are the result of customer-focused product development. Work on replacing other materials, such as aluminum, steel and wood, with composite materials is ongoing and new applications are regularly being found. The unrivalled lightweight and rigid qualities of composite materials make them unbeatable in terms of durability and functionality. Exel Composites invests considerable financial and human resources with key partners in strategic areas of product development. It is Exel Composites' main objective to create superior competitive edge for its customers.

**APPLICATIONS AND MARKETS**

**Transportation**

Exel Composites provides external and internal body parts for trains and trams as well as buses and coaches. External body parts are typically adhesively bonded to the metal frames of buses and coaches. Products include cant rails, skirts and luggage door panels. Internal body parts include air conditioning/heating ducts, ceiling profiles, side walls and luggage rack parts. A wide array of composite profiles is supplied also to the truck and trailer industry. Refrigerated trailers are a key application for composite products.

In 2010, the truck and trailer market continued to suffer from the prevailing economic situation. Signs of recovery could be seen, but demand was still clearly lower than before the financial crisis. The train and tram market was very active. In the bus and coach industry, the substitution of side panels in buses and trains continued, as the benefits of composites have overrun more conventional materials such as aluminum. The major advantages of composites in these applications are lightness, durability and different shape alternatives.

Competition was very fierce as many new players entered the markets with aggressive price policy.

**Building, construction and infrastructure**

Lasting performance is a prerequisite for any application in building, construction and infrastructure applications. Pultruded composite profiles outperform any other plastic material on mechanical properties with Exel Composites normal glass laminate structures. High performance reinforcements such as carbon fibers, can even match competition with metals. Durability in very corrosive environments, low weight and hence easy installation, thermal insulation, stability and electrical insulation, are only a few of the added benefits of composite profiles. Combinations of these characteristics have led to a wide array of very different niche applications in the construction market.

The segment includes airport products (approach lighting systems, masts for weather measurement and ILS glide path towers), access engineering (access ladders, hand rails systems and stair treads), cable management systems, geological stabilization for the mining and earthworks industries, marina gratings, water treatment as well as window and door profiles.

The airport business remained slow during the whole year, and competition was harder than ever. The only segment of frangible support structures at airports that maintained a reasonable level of activity was automatic weather stations and wind direction indicators. Increased activity in new incoming enquiries of frangible support structures towards the end of the year did not yet show on the order book.

The building industry continued to suffer from the economic situation, and no real improvement could yet be seen. The European window and door profile market is active thanks to new energy regulations. Rail and tunnel applications also offer good prospects, but incubation times are long.

**Energy industry**

New and innovative solutions are being developed by Exel Composites to meet the demands of the global energy sector.

Visual pictures of life at 1,400 metres depth were reported during 2010 from the world's first pultruded composite sub-sea structure, launched in 2009. DELOS (Deep Ocean Environmental Long-term Observatory System) is a system with which British Petroleum will perform long-term (25 years) environmental monitoring in the deep ocean.

Exel Composites is involved in the major energy sectors (wind, oil and gas, tidal etc.), where the use of composites materials through lightweight but strong materials can bring real benefits in providing a cost effective solution.

New products are being developed which will allow long-term growth to be attained in the tidal sector, where substantial global investment is taking place, in order to capture the planet's renewable resources.

**Telecommunication**

Products for the telecommunication industry include antenna radomes and tubes as well as optical cable tension members. Although various options are available for the protective covers on base station antennas, the most effective solution is the use of pultruded glass fiber composite profiles and tubes.

Exel Composites leads the way in this market by producing profiles to a high specification. Exel Composites' advanced technology allows us to manufacture thin wall profiles, yet still maintain maximum strength and rigidity which are essential criteria as the main antenna support. Other features ensure maximum wave transfer, good weatherability and UV stabilization.

Composite optical tension members provide the essential load protection to these vital signaling elements during the manufacturing, installation and service life of the fiber optic cable.



**Paper industry**

With over 10 years' experience with composites in paper industry applications Exel Composites has developed a wide range of customer products. These include for example doctor blades and fabric guiding poles. New applications will be developed within the product group with extensive product development both for doctoring and other applications where characteristics specific to composites such as specific strength, controlled wearing properties, light weight or corrosion resistance are needed.

**Electrical industry**

Glass fiber reinforced composites have excellent electrical insulation properties. In addition, they have ideal mechanical properties in low, ambient and elevated temperatures. Based on many years of experience, Exel Composites provides specific solutions for this segment.

Products for the electrical industry include epoxy rods for insulators and arresters, insulated rail joint systems for railways and metros, 3rd rail covers, insulation rings and tubes, profiles for electrical machines such as transformers, generators and electric motors as well as conduit rods.

**Cleaning and maintenance**

Exel Composites continues to develop and expand its tool handles and telescopic pole range providing versatile systems for numerous applications for professional use, especially working at heights. Focus on serving OEM partners increased sales in 2010. In addition, processing the product further to new application areas and markets was positively received by customers. Sales expansion into new geographic areas was initiated in 2010.

Today Exel Composites handles and poles are widely used in cleaning, high-reach window cleaning, vacuuming, with testing and measuring equipment and with gardening and industrial tools.

**Sports and leisure industry**

Thanks to excellent mechanical properties and light weight, composite tubes, profiles and laminates are used in the sporting goods industry to produce products such as skis, ski poles, trekking poles, Nordic Walking poles, floorball sticks, surfing masts, snowboards, skateboards, kiteboards and ice hockey sticks. There is also an increasing number of applications in the leisure area including caravan awnings, tent structures, sailing masts, fishing rods, archery products, furniture and components for boats and snowmobiles.

In 2010, strong demand for composite laminates continued in the winter sports industry. Demand for pultruded tubes for caravan awnings and sun protection frame tubes was also good. New applications have been developed for the board industries including kiteboards, skateboards and wakeboards.

**Machine industry**

Exel Composites has over 30 years of manufacturing experience of demanding state of the art pultruded composite profiles used in different segments of the machine industry. An increasing number of applications in mechanical engineering is benefiting from composites' advantages: textile machine parts, printing machines, robotic and manipulator parts, packing machines, processing machines and measuring devices.

**General industries**

Composite materials can be used in many different applications in different industries. The unique combination of excellent properties - high corrosion-resistance combined with light weight and high stiffness - are the properties that make composites the best choice compared to many traditional materials. Exel Composites has a long experience in the development of products for the defense sector. These include both customer-specific and non-customer-specific defense products; sector umbrellas designed to give shelter to large, stationary objects, mine detecting probes and camouflage support poles.

The general industries segment also includes System 30 Light Weight Structures which is a self-assembly system for building frameworks and other lightweight structures. The light weight, non-corroding structures can be utilized indoors and outdoors, e.g. for garages and boat covers, supermarket kiosks and promotion stands. Furthermore, the segment includes various applications within the agriculture and forest sectors. •

WIDE experience of composite technology is Exel's strength.

# People behind quality

Exel Composites' most important resource is skilled personnel. Therefore, personnel development is one of the cornerstones of our operations. Standardized quality and environment systems are used to enhance work methods and environment.

## PERSONNEL

### Personnel policy

Highly skilled personnel and state-of-the-art technology play a key role in Exel Composites' operations. A knowledgeable workforce is Exel Composites' most important resource and the prerequisite for our existence, growth and development. The management sees to it that expertise and motivation are constantly developed. Personnel development is indeed one of the primary cornerstones of Exel Composites' personnel policy. Annual performance reviews and training needs analysis are used to clarify where knowledge is needed and to support personal development.

### Equality issues

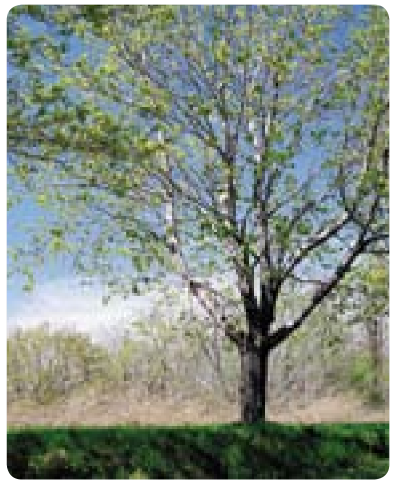
Together with employee representatives, an equality program has been created for Exel Composites that emphasizes the responsibility of leadership actions in equality issues and that supports the equal development of all employees, as well as the rotation of tasks and use of family leave. Current personnel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

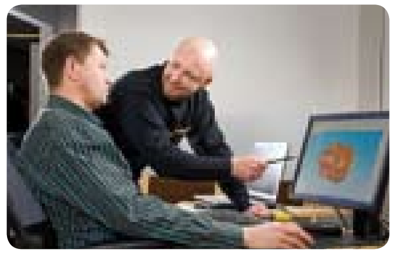
### Incentive programs

Exel Composites' performance-based incentive program covers all employees. Salaried employees receive a monthly salary and an annual bonus tied to the attainment of annually established goals emphasizing growth and profitability. Non-salaried employees are also eligible for incentive compensation, but their annual bonus is based on productivity. The top management is additionally covered by a program designed to enhance their long-term commitment.









### Personnel

At the end of 2010 the Group employed 408 (419) personnel. The average number of employees during the period was 404 (436). The number of employees in Finland was 189 (183) and in other countries 219 (236). The decrease is due to the rationalization actions in the British and Chinese units.

## QUALITY, ENVIRONMENT AND SAFETY

Quality, environment and safety are an essential part of management and are developed according to objectives based on the Exel Composites Group's operating principles.

### Quality management system

Exel Composites Group has a multi-site ISO 9001 certificate admitted by Bureau Veritas Certification covering all the sites of the Group. Exel Composites Group measures the performance of the sites with uniform indicators. The top management follows the indicators and defines the areas for improvement based on the indicator.

Enterprise Resource Planning (ERP) is a vital part of a quality system. It has an important role in managing the information flow inside and between the business processes. A new common ERP was taken use the in Exel Composites Group in 2008. The rollout has been completed in Europe and in Australia. The system will be in use in all the units of the Group by the end of 2011.

### Environment and safety

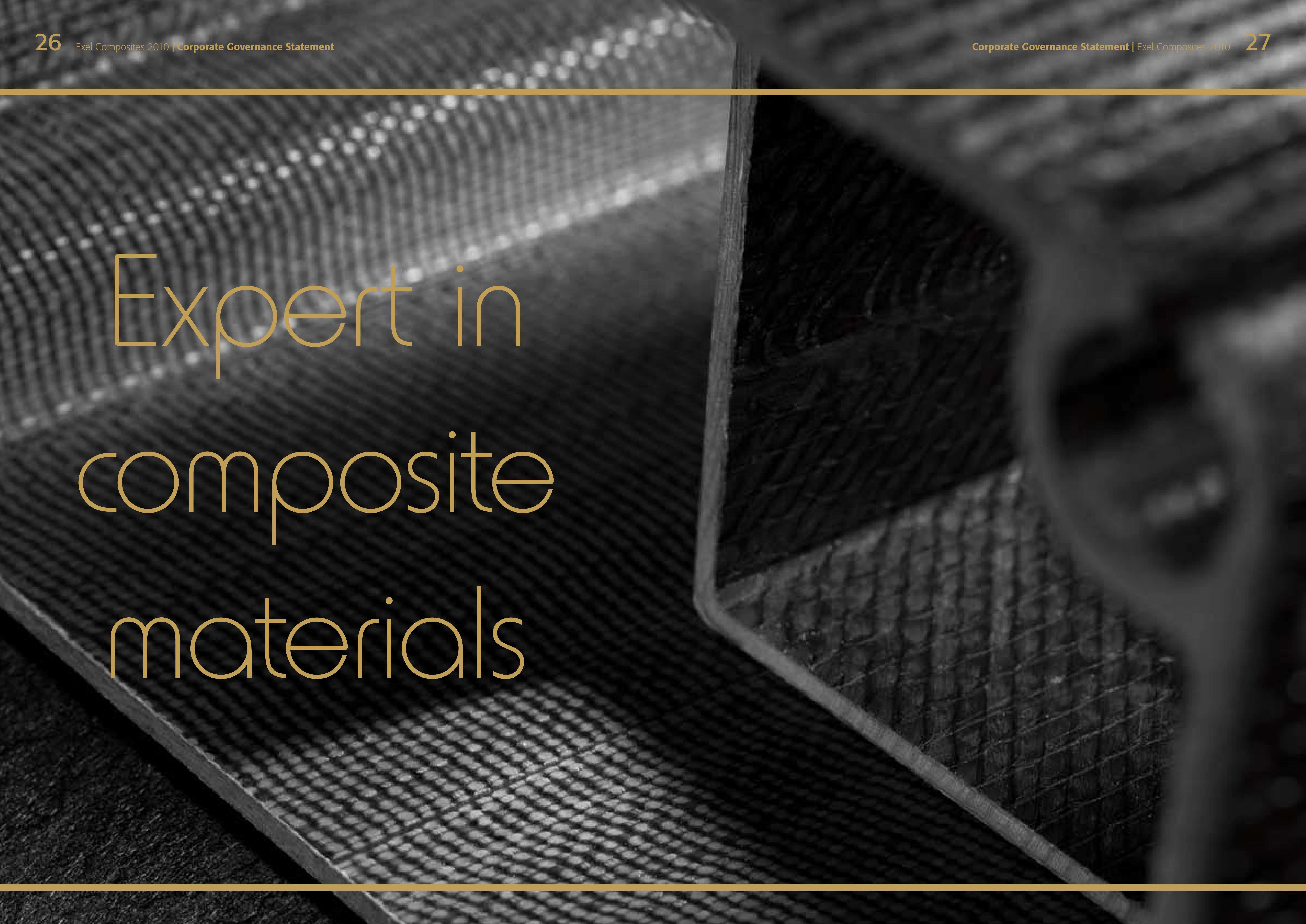
Exel Composites Group's Finnish units, the Joensuu and Mäntyharju factories, have an ISO 14001 environmental certificate. The procedures of the certified environmental management system are used as blueprint in the implementation of the system at the other sites.

Significant environmental aspects and risks have been assessed in all the units of the Group. The Group's environmental program is based on the identified risks and legislative requirements. Environmental monitoring and measuring are carried out at most of the sites. Regular audits and follow-up are an important part of measuring progresses in continuous improvement.

The occupational health and safety issues are part of normal management and the performance is measured by indicators. All the sites of the Group have a safety organization with defined responsibilities.

Exel Composites continues to remain vigilant to ensure our site operations are aware of all local and regional controls. A safe environment for our employees and surrounding neighbourhoods is a priority at Exel Composites. Exel Composites plays a leading role in industry associations such as EuCIA (European Composites Industry Association). This helps us stay at the leading edge of awareness of the latest developments in environmental matters including advances in environmental technology and new regulatory measures.

Exel Composites remains committed to re-using composite wastes and is an active participant in programs such as the work done by the European Composites Recycling Services Company (ECRC). The ECRC is developing new applications for using composite waste and influencing European legislation as part of the European composites industry. •



# Expert in composite materials

# Corporate Governance Statement

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

Furthermore, Exel Composites complies with the Finnish Corporate Governance Code, published by Securities Market Association. This Corporate Governance Statement has been prepared in accordance with the Recommendation 54 of the Finnish Corporate Governance Code. The code is available at www.cgfinland.fi.

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

Exel Composites deviates from the Corporate Governance Recommendation 9 regarding the representation of both genders on the Board of Directors. Explanation for the deviation is provided under the heading Board of Directors.

Further information concerning Exel Composites' Corporate Governance matters is available on the Group's website at www.exelcomposites.com.

**The Board of Directors**

According to the Articles of Association, 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 Board shall elect a Chairman from its midst and a Vice Chairman if necessary.

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

The Board of Directors is responsible for the management of the Company and the proper organization of its activities in accordance with the Finnish Companies Act and the Company's Articles of Association. The Board's principal duties include confirmation of the corporate strategy and budget by function, and decisions on funding agreements, major investments and the purchase or sale of assets. The Board draws up interim reports, the financial statements and the report on operations, appoints and dismisses the President and CEO and the Deputy Managing Director and decides on the President and CEO's salary.

The Board monitors the Company's financial position with the help of information provided by the Management Group.



Sufficient information including the agenda for the Board meetings with all relevant information on the Company's structure, operations and markets is distributed at least 7 days before the meeting.

The Board of Directors holds at least seven ordinary meetings per year:

- one meeting to be held for approving the annual accounts;
- a formative meeting to be held after the Annual General Meeting;
- three meetings to be held for approving the interim accounts;
- one meeting to be held to discuss and approve the strategy and the budget process; and
- one meeting to be held for discussing and approving the budget for the next financial year.

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

The Board evaluates the independence of each member of the Board at the first meeting following the AGM.

According to the Corporate Governance Code Recommendation 9, both genders shall be represented on the Board. The Nomination Committee has considered the possibility of proposing a suitable female Board candidate, in accordance with the Corporate Governance Code concerning the gender parity of the Board. So far the Nomination Committee has not found a suitable candidate who would be also familiar with the Company's main lines of business. The Company aims at complying with the recommendation in the long run.

According to the Corporate Governance Code Recommendation 27, the Board shall establish an Audit Committee if the extent of the Company's business requires that a group with a more compact composition than the Board deals with the preparation of matters pertaining to financial reporting and control. In consideration of the Board of Directors' small size, the company has decided not to have any permanent Board committees. In compliance with the Corporate Governance Code Recommendation 27, the Board of Directors carries out the duties of the Audit Committee. These duties include, amongst others, review and supervision of financial reporting process, monitoring the efficiency of the Company's internal control and risk management systems, review of auditor's reports as well as preparation of auditor's election.

According to the Recommendation 28 of the Corporate Governance Code, the Board may establish a Nomination Committee to improve the efficient preparation of matters pertaining to the nomination and remuneration of directors. However, Exel Composites' shareholders have considered it essential that the Annual General Meeting establishes a Shareholders' Nomination Committee for the preparation of a proposal for election of Board members and fees to be paid to the Board members to be presented to the Annual General Meeting.

In 2010, the Shareholders' Nomination Committee comprised Tomas Billing as chairman (Nordstjernan AB), Matti Rusanen (Ilmarinen Mutual Pension Insurance Company), Pertti Laine (Veikko Laine Oy), Erkki Myllärniemi (Ulkomarkkinat Oy) and Peter Hofvenstam, the Chairman of the Board of Directors, acting as an expert member. The Committee met one time in 2010.

**Members of the Board**

On 31 March 2010 the Annual General Meeting re-elected all the members of the Board: Peter Hofvenstam, Göran Jönsson, Vesa Kainu, Reima Kerttula and Heikki Mairinoja. At the formative meeting of the Board of Directors held after the Annual General Meeting, the Board of Directors re-elected from among its members Peter Hofvenstam as its Chairman. There is no specific order for the appointment of directors.

Peter Hofvenstam was born in 1965. He holds an M.Sc. in Economics. He is Senior Vice President of Nordstjernan AB.

Göran Jönsson was born in 1947. He holds an M.Sc. in Economics. He retired in 2008 from the position of President and CEO of Exel Plc. He is currently actively involved in board work and management consulting.

Vesa Kainu was born in 1947. He holds a B.Sc. in Engineering. He retired in 2007 from the position of Managing Director of Metso Ventures. He is currently actively involved in board work and management consulting.

Reima Kerttula was born in 1955. He holds an M.Sc. in Engineering. He is President of Metso Fabrics Inc.

Heikki Mairinoja was born in 1947. He holds an M.Sc. in Engineering and a B.Sc. in Economics. He retired in 2007 from the position of President and CEO of Oy G.W. Sohlberg Ab. He is currently actively involved in board work and management consulting.

In 2010, Exel Composites' Board of Directors has evaluated the Board members' independence of the Company in accordance with Recommendation 15 of the Corporate Governance Code. Vesa Kainu, Reima Kerttula and Heikki Mairinoja are independent Board members. Peter Hofvenstam is considered as independent from the Company, but non-independent from a major shareholder, since he is the Vice President of Nordstjernan AB. Göran Jönsson is considered as independent from major shareholders, but as non-independent from the Company as former President and CEO of the Company. The Board was considered to comply with the Corporate Governance independency rules.

The term of the current Board members will expire at the end of the AGM 2011.

Further information on the Board (biographical details, holdings and compensation) is presented separately under the heading "Board of Directors" on page 32 in this Annual Report and on the Company website at www.exelcomposites.com.

**Work of Board of Directors in 2010**

The Board of Directors convened 13 times in 2010 and the average attendance rate at these meetings was 100 per cent.

Besides the regular annual Board work during the financial year 2010, the key priorities in 2010 included continued measures to protect the financial fundamentals and to reinforce the financial position, to reinforce the focus on the core composite business, to accelerate the sales force activities and to refine the Group strategy to find ways to capitalize on the down-turn for longer term success. In addition, the Board conducted a review of the strategic options available to enhance shareholder value. The Board confirmed the strategy to continue focusing on profitable growth by pursuing organic growth opportunities and bolt-on acquisitions.

**President and CEO**

The President and CEO 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. Since duties of the Board include supervision of managing director, Exel Composites' President and CEO shall not be elected as member of the Board. The areas of responsibility of the President and CEO include, in addition to the above mentioned legal requirements, and implementing the Board's decisions, specifically also securing growth of the business, acquisitions and strategic projects, the increase in shareholder value, profitability and efficiency of operations, and investments within the limits defined by the Board.

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

Vesa Korpimies is Exel's President and CEO. He was born in 1962 and holds an M.Sc. in Economics.

The 2010 information on the President and CEO (biographical details and holdings) is presented separately under the heading "Management Group" on page 34 of this Annual Report.

**Internal Control and Risk Management Pertaining to the Financial Reporting**

Exel Composites' internal control framework and roles and responsibilities for internal control have been defined in Internal Control Policy approved by the Board of Directors.

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

Exel Composites has established a Controller's manual (accounting and reporting rules), which is regularly updated and communicated throughout the organization. Other internal policies and rules related to the financial reporting process include Treasury Policy, Code of Conduct and Fraud Policy, as well as Authorization and Signature Policies.

Group accounting maintains a common chart of accounts that is applied in all units. The rollout of a common enterprise resource planning system has continued in 2010, which has further supported the harmonization of processes and controls. The system is in use in all the European units of the Group as well as in Australia. Subsidiaries submit their figures to group reporting system for consolidation purposes. The reported figures are reviewed both in the subsidiaries and in group accounting. Additionally a global CRM system implementation was started in 2010.

The consolidated financial statements of Exel Composites 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 2010. The notes to the consolidated financial statements are also in compliance with the Finnish Accounting and Companies Acts.

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

Exel Composites has established objectives for reliable financial reporting in order to identify financial reporting risks. Within the risk assessment process, Exel Composites identifies and analyses risks to the achievement of financial reporting objectives as a basis for determining how the risks should be managed. The risk assessment process also considers the potential for material misstatement due to fraud.

Control activities are linked to risk assessment and specific actions are taken to address risks to the achievement of financial reporting objectives. The identified risks related to financial reporting are managed through control activities that are set throughout the organization, at all levels and in all functions. Control activities are defined and selected considering their cost and effectiveness in mitigating risks to the achievement of financial reporting objectives. Exel Composites' common controls include variety of activities such as approvals, authorizations, verifications, reconciliations, reviews of operating performance, safeguarding of assets and segregation of duties.

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

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

As part of internal control development during 2010, Exel Composites continued to perform identification and analysis of financial reporting risks to the achievement of financial reporting objectives at unit level. Risks, control objectives and common controls were systematically identified and documented in monthly Business Unit level closing process and Group level consolidation processes. In 2010, Group controlling started to evaluate control effectiveness in different business units in order to ensure that the defined common controls are implemented.

The focus areas in 2011 continue to include assessment of the effectiveness of the business units' control and operative follow-up of the adequacy and effectiveness of control activities of financial reporting process. Exel Composites' management has also identified other core processes where the internal controls development work will continue. In 2011 the management will continue to focus on the risk evaluation of sales processes and defining control measures. Group wide common controls will be defined, and implemented throughout Exel Composites. •

**Chairman Peter Hofvenstam**
- Born 1965
- M.Sc. (Econ.)
- Senior Vice President, Nordstjernan AB
- Member of the Board since 2001
- Chairman of the Board since 2008
- No Exel Composites holdings
- Swedish citizen

PREVIOUS MAIN POSITIONS
- Partner, E. Öhman J:or Fondkommission AB
- CFO, AB Aritmos
- Financial Analyst, Proventus AB

KEY POSITIONS OF TRUST
- Chairman of the Board, Ramirent Plc.
- Member of the Board, Rostistella AB

INDEPENDENCE
Independent of the Company, but dependent of the major shareholders as Senior Vice President of Nordstjernan AB

**Göran Jönsson**
- Born 1947
- M.Sc. (Econ.)
- Member of the Board since 2008
- Holdings: 3,000 Exel Composites shares
- Swedish citizen

PREVIOUS MAIN POSITIONS
- President and CEO, Exel Plc
- Partner, Senior Partners
- General Manager of Industrial Coatings, Akzo Nobel

INDEPENDENCE
Independent of major shareholders, but dependent of the Company as former President and CEO of Exel Plc

**Vesa Kainu**
- Born 1947
- B.Sc. (Eng.)
- Member of the Board since 2000
- No Exel Composites holdings
- Finnish citizen

PREVIOUS MAIN POSITIONS
- Managing Director, Metso Ventures
- Executive Vice President, Metso Minerals Oy
- Executive Vice President, Metso Paper, Inc.

INDEPENDENCE
Independent of the Company and its major shareholders

**Reima Kerttula**
- Born 1955
- M.Sc. (Eng.)
- President, Metso Fabrics Inc.
- Member of the Board since 2009
- No Exel Composites holdings
- Finnish citizen

PREVIOUS MAIN POSITIONS
- President and CEO, Tamfelt Corporation
- Senior Vice President, Metso Paper Inc, Paper and Board Business Line, Paper and Board Machines
- Managing Director, Metso Paper Inc, Rautpohja Paper and Board Machinery

INDEPENDENCE
Independent of the Company and its major shareholders

**Heikki Mairinoja**
- Born 1947
- M.Sc. (Eng.), B.Sc. (Econ.)
- Member of the Board since 2008
- No Exel Composites holdings
- Finnish citizen

PREVIOUS MAIN POSITIONS
- President and CEO, Oy G.W. Sohlberg Ab
- CEO, Uponor Group
- Executive Vice President, Uponor Group

KEY POSITIONS OF TRUST
- Member of the Board, EM Group Oy
- Member of the Board, Ensto Oy
- Member of the Board, Komas Oy
- Member of the Board, Lindström Invest Oy
- Member of the Board, Suominen Corporation

INDEPENDENCE
Independent of the Company and its major shareholders

**Vesa Korpimies**
- Born 1962
- M.Sc. (Econ.)
- President and CEO since 2008
- Member of the Management Group since 1996
- Joined the Company in 1987
- Holdings: 84,155 Exel Composites shares
- Finnish citizen

AREAS OF RESPONSIBILITY
- 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 organization
- Customer and investor relationships
- Other responsibilities of the President and CEO

**Callum Gough**
- Born 1960
- M.Sc.(Eng.)
- Senior Vice President, Operations
- Joined the Company in 2006
- Member of the Management Group since 2007
- Holdings: 7,261 Exel Composites shares
- British citizen

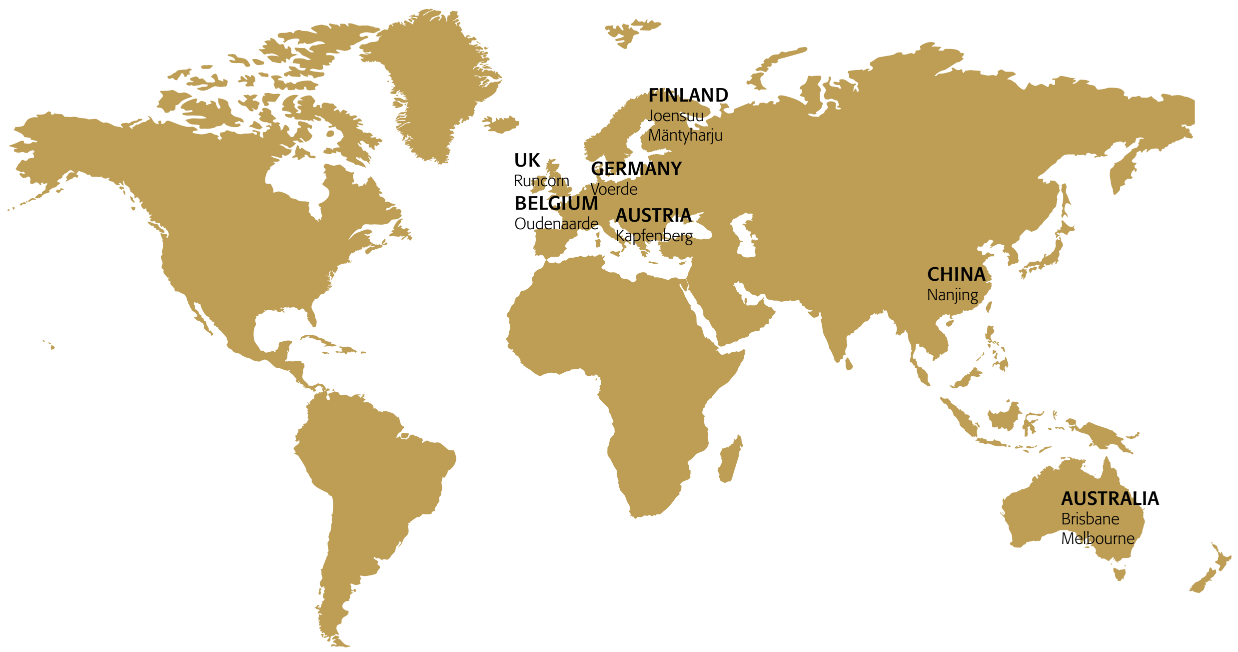
AREAS OF RESPONSIBILITY
- Strategic site planning
- Investments
- Strategic purchasing
- Quality and environment
- R&D coordination

PREVIOUS MAIN POSITIONS
- Managing Director Exel Composites UK and Belgium
- Operations Director Motherwell Bridge Aerospace
- General Manager/Operations Director Motherwell Bridge Plastics

**Ilkka Silvanto**
- Born 1951
- M.Sc. (Econ.), Master of Laws
- Senior Vice President, CFO and Administrative Director
- Joined the Company in 2004
- Member of the Management Group since 2004
- Holdings: 6,983 Exel Composites shares
- Finnish citizen

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

PREVIOUS MAIN POSITIONS
- CFO, Finnforest Oyj
- Director Finance and Controlling, Metsä-Serla, Mechanical Wood Industry
- Controller, Huhtamäki Oy Marli




**General Managers of Business Units**

**Ken Slater**
Australia

**Josef Lanzmaier**
Austria

**Eric Moussiaux**
Belgium

**Pertti Kainu**
China

**Tarmo Karhapää**
Finland

**Michael Lorenz**
Germany

**Richard Thomas**
UK

EXEL Composites is an international technology company with production units in seven countries.

# Remuneration Statement

This remuneration statement is prepared in accordance with the Finnish Corporate Governance Code, section 7, "Remuneration".

**Principles of Remuneration and the Decision Making Process**

Exel Composites remuneration principles are developed to promote the competitiveness and long-term financial success of the Company and to contribute to the favourable development of the Company's shareholder value. Another aim of the remuneration principles is to increase the commitment of the Board, the President and CEO and the Management Group to promote the interests of the Company and its shareholders as well as to attract, retain and motivate key personnel globally.

To ensure the alignment of compensation with the Company's financial performance, remuneration principles are based on predetermined and measurable performance and result criteria. Exel Composites remuneration components include fixed base salary, short-term performance based bonus and a long-term incentive share-based compensation.

The Annual General Meeting determines annually the remuneration of the Board members on the basis of the Nomination Committee's proposal.

The Board of Directors decides on the remuneration and other terms of employment of the President and CEO.

The President and CEO presents the remuneration of the other members of the Management Group to the Board, which approves the remuneration and the main terms of employment of the Management Group members.

**REMUNERATION RECEIVED BY THE BOARD IN 2010, EUR 1,000**

| Name | Position | Board Salaries 2010 | Board Meeting Fees 2010 | Board Salaries and Fees Total 2010 | Board Salaries and Fees Total 2009 |
|---|---|---|---|---|---|
| Peter Hofvenstam | Chairman | 32 | 18 | 50 | 46 |
| Göran Jönsson | Member | 14 | 12 | 26 | 23 |
| Vesa Kainu | Member | 14 | 12 | 26 | 25 |
| Heikki Mairinoja | Member | 14 | 12 | 26 | 22 |
| Reima Kerttula *as of 16.4.2009* | Member | 14 | 12 | 26 | 18 |
| Kari Haavisto *until 16.4.2009* | Member | – | – | – | 6 |
| **TOTAL** | | **88** | **66** | **154** | **139** |

In addition, travel expenses and other out-of-pocket expenses arising from the Board work were compensated in accordance with the Company's established practice and travel rules. Exel Composites has no such incentive program by which the company rewards the Board members with shares or option rights. The Board members are neither entitled to a short-term performance-based bonus.

**Board Remuneration**

The AGM held in 2010 confirmed the following compensation for Board members:

Chairman of the Board: EUR 32,000 per annum and additionally EUR 1,500 per meeting.

Other Board members: EUR 14,000 per annum and additionally EUR 1,000 per meeting.

The above described meeting fee was also paid for Committee meetings and other similar Board assignments.

The Board of Directors convened 13 times in 2010. The table on the opposite page describes the remuneration received by the Board in 2010 (EUR 1,000).

**Remuneration and Service Contract of the President and CEO**

According to the employment contract, the period of notice of the President is six months and the severance pay in the case of termination corresponds to 12 months' salary. In addition to monthly salary and fringe benefits, the President and CEO is eligible for a performance based bonus on an annual basis and a long-term incentive share-based compensation. The President and CEO's pension is determined in accordance with the statutory Finnish employee pension scheme (TyEL) that links the benefits directly to the President and CEO's earnings. In line with TyEL the President and CEO's retirement is flexible from age 63 to age 68. The President and CEO has no separate pension agreement.

**Remuneration of the Management Group and short-term Compensation**

Compensation for the members of the Management Group comprises a fixed monthly base salary, fringe benefits and an annual bonus. The amount of the bonus and the performance criteria are annually determined by the Board of Directors of Exel Composites. In 2010, the annual financial performance criteria were turnover growth, EBIT and OWC turnover.In 2010, the maximum annual bonus for the President and CEO was 55 per cent of his annual salary. For the other members of the Management Group the maximum annual bonus was 40–45 per cent of their respective annual salary.

There are no additional pension schemes for the Management Group members.

**Long-term share-based Compensation**

The Group has a long-term incentive program for the Group Management Team and selected key employees of the Company. The aim of the program is to commit persons entitled to participate in the program to improve Exel Composites Plc's long-term profitability and value and reward them for achieving these goals in line with Exel Composites' strategy and financial targets. The Program is confirmed annually by the Board of Directors.

The Participants shall earn the reward under the annual program if the financial performance targets as set by the Board of Directors have been met. The Board of Directors will decide on the targets related to the growth of the Exel Composites Group's earnings per share (EPS) and return on capital employed (ROCE) for each program separately before the beginning of the program. The maximum amount of reward for each annual program is decided by the Board of Directors and can be denominated as cash or a corresponding number of granted shares. There is a vesting period of two years before the title of the shares is transferred. The disbursement of the rewards is subject to the participant being employed or being in the service, and having not given notice thereof, of the Group at the time of disbursement, unless otherwise decided by the Board. The cost of the program will be accounted for as operating expenses and accrued for in the financial statements.

Under the program 2010, the reward was denominated as cash and the allocated rewards totaled EUR 0.6 million and the cost has been accrued for in the financial statements 2010.

**FINANCIAL BENEFITS OF THE PRESIDENT AND CEO AND MANAGEMENT GROUP, EUR 1,000**

| | Fixed annual base salary | Fringe benefits | Performance based bonus based on 2010 results* | Share based compensation based on 2010 results* | Total 2010 | Total 2009 |
|---|---|---|---|---|---|---|
| President and CEO | 227 | 13 | 104 | 177 | 520 | 495 |
| Other Management Group | 354 | 18 | 120 | 177 | 669 | 562 |
| **TOTAL** | **580** | **31** | **223** | **355** | **1,189** | **1,057** |

*Paid in 2011

Shares owned by the President and CEO and the other Management Group members can be seen at Exel Composites Plc's website at www.exelcomposites.com. •

# Risk management

THE CENTRAL SHORT-TEM GOAL of Exel Composites is to distinctly improve the profitability and competitiveness and to secure the financial position of business demands. The primary task of Exel Composites' enterprise risk management concept is to support the realization of these goals. As part of corporate governance, risk management is a systematic tool for the Board of Directors and the operative management to monitor and assess the realization of the goals, threats and opportunities affecting the Company operations.

The task of Exel Composites' risk management is also to support in adapting to the changes in business and risk environment.

**Principles of risk management**

Risks are factors that threaten the Company in reaching its set goals. They are measured by their impact and the likelihood of them occurring.

The business units and the corporate functions identify and assess their risks.

Risk management is a continuous process, which is integrated in the corporate strategic process, operative planning, daily decision making and monitoring operations. Risk management is also part of the internal control system.

Exel Composites only considers taking risks after careful assessment of the risk in relation to its gain. The aim of risk management is to systematically identify and evaluate risks and to manage them in a cost-effective way by:

- Ensuring that all identified risks affecting personnel, customers, products, reputation, property, intellectual property and operation are always managed as required by law and otherwise in accordance to best knowledge and justifiable taking into consideration the prevailing financial situation
- Fulfilling the expectations of stakeholders (owners, customers, personnel, suppliers and the community)
- Securing the management of the total risk exposure and minimizing the total risk
- Secure continuous operation without interruptions
- Promoting the effective utilization of possibilities and profit potentials.

Exel Composites' Board of Directors has confirmed this risk management policy. The risk management policy is reviewed annually to ensure that it corresponds to the current conditions and changes that have occurred in the business environment.

The risks affecting our business activities can be categorized as: strategic, operational, finance and hazard risks; they can result from factors both external and internal to the organization. Some specific risks can have both external and internal drivers. Strategic and operational business risks are reviewed on unit and group level.

**Strategic risks**

Regarding strategic risks Exel Composites is exposed to the market situation in different industrial customer segments. The key raw materials, especially carbon fiber, are supplied by only a few suppliers and the balance between supply and demand may cause long periods of scarcity. There are also risks related to the acquisitions where the realized level of benefits and synergies may differ from the planned.

**Operational risks**

In the operations the risks are identified in raw material price fluctuation in absolute terms as well as in relation to competing materials. The poor availability of skilled employees may locally impact in the quality and productivity of the business. The protection of self-developed proprietary technology is important and the risk of IPR violations is exceeding when the business is enlarging globally. Also the importance and risks related to the suppliers and sub-contractors have grown.

**Financial risks**

Financial risks consist of currency, interest rate, liquidity and funding risk, and credit and other counter party risk. Currency and interest rate risks are managed by hedging using different derivatives. Credit insurance is in place to cover risks related to trade receivables.

**Currency risk**

Most invoicing and purchases are carried out in euros. Possible changes in the exchange rates of the USD, GBP and AUD 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 Composites' financing policy involves using a small number of banks as partners to secure its long-term needs for borrowed capital. Exel Composites' 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 to use both changing and fixed interest loans. Additionally, the Company uses interest swap agreements.

**Credit risk**

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

**Hazard risks**

Hazard risks include occupational health and safety-related risks, personnel security risks, environmental risks, fire and other disasters, natural events and security risks. Exel Composites has taken measures against these risks by using safety guidelines, certification principles, rescue planning and security instructions. The materialization of risks has been taken into account in the insurance policies.

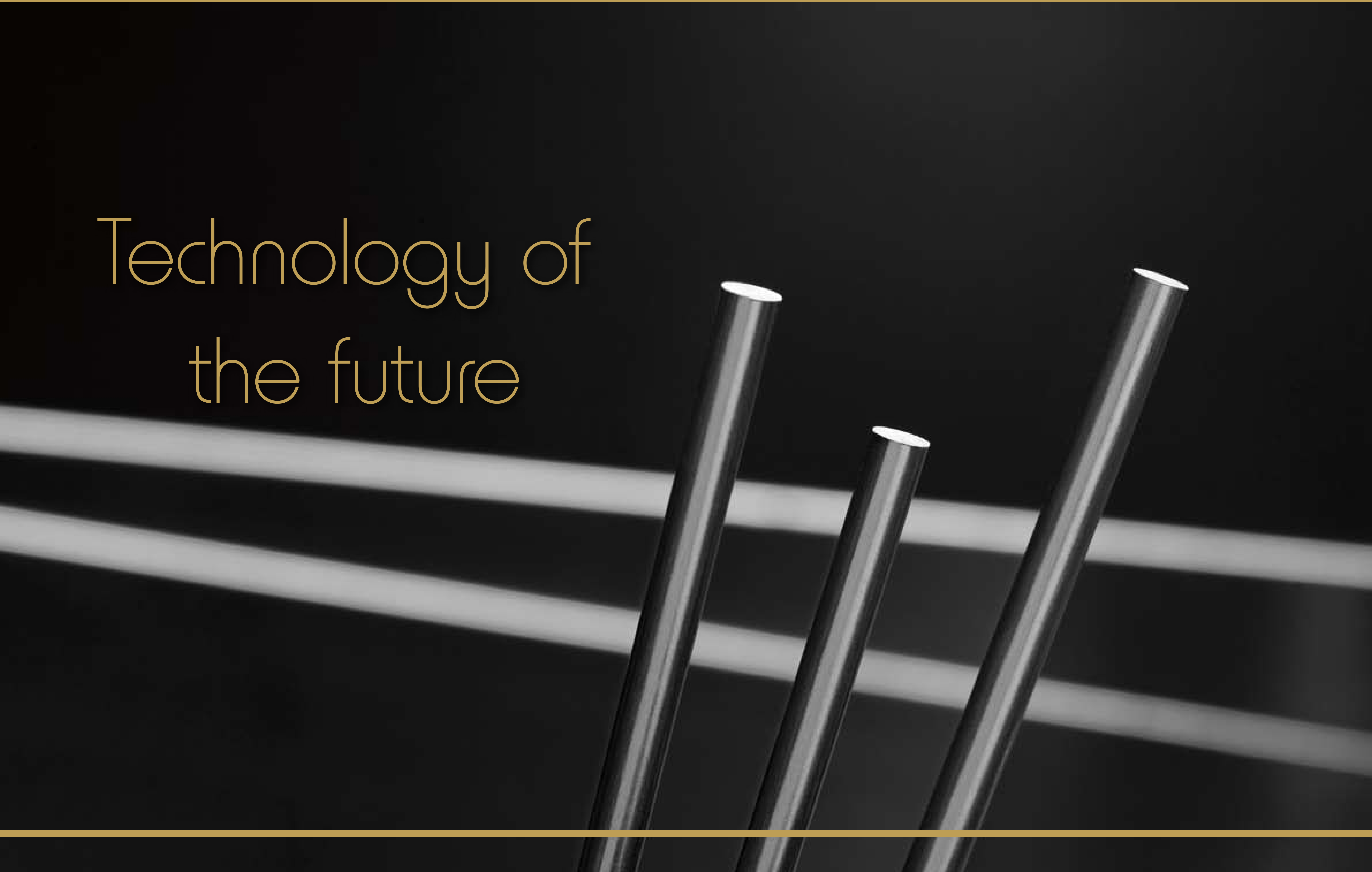
**Internal control, risk management and internal audit**

The ultimate responsibility for internal control falls on the Board of Directors.

The Management Group of the Company has adopted the risk management guidelines based on the principles approved by the Board. The business units 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 operations have been provided for with appropriate insurances. •

# Technology of the future



# Review by the Board of Directors

EXEL COMPOSITES is a technology company which designs, manufactures and markets composite profiles and tubes for industrial applications. The Group is the leading composite profile manufacturer in the world and concentrates on growing niche segments.

The core of the operations is based on proprietary, in-house developed composite technology, a broad and competitive product range and a strong market position in selected segments with a strong quality and brand image. Profitable growth is pursued by searching for new applications and development in co-operation with customers. The personnel's expertise and high level of technology play a major role in Exel Composites' operations.

**Financial performance**

In 2010, net sales from continuing operations for the Exel Composites Group increased on the previous year, ending the year at EUR 72.9 (70.0) million. Main part, EUR 1.9 million, of the growth was caused by currency rate changes. The composite profile market continued to be competitive and there was overcapacity in the market. However, net sales started to improve in third quarter of 2010 and continued to improve in the fourth quarter in telecommunication, paper, electrical and machine industry and cleaning and maintenance. Building and construction industry still suffered from poor demand, but there is growing interest in composite glass fiber window and door profiles because of new energy regulations.

The European Commission imposed an anti-dumping tariff of 43.6 per cent on imported Chinese glass fiber in September 2010. Exel Composites has taken actions to reduce the impact of the tariff, including increasing product prices, employing alternative sourcing opportunities as well as increasing production and improving efficiency in Exel Composites' Chinese operations in Nanjing.

Exel Composites' operating profit from continuing operations for the financial period improved to EUR 9.4 million including EUR +1.4 million non-recurring items (EUR 8.0 million including net reversal of the restructuring provisions and non-recurring items of EUR +1.2 million). The operating profit as a percentage of net sales from continuing operations was 12.9 (11.4) percent. Operating profit without non-recurring items was 11.0 (9.7) per cent of net sales. Other operating expenses include one-off restructuring costs of EUR 1.1 million due to the corporate restructuring of the former Floorball licensee. Other operating income includes one-off Sports licensing income of EUR 2.5 million. After deduction of related costs this gives a positive net effect in operating profit of EUR 1.4 million.

The Group's net financial expenses from continuing operations in 2010 were EUR 0.5 (0.0) million. The net financial expenses in 2010 included exchange differences of EUR -0.0 (+0.8) million. The Group's profit before taxes from continuing operations was EUR 9.0 (8.0) million and profit after taxes EUR 6.8 (5.9) million.

Earnings per share for continuing operations improved to EUR 0.57 (0.50). Earnings per share for discontinued operations was EUR 0.00 (0.06). Fully diluted total earnings per share improved from EUR 0.56 in 2009 to EUR 0.57 in 2010.

The return on capital employed in 2010 increased to 21.8 (20.9) per cent, due to improved operating profit and higher turnover of capital employed.

**Balance sheet and financial position**

Exel Composites maintained a strong emphasis on cash flow and improved the financial position further in 2010. Measures were taken to further reduce operative working capital. Cash flow from business operations was positive at EUR 12.0 (14.2) million. Cash flow before financing, but after capital expenditure, amounted to EUR 10.4 (14.4) million.

Capital expenditure was financed with cash flow from business operations. At the end of the financial year, the Group's liquid assets stood at EUR 11.6 (12.6) million.

The Group's consolidated total assets at the end of the financial year were EUR 56.9 (57.3) million.

Net interest-bearing liabilities were reduced by EUR 7.5 million to EUR -1.4 (6.1) million, and the net gearing ratio improved to -4.3 (23.7) per cent.

Equity at the end of the financial year was EUR 32.5 (25.6) million and equity ratio 57.4 (44.6) per cent. Interest-bearing liabilities amounted to EUR 10.2 (18.7) million, of which short-term liabilities accounted for EUR 0.0 (2.3) million.

The Company paid total dividends during the financial year of EUR 3.0 (0.0) million. Dividend per share was EUR 0.25 (0.00).

**Capital expenditure and depreciation**

The capital expenditure on fixed assets amounted to EUR 1.6 (1.4) million.

Total depreciation of non-current assets during the year under review amounted to EUR 2.9 (3.0) million.

**Personnel**

The number of Exel Composites Group employees on 31 December 2010 was 408 (419), of whom 189 (183) worked in Finland and 219 (236) in other countries. The average number of personnel during the financial year was 404 (436). The decrease is due to the rationalization actions in the British and Chinese units.

**Research**

Product development costs totaled EUR 1.3 (1.4) million, representing 1.8 (2.0) per cent of net sales. The main projects were connected with the development of new products and customer applications.

**Risk management**

The central short-term goal of Exel Composites is to distinctly improve the profitability and competitiveness and to secure the financial position of the business. The primary task of Exel Composites' enterprise risk management concept is to support the realization of these goals. As part of corporate governance, risk management is a systematic tool for the Board of Directors and the operative management to monitor and assess the realization of the goals, threats and opportunities affecting the Group's operations.

Risks are factors that threaten the company in reaching its set goals. They are measured by their impact and the likelihood of them occurring.

Exel Composites has divided the risks in four categories: strategic, operational, finance and hazard risks. Strategic and operational business risks are reviewed on unit and group level. Regarding strategic risks Exel Composites is exposed to the market situation in different industrial customer segments. The business pattern may change over time e.g. vertical integration in the supply chain. The key raw materials, especially carbon fiber, are supplied by only a few suppliers and the balance between supply and demand may cause long periods of scarcity. There are also risks related to the acquisitions where the realized level of benefits and synergies may differ from the planned.

In the operations the risks are identified in raw material price fluctuations in absolute terms as well as in relation to competing materials. The poor availability of skilled employees may locally impact in the quality and productivity of the business. The protection of self-developed proprietary technology is important and the risk of IPR violations is increasing when the business is enlarging globally. Also the importance and risks related to the suppliers and sub-contractors have grown.

Risk management is a continuous process, which is integrated in the corporate strategic process, operative planning, daily decision making and monitoring operations. Risk management is also part of the internal control system.

Financial risks consist of currency, interest rate, liquidity and funding risks, and credit and other counter party risks. Currency and interest rate risks are managed by hedging using different derivatives. Credit insurance is in place to cover risks related to trade receivables.

The most significant near-term business risks are related to general economic development, government regulations and a possible new financial crisis in the Euro area as well as to market demand in certain market segments. Raw material prices, energy cost and other cost increases may put pressure on profitability. The European Commission's anti-dumping tariffs imposed on Chinese glass fiber will have a negative effect on the profitability in case the rising costs of glass fiber can only be transferred partially to product prices. In case the measures taken in the Chinese and British units to improve efficiency prove to be unsuccessful, this may have an effect on the result of the company. Currency rate changes, price competition and alternative competing materials may also have a negative effect on the result. The availability and cost of financing may continue to have an effect on the demand and increase the risk of credit loss.

**Environment**

Exel Composites continues to remain vigilant to ensure our site operations are aware of all local and regional controls. A safe environment for our employees and neighbors is a priority at Exel Composites. The Group plays a leading role in industry associations such as EuCIA (European Composites Industry Association). This helps us stay at the leading edge of awareness of the latest developments in environmental matters including advances in environmental technology and new regulatory measures.

**Incentive programs**

Exel Composites' performance-based incentive program covers all employees. Salaried employees receive a monthly salary and an annual bonus tied to the attainment of annually established goals emphasizing growth and profitability. Non-salaried employees are also eligible for incentive compensation, but their annual bonus is based on productivity.

The Group has a long-term incentive program for the Group Management Team and selected key employees of the Company. The aim of the program is to commit persons entitled to participate in the program to improve Exel Composites Plc's long-term profitability and value and reward them for achieving these goals in line with Exel Composites' strategy and financial targets. The program is confirmed annually by the Board of Directors.

The participants shall earn the reward under the annual program if the financial performance targets as set by the Board of Directors for the program have been met. The Board of Directors will decide on the targets related to the growth of the Exel Composites Group's earnings per share (EPS) and return on capital employed (ROCE) for each program separately before the beginning of the program. The maximum amount of reward for each annual program is decided by the Board of Directors and can be denominated as cash or corresponding number of granted shares. There is a vesting period of two years before the title of the shares is transferred. The disbursement of the rewards is subject to the participant being employed or being in the service, and having not given notice thereof, of the Group at the time of disbursement, unless otherwise decided by the Board. The cost of the program will be accounted for as operating expenses and accrued for in the financial statements. Under the 2010 program, the reward was denominated in cash and the allocated rewards totaled EUR 0.6 million and the cost has been accrued for in the financial statements 2010.

**Shares and share capital**

The share capital has remained unchanged during the financial year and is 11,896,843 shares 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.

Exel Composites did not hold any of its own shares during the period of review.

**Share performance and turnover**

Exel Composites' share is listed in the Small Cap segment of the NASDAQ OMX Helsinki Ltd. in the Materials sector.

During the financial year the highest share price quoted was EUR 7.25 (6.20) and the lowest EUR 5.00 (2.37). At the end of the year, the share price was EUR 7.06 (5.39). The average share price during the financial year was EUR 5.86 (4.08).

Total shareholder return (TSR) in 2010 was 36 (98) per cent.

A total of 2,298,611 (3,522,974) shares were traded during the year, which represents 19.3 (29.6) per cent of the average number of shares. On 31 December 2010, Exel Composites' market capitalization was EUR 84.0 (64.1) million.

**Shareholders and disclosures**

On 31 December 2010, 0.7 per cent of the shares and votes of Exel Composites were owned or controlled, directly or indirectly by the President and CEO and the members of the Board.

The Company's largest shareholder is the Swedish investment company Nordstjernan AB, which owned 29.4 per cent of shares at the end of 2010. Other major shareholders included Ilmarinen Mutual Pension Insurance Company (5.8 per cent), Veikko Laine Oy (5.2 per cent) and Ulkomarkkinat Oy (4.0 per cent). At the end of the year, the Company had a total of 2,363 (1,785) shareholders.

Exel Composites received no flagging announcements during the financial year.

**Corporate governance**

Exel Composites issues a Corporate Governance Statement for the financial year 2010. The Corporate Governance Statement has been composed in accordance with recommendation 54 of the new Corporate Governance Code and Chapter 2, Section 6 of the Finnish Securities Market Act. The Corporate Governance Statement is issued separately from the Board of Directors' report. Further information concerning the corporate governance matters is available at the Group's website at www.exelcomposites.com.

**Decisions at the AGM 2010**

The Annual General Meeting of Exel Composites Plc held on 31 March 2010 approved the Board's proposal to distribute a dividend of EUR 0.25 per share for the financial year 2009 amounting to a total of EUR 3.0 (0.0) million.

The Annual General Meeting decided to amend Section 10 of the Articles of Association so that an invitation to a General Meeting is delivered to shareholders at the latest three (3) weeks before the meeting, however, at least nine (9) days before the record date of the Meeting by publishing the invitation on the Company's website or dispatching it to each shareholder by registered mail to the address entered in the shareholders' register or otherwise verifiably in writing.

The Annual General Meeting authorized the Board of Directors to acquire the Company's own shares by using unrestricted equity. The maximum amount to be acquired is 600,000 shares. The authorization is valid until the next Annual General Meeting.

The Annual General Meeting authorized the Board of Directors to issue a maximum of 2,400,000 new shares and convey a maximum of 600,000 own shares. By virtue of the authorization, the Board of Directors also has the right to grant option rights, convertible bonds and/or special rights referred to in Chapter 10, Section 1 of the Companies Act. The authorization is valid until 31 March 2013.



**Board of Directors and Auditors**

On 31 March 2010, the Annual General Meeting appointed Peter Hofvenstam, Göran Jönsson, Vesa Kainu, Reima Kerttula and Heikki Mairinoja to continue on the Board of Directors. Peter Hofvenstam was re-elected Chairman of the Board.

The Board of Directors convened 13 times in 2010 and the average attendance rate at these meetings was 100 per cent. The fees paid to the Board of Directors totaled EUR 154 (139) thousand in 2010.

The Board of Directors has reviewed the independence of Board members in accordance with Recommendation 15 of the Corporate Governance Code. Vesa Kainu, Reima Kerttula and Heikki Mairinoja are independent Board members. Peter Hofvenstam is considered as independent from the Company, but non-independent from a major shareholder, since he is the Vice President of Nordstjernan AB. Göran Jönsson is considered as non-independent from the Company as former President and CEO of the company. The Board was considered to comply with the Corporate Governance independency rules.

The Annual General Meeting of Exel Composites has elected a Shareholders' Nomination Committee, which nominates candidates to the Annual General Meeting for election as Board members and proposes the fees to be paid to the Board members. The Nomination Committee included the Chairman and persons nominated by the four largest shareholders as of 1 November 2010. In 2010 the Nomination Committee comprised Tomas Billing as Chairman (Nordstjernan AB), Matti Rusanen (Ilmarinen Mutual Pension Insurance Company), Pertti Laine (Veikko Laine Oy), Erkki Myllärniemi (Ulkomarkkinat Oy), and Peter Hofvenstam, the Chairman of the Board of Directors, as an expert member. The Committee met one time in 2010.

Ernst & Young, Authorized Public Accountants, with Juha Hilmola, APA, as principal auditor, were elected to serve as company auditor in the AGM in 2010.

The fees paid to the auditors totaled EUR 206 (186) thousand in 2010.

**Strategic review conducted**

Exel Composites' Board of Directors has in 2010 conducted a review of the strategic options available to enhance shareholder value. Exel Composites has a strong financial position and is the market leader in the fragmented pultrusion industry.

The Board confirmed the strategy to continue focusing on profitable growth by pursuing organic growth opportunities and bolt-on acquisitions.

**Adoption of International Financial Reporting Standards (IRFS)**

All IFRS's in force on 31 December 2010 that are applicable to Exel Composites' business operations, including all SIC- and IFRIC-interpretations thereon, have been complied with when preparing year 2010 and comparable year 2009 figures. International financial reporting standards, referred to in the Finnish Accounting Act and in ordinances issued based on the provisions of this Act, refer to the standards and their interpretations adopted in accordance with the procedure laid down in regulation (EC) No 1606/2002 of the EU. The notes to the consolidated financial statements conform also with the Finnish accounting and company legislation.

**Events after the reporting period**

Mr. Lasse Orre, SVP Sales, was appointed VP Sales of the Group's Nanjing unit in China as of 1 February 2011. Due to his new responsibilities he is no longer member of the Group Management. The Group Management of Exel Composites consists of Vesa Korpimies, Ilkka Silvanto and Callum Gough.

**Outlook for 2011**

Demand amongst the pultrusion industry clientele has improved gradually in 2010. The first signs of recovery were visible in the second quarter of 2010, and market conditions improved further in the third and fourth quarter. We believe that Exel Composites is well positioned to take advantage of the growth opportunities as the markets gradually recover. As a result of improved profitability, good cash flow generation and reduced debt level we believe in Exel Composites' long-term performance. Exel Composites recorded a strong year end, but maintains its cautious stance in 2011, since market uncertainties persist.

**Board proposal for dividend distribution**

Exel Composites' financial goals include distributing dividends equal to at least 40 per cent of the profit for the financial year unless otherwise required by growth and liquidity.

On 31 December 2010 Exel Composites Plc's distributable funds totaled EUR 21,852 thousand, of which profit for the financial period accounted for EUR 6,784 thousand.

The Board proposes to the Annual General Meeting that a dividend of EUR 0.50 (0.25) per share including an extraordinary dividend of EUR 0.25 per share due to Exel Composites' 50th anniversary in 2010 be paid for the 2010 financial year.

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

The proposed record date for dividends is 11 April 2011. If the Annual General Meeting approves the Board's proposal, it is estimated that dividend payments will be paid on 18 April 2011. •

## CONSOLIDATED COMPREHENSIVE INCOME STATEMENT
*for the year ended 31 December 2010*

| EUR 1,000 | Notes | 1.1.–31.12.2010 | 1.1.–31.12.2009 |
|---|---|---|---|
| CONTINUING OPERATIONS | | | |
| NET SALES | 6 | 72,872 | 70,005 |
| Other operating income | 9 | 3,481 | 1,296 |
| Increase(+)/Decrease in inventories of finished goods and work in progress | | 195 | -1,030 |
| Materials and services | | -28,598 | -27,400 |
| Employee benefit expenses | 11 | -18,833 | -17,994 |
| Depreciation and amortization | 13 | -2,880 | -3,028 |
| Other operating expenses | 10,12 | -16,808 | -13,859 |
| OPERATING PROFIT | | 9,430 | 7,990 |
| Financial income | 14 | 178 | 1,258 |
| Financial expenses | 15 | -672 | -1,277 |
| PROFIT BEFORE TAX | | 8,936 | 7,970 |
| Income taxes | 16 | -2,165 | -2,025 |
| PROFIT/LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS | | 6,772 | 5,945 |
| DISCONTINUED OPERATIONS | | | |
| Profit/loss for the period from discontinued operations | 18 | 0 | 662 |
| PROFIT/LOSS FOR THE PERIOD | | 6,772 | 6,607 |
| OTHER COMPREHENSIVE INCOME | | | |
| Exchange differences on translating foreign operations | | 3,411 | 2,293 |
| Income tax relating to components of other comprehensive income | | 0 | 0 |
| OTHER COMPREHENSIVE INCOME, NET OF TAX | | 3,411 | 2,293 |
| TOTAL COMPREHENSIVE INCOME | | 10,183 | 8,900 |
| PROFIT AND LOSS ATTRIBUTABLE TO: | | | |
| Equity holders of the parent company | | 6,772 | 6,607 |
| Non-controlling interest | | 0 | 0 |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | |
| Equity holders of the parent company | | 10,183 | 8,900 |
| Non-controlling interest | | 0 | 0 |
| EARNINGS PER SHARE, BASIC AND DILUTED | | | |
| From continuing operations (EUR per share) | 19 | 0.57 | 0.50 |
| From discontinued operations (EUR per share) | 19 | 0.00 | 0.06 |
| TOTAL EARNINGS PER SHARE, BASIC AND DILUTED | 19 | 0.57 | 0.56 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
*as at 31 December 2010*

| EUR 1,000 | Notes | 31.12.2010 | 31.12.2009 |
|---|---|---|---|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Goodwill | 21 | 11,637 | 9,968 |
| Other intangible assets | 21 | 2,426 | 2,460 |
| Tangible assets | 22 | 10,427 | 10,835 |
| Other non-current assets | 23 | 64 | 64 |
| Deferred tax assets | 17 | 1,585 | 2,315 |
| TOTAL NON-CURRENT ASSETS | | 26,139 | 25,642 |
| CURRENT ASSETS | | | |
| Inventories | 24 | 9,600 | 8,782 |
| Trade and other receivables | 25 | 9,540 | 10,281 |
| Cash at bank and in hand | 26 | 11,606 | 12,597 |
| TOTAL CURRENT ASSETS | | 30,746 | 31,661 |
| TOTAL ASSETS | | 56,885 | 57,303 |
| EQUITY AND LIABILITIES | | | |
| SHAREHOLDERS' EQUITY | 35 | | |
| Share capital | | 2,141 | 2,141 |
| Other reserves | | 37 | 37 |
| Invested unrestricted equity fund | | 8,488 | 8,488 |
| Translation differences | | 3,311 | -100 |
| Retained earnings | | 18,529 | 15,013 |
| EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF PARENT COMPANY | | 32,507 | 25,580 |
| Non-controlling interest | | 0 | 0 |
| TOTAL EQUITY | | 32,507 | 25,580 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing loans and borrowings | 28, 33 | 10,204 | 16,346 |
| Non-current interest-free liabilities | 27 | 362 | 330 |
| Deferred tax liabilities | 17 | 549 | 248 |
| TOTAL NON-CURRENT LIABILITIES | | 11,114 | 16,923 |
| CURRENT LIABILITIES | | | |
| Interest-bearing loans and borrowings | 28 | 15 | 2,324 |
| Trade and other current liabilities | 27 | 12,567 | 11,014 |
| Income tax payable | 27 | 683 | 1,462 |
| TOTAL CURRENT LIABILITIES | | 13,265 | 14,799 |
| TOTAL EQUITY AND LIABILITIES | | 56,885 | 57,303 |

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

*31.12.2010*

| EUR 1,000 | Share Capital | Other Reserves | Invested Unrestricted Equity Fund | Translation Differences | Retained Earnings | Non-controlling Interest | Total |
|---|---|---|---|---|---|---|---|
| BALANCE AT 1 JANUARY 2009 | 2,141 | 5 | 8,488 | -2,393 | 8,440 | 0 | 16,680 |
| Profit for the period | | | | | 6,670 | | 6,607 |
| Other comprehensive result | | | | 2,293 | | | 2,293 |
| Dividend | | | | | | | |
| Other items | | 33 | | | -33 | | 0 |
| BALANCE AT 31 DECEMBER 2009 | 2,141 | 37 | 8,488 | -100 | 15,013 | 0 | 25,580 |
| BALANCE AT 1 JANUARY 2010 | 2,141 | 37 | 8,488 | -100 | 15,013 | 0 | 25,580 |
| Profit for the period | | | | | 6,772 | | 6,772 |
| Other comprehensive result | | | | 3,411 | | | 3,411 |
| Dividend | | | | | -2,974 | | -2,974 |
| Other items | | | | | -282 | | -282 |
| BALANCE AT 31 DECEMBER 2010 | 2,141 | 37 | 8,488 | 3,311 | 18,529 | 0 | 32,507 |



**CONSOLIDATED STATEMENT OF CASH FLOWS**

*for the year ended 31 December 2010*

| EUR 1,000 | Notes | 1.1.–31.12.2010 | 1.1.–31.12.2009 |
|---|---|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Profit for the period | | 6,772 | 6,607 |
| Non-cash adjustments to reconcile profit to net cash flow | 38 | 6,276 | 4,829 |
| Change in working capital | | 1,729 | 2,309 |
| Cash flow generated by operations | | 14,777 | 13,745 |
| Interest paid | | -515 | -1,015 |
| Interest received | | 114 | 292 |
| Other financial items | | -88 | 770 |
| Income taxes paid | | -2,296 | 427 |
| NET CASH FLOW FROM OPERATING ACTIVITIES | | 11,992 | 14,219 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Proceeds form sale of activities | | 0 | 1,225 |
| Purchase of non-current assets | | -1,570 | -1,440 |
| Proceeds from sale of non-current assets | | 0 | 410 |
| NET CASH FLOW FROM INVESTING ACTIVITIES | | -1,570 | 195 |
| CASH FLOW BEFORE FINANCING | | 10,422 | 14,414 |
| Proceeds from long-term borrowings | | 0 | 0 |
| Repayments of long-term borrowings | | -6,857 | -7,623 |
| Change in short-term loans | | -106 | -1,823 |
| Repayments of finance lease liabilities | | -1,477 | -406 |
| Dividends paid | | -2,974 | 0 |
| NET CASH FLOW FROM FINANCING | | -11,414 | -9,852 |
| CHANGE IN LIQUID FUNDS | | -992 | 4,562 |
| Liquid funds at the beginning of period | | 12,597 | 8,035 |
| Liquid funds at the end of period | | 11,606 | 12,597 |

*(All figures in EUR thousands unless otherwise stated)*

The consolidated financial statements of Exel Composites Plc for the year ended 31 December 2010 were authorized for issue in accordance with a resolution of the Board of Directors on 17 February 2011.

## NOTE 1 CORPORATE INFORMATION

Exel Composites is a Finnish technology company which designs, manufactures and markets composite profiles and tubes for industrial applications. The Group is the leading composite profile manufacturer in the world and concentrates on growing niche segments.

The core of the operations is based on proprietary, internally developed composite technology, product range based on it and a strong market position in selected segments with a strong quality and brand image. Profitable growth is pursued by a relentless search for new applications and development in co-operation with customers. The personnel's expertise and high level of technology play a major role in Exel Composites' operations.

The Group's factories are located in Austria, Belgium, Finland, Germany, UK, Australia and China. Exel Composites share is listed in the Small Cap segment of the NASDAQ OMX Helsinki Ltd. in the Materials sector. Exel Composites Plc is domiciled in Mäntyharju, Finland and its registered address is Uutelantie 24 B, 52700 Mäntyharju, Finland.

## NOTE 2 BASIS OF PREPARATION

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

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

### Statement of Compliance

The consolidated financial statements of Exel Composites 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 2010. The notes to the consolidated financial statements are also in compliance with the Finnish Accounting and Companies Acts.

### Basis of Consolidation

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

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

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

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

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

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

Non-controlling interest is deducted from shareholders' equity and presented as a separate item in the balance sheet. Similarly, it is presented as a separate item in the consolidated financial statements. The non-controlling interest of the accumulated losses is allocated to minority interest in the consolidated balance sheet up to the maximum of the investment prior to 1 January 2010. The Group had no non-controlling interests in 2010.

## NOTE 3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted following new and amended IFRS standards and IFRIC interpretations as of 1 January 2010. When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

### IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 which clarifies the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.

### IFRIC 17 Distribution of Non-Cash Assets to Owners

This interpretation provides guidance on how to account for non-cash distributions to owners either as distribution of reserves or as dividends. The interpretation has no effect on the financial position or performance of the Group as no non-cash distributions are planned.

In May 2010, the IASB issued an omnibus of amendments to its IFRS standards. The amendments have not been adopted yet as they become effective for annual periods starting on or after either 1 July 2010 or 1 January 2011. The Group expects no impact from the adoption of the amendments on its financial position or performance, However. the Group does not expect the following amendments to impact its financial position or performance:

### IFRS 3 Business Combinations, IFRS 7 Financial Instruments: Disclosures, IAS 1 Presentation of Financial Statements, IAS 27 Consolidated and Separate Financial Statements and IFRIC 13 Customer Loyalty Programs.

Standards issued but not yet effective up to the date of issuance of Group's financial statements are listed below.

### IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance.

### IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amends the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. In absence of the rights issues described in the amendment, this amendment will have no impact on the Group.

### IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 is likely to have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

### IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

### IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

## NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

**Judgements**
The Group has entered into commercial property leases. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as financial leases.

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

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

When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including sensitivity analysis of key assumptions, are given in Note 29.

**Deferred tax assets**
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with the future tax planning strategies. Further details are given in Note 17.

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

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

## NOTE 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### BUSINESS COMBINATIONS AND GOODWILL

**Business combinations from 1 January 2009**
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisitions costs incurred are expensed.

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

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

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

**Business combinations prior to 31 December 2008**
In comparison to the above mentioned requirements, the following differences applied:

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

The Group does not have any associates or joint ventures.

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

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit after taxes. The resulting profit or loss (after taxes) is reported separately in the income statement.

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

**Revenue recognition**
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Sales of products are recognized as income once the risk and benefits related to ownership of the sold products have been transferred to the buyer and the Group no longer has the possession of, or control over, the products.

Sales of services are recognized as income once the service has been rendered. Revenue of the Floorball asset sale is recognized based on the actual cash flow according to IFRS standard 8. 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 recognized using the effective interest rate method and dividend income when the right to the dividend has been created.

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

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

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

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

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

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

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

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

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

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

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

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

**Research and development**
Research costs are expensed as incurred. Costs incurred from development projects, which are often connected with the design and testing of new or advanced products, are recorded in the balance sheet as intangible assets from the time that the product can be technically achieved, it can be utilized commercially, and the product is expected to create a comparable

financial benefit. Other development costs are recorded as expenses. Capitalized development costs are amortized on a straight-line basis beginning from the commercial production of the product during the period they are effective, yet no longer than five years. There were no capitalized development costs during 2010.

**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 amortized on a straight-line basis during the period they are financially effective.

**Other intangible assets**

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

**Property, plant and equipment**

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

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

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

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

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

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

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

**Government grants**

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

**Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity occurs in connection with the borrowing of funds. For the year ending 31 December 2010, the Group had no assets where the borrowing costs would have been capitalized.

**Financial assets**

Financial assets are classified within the scope of IAS 39 as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

"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 realized and unrealized gains and losses due to changes in fair value are recorded in the income statement in the financial period in which they were incurred.

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

"Held-to-maturity financial assets" include non-derivative financial assets with fixed or determinable payments and fixed maturities when the Group has the positive intention and ability to hold them to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. The Group did not have any held-to-maturity investments during the years ended 31 December 2010 and 2009.

"Available-for-sale investments" include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, available-for-sale investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss Is recognized in the income statement in finance costs and removed from the available-for-sale reserve.

A financial asset is derecognized when:

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

**Cash and short-term deposits**

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

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

**Financial liabilities**

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are initially recognized at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. The Groups financial liabilities include trade and other payables, bank overdrafts, loans and borrowings and derivative financial instruments.

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

**Derivative financial instruments and hedging**

Derivative contracts are recorded initially as an acquisition cost equal to their fair value. Following their acquisition derivative contracts are valued according to their fair value. Profits and losses that are generated from the valuation of fair value are recorded according to the intended use of the derivative contract. The Group does not apply hedge accounting as described by IAS 39. As a result, all value changes are recognized in profit or loss. The Group has entered into interest rate swap agreements to convert non-current floating rate financial liabilities to fixed interest rates and forward foreign exchange contracts. Derivative financial instruments are presented in Section 33 of the Notes. Derivatives are recorded in the balance sheet as accrued expenses and deferred income.

Hedges for net investments in foreign units are recorded in the same way as cash-flow hedges. A hedge on a foreign subsidiary's equity is recorded in shareholders' equity in the same way as the exchange rate difference in shareholders' equity. The Group did not hedge its net foreign investments exposure during 2010 or 2009.

**Impairment of non-financial assets**

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

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

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

Goodwill and intangible assets with indefinite useful lives are tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

**Impairment of financial assets**

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

**Lease agreements**

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 installment 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 installments 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 is 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 installments over the duration of the rental period.

**Inventories**

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

**Trade receivables**

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

An impairment of trade receivables is recognized when there is justified evidence that the Group will not receive all of benefits on the original terms. Indications of the impairment of trade receivables include the significant financial difficulties of the debtor, the likelihood of bankruptcy, failure to make payments, or a major delay in receiving the paying. The current cash flow of all trade receivables, which are more than 90 days overdue are considered as zero. The amount of the impairment recorded in the income statement is determined according to the difference between the carrying value of the receivable and the estimated current cash flow discounted by the effective interest rate. If the amount of the impairment loss decreases in any later financial period, and the decrease can be objectively seen to be related to events subsequent to the recognition of the impairment, the recognized loss is cancelled through profit or loss.

**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.

**Taxes**

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

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

Deferred taxes are calculated for all temporary differences between accounting and taxation using the tax rates valid at the closing date. The largest temporary differences arise from the 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 utilized will materialize in the future. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date.

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

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

**Pensions and other post-employment benefits**

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

In defined benefit pension plans, the present value of future pension payments on the closing date is presented less the fair value of the plan-related assets on the closing date and adjusted with the actuarial profits and losses and retroactive labor 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 the interest rate which is equal to 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 periodisized 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 recognized 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 in the financial period to which the payments relate.

**Share-based compensation**

The Group has a long-term incentive program for the Group Management Team and selected key employees of the Company. The aim of the program is to commit persons entitled to participate in the program to improve Exel Composites Plc's long-term profitability and value and reward them for achieving these goals in line with Exel Composites' strategy and financial targets. The program is confirmed annually by the Board of Directors.

The participants shall earn the reward under the annual program if the financial performance targets as set by the Board of Directors for the program have been met. The Board of Directors will decide on the targets related to the growth of the Exel Composites Group's earnings per share (EPS) and return on capital employed (ROCE) for each program separately before the beginning of the program. The maximum amount of reward for each annual program is decided by the Board of Directors and can be denominated as cash or a corresponding number of granted shares. There is a vesting period of two years before the final title of the shares is transferred. The cost of the program will be accounted for as operating expenses and accrued for in the financial statements.

**Provisions**

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

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

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

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

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

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

## NOTE 6 SEGMENT INFORMATION

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

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

**Operating segments**
The Group has one operating segment, Exel Composites, since Exel Sports Brands business was divested in 2008 and 2009. The divestment is presented in the discontinued business.

**Geographical information**
The Group's geographical information is given for Nordic Countries, Other European Countries, and Other Countries. Net sales of geographical distribution are presented according to the customers, while assets are presented according to the location of the assets.

### NET SALES OUTSIDE THE GROUP ACCORDING TO LOCATION OF CUSTOMERS

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Nordic countries | 13,919 | 13,672 |
| Other European countries | 46,326 | 45,397 |
| Other countries | 12,627 | 10,937 |
| TOTAL | 72,872 | 70,005 |

Revenue from the biggest customer amounted to EUR 13,137 thousand (2009: EUR 11,919 thousand).

### TOTAL ASSETS ACCORDING TO GEOGRAPHIC LOCATION

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Nordic countries | 12,731 | 12,390 |
| Other European countries | 12,852 | 12,525 |
| Other countries | 17,983 | 15,665 |
| TOTAL | 43,566 | 40,580 |

### CAPITAL EXPENDITURE ACCORDING TO GEOGRAPHIC LOCATION

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Nordic countries | 749 | 903 |
| Other European countries | 545 | 388 |
| Other countries | 277 | 149 |
| TOTAL | 1,570 | 1,440 |



## NOTE 7 BUSINESS COMBINATIONS

The Group did no acquisitions in 2009 or 2010.

## NOTE 8 EXCHANGE RATES

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

| Country | Currency | Average rate 2010 | Average rate 2009 | Balance sheet rate 2010 | Balance sheet rate 2009 |
|---|---|---|---|---|---|
| Australia | AUD | 1.44418 | 1.77488 | 1.31360 | 1.60080 |
| United Kingdom | GBP | 0.85824 | 0.89105 | 0.86075 | 0.88810 |
| China | RMB | 8.98050 | 9.51736 | 8.82200 | 9.83500 |
| Sweden | SEK | 9.54693 | 10.61996 | 8.96550 | 10.25200 |
| USA | USD | 1.32681 | 1.39327 | 1.33620 | 1.44060 |

## NOTE 9 OTHER OPERATING INCOME

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Rental income | 75 | 72 |
| Other operating income | 3,406 | 1,022 |
| Net gain on disposal of non-current assets | 0 | 202 |
| TOTAL | 3,481 | 1,296 |

Other operating income includes one-off Sports licensing income of EUR 2.5 million.

## NOTE 10 OTHER OPERATING EXPENSES

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Rental expenses | 1,256 | 1,421 |
| Other operating expenses | 15,552 | 12,438 |
| TOTAL | 16,808 | 13,859 |

The fees paid in 2010 to the external auditor for auditing Exel Group companies totaled EUR 206 (186) thousand, while the fees paid for non-audit services totaled EUR 59 (56) thousand. Other operating expenses include one-off restructuring costs of EUR 1.1 million due to the corporate restructing of the former Floorball license.

### NOTE 11 EMPLOYEE BENEFIT EXPENSES

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Wages and salaries | 15,699 | 14,994 |
| Pension costs – defined contribution schemes | 1,563 | 1,618 |
| Pension costs – defined benefit schemes | 45 | -72 |
| Other employee benefits | 1,525 | 1,454 |
| TOTAL | 18,833 | 17,994 |

| Average number of personnel | | |
|---|---|---|
| Continuing operations | 404 | 434 |
| Discontinued operations | 0 | 2 |
| TOTAL | 404 | 436 |

### NOTE 12 RESEARCH AND DEVELOPMENT EXPENDITURE

The income statement includes research and development costs entered as costs amounting to EUR 1,312 thousand in 2010 (EUR 1,407 thousand in 2009). These costs are included in the income statement under Employee Benefit Expenses and Other Operating Expenses.

### NOTE 13 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

| Depreciation of assets EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Intangible assets | 528 | 500 |
| Tangible assets | | |
| Buildings | 440 | 482 |
| Machinery and equipment | 1,904 | 2,039 |
| TOTAL | 2,873 | 3,021 |

| Impairment and write-down of assets EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Intangible assets | 0 | 0 |
| Goodwill | 0 | 0 |
| Tangible assets | | |
| Buildings | 7 | 7 |
| Machinery and equipment | 0 | 0 |
| TOTAL | 7 | 7 |

### NOTE 14 FINANCE INCOME

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Interest income on loans and receivables | 56 | 288 |
| Dividend income | 1 | 0 |
| Foreign exchange gains | 123 | 962 |
| Change in fair value of financial assets recognized at fair value through profit or loss (from derivatives) | -3 | 3 |
| Other finance income | 1 | 4 |
| TOTAL FINANCE INCOME | 178 | 1,258 |

### NOTE 15 FINANCE EXPENSES

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Interest expenses on debt and borrowings | 459 | 734 |
| Interest expenses under finance leases | 26 | 44 |
| Foreign exchange losses | 149 | 190 |
| Change in fair value of financial assets recognized at fair value through profit or loss (from derivatives) | -2 | 304 |
| Other finance expenses | 40 | 5 |
| TOTAL FINANCE EXPENSES | 672 | 1,277 |

Exchange differences for sales (exchange rate loss EUR -31 thousand) and purchases (exchange rate profit EUR 105 thousand) are entered in the income statement in the appropriate sales and purchase accounts.

### NOTE 16 INCOME TAXES

The income tax entered as an expense consisted mainly of the following components for the years ended 31 December 2010 and 2009:

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Income tax based on taxable income for the financial year | -2,211 | -2,102 |
| Income taxes from previous financial periods | 220 | -3 |
| Deferred taxes | -174 | 80 |
| TOTAL INCOME TAXES REPORTED IN THE INCOME STATEMENT | -2,165 | -2,025 |

A reconciliation between tax expense and the product of accounting profit multiplied by Finland's domestic tax rate for the years ended 31 December 2010 and 2009 is as follows:

| Income tax reconciliation | 2010 | 2009 |
|---|---|---|
| Accounting profit before tax from continuing operations | 8,936 | 7,970 |
| Accounting profit/loss before tax from discountinued operations | 0 | 1,083 |
| Accounting profit before tax | 8,936 | 9,053 |
| Tax calculated at domestic tax rate 26% | 2,323 | 2,354 |
| Difference between the domestic and foreign tax rates | 92 | 322 |
| Expenses not deductible for tax purposes | -149 | 154 |
| Other | -101 | -384 |
| Tax charge | 2,165 | 2,446 |
| Effective tax rate | 24.2 | 27.0 |

### NOTE 17 DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

| Deferred tax assets, EUR 1,000 | 1.1.2010 | Recognized in income statement | Recognized in shareholders' equity | Exchange rate differences | 31.12.2010 |
|---|---|---|---|---|---|
| Intercompany profit in inventory | 21 | -4 | | | 17 |
| Losses | 124 | 56 | | | 180 |
| Other temporary differences | 3,182 | -452 | -282 | | 2,448 |
| Offset with deferred tax liabilities | -1,012 | -48 | | | -1,060 |
| NET DEFERRED TAX ASSETS | 2,315 | -448 | -282 | | 1,585 |

| Deferred tax liabilities, EUR 1,000 | 1.1.2010 | Recognized in income statement | Recognized in shareholders' equity | Exchange rate differences | 31.12.2010 |
|---|---|---|---|---|---|
| Accumulated depreciation | | | | | |
| Other temporary differences | 1,260 | 349 | | | 1,609 |
| Offset with deferred tax assets | -1,012 | -48 | | | -1,060 |
| NET DEFERRED TAX LIABILITIES | 248 | 301 | | | 549 |

| **Deferred tax assets, EUR 1,000** | **1.1.2009** | **Recognized in income statement** | **Recognized in shareholders' equity** | **Exchange rate differences** | **31.12.2009** |
|---|---|---|---|---|---|
| Intercompany profit in inventory | 96 | -75 | | | 21 |
| Losses | 855 | -731 | | | 124 |
| Other temporary differences | 3,166 | 16 | | | 3,182 |
| Offset with deferred tax liabilities | -910 | -102 | | | -1,012 |
| NET DEFERRED TAX ASSETS | 3,207 | -892 | | | 2,315 |

| **Deferred tax liabilities, EUR 1,000** | **1.1.2009** | **Recognized in income statement** | **Recognized in shareholders' equity** | **Exchange rate differences** | **31.12.2009** |
|---|---|---|---|---|---|
| Accumulated depreciation | | | | | |
| Other temporary differences | 1,263 | -3 | | | 1,260 |
| Offset with deferred tax assets | -910 | -102 | | | -1,012 |
| NET DEFERRED TAX LIABILITIES | 353 | -105 | | | 248 |

The Group had taxable net losses on 31 December 2010 of EUR 964 thousand (EUR 646), of which the company has recorded deferred tax assets of EUR 180 (124) thousand that are available for offset against future taxable profits of the companies in which the losses arose.

## NOTE 18 DISCONTINUED OPERATIONS

On 30 March 2009, the Group disposed the last part of its Sports business having disposed the Sports Outdoor business already on 1 June 2008. The results of the discontinued Sports business are presented below:

| **EUR 1,000** | **2010** | **2009** |
|---|---|---|
| **Discontinued operations** | | |
| Revenue | 0 | 2,112 |
| Expenses | 0 | -1,020 |
| Operating profit | 0 | 1,092 |
| Finance costs | 0 | -9 |
| Profit/loss before tax from a discontinued operation | 0 | 1,083 |
| Taxes | 0 | -421 |
| Profit /loss for the year from a discontinued operation | 0 | 662 |

The net cash flows of the discontinued operations are as follows:

| **EUR 1,000** | **2010** | **2009** |
|---|---|---|
| **Discontinued operations** | | |
| CASH FLOWS | | |
| Operating | 0 | -706 |
| Investing | 0 | 1,221 |
| Financing | 0 | -333 |
| Net cash inflow/outflow(-) | 0 | 182 |



## NOTE 19 EARNINGS PER SHARE

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

| | **2010** | **2009** |
|---|---|---|
| Profit for the financial year (EUR 1,000) attributable to to ordinary equity holders of the parent company, continuing operations | 6,772 | 5,945 |
| Profit for the financial year (EUR 1,000) attributable to ordinary equity holders of the parent company, discontinued operations | 0 | 662 |
| Weighted average number of outstanding shares during the financial year (1,000 shares) | 11,897 | 11,897 |
| Basic and diluted earnings per share (EUR/share) from continuing operations | 0.57 | 0.50 |
| Badic and dilutes earnings per share (EUR/share) from discontinued operations | 0.00 | 0.06 |
| Basic and diluted earnings per share (EUR/share) | 0.57 | 0.56 |

## NOTE 20 DIVIDENDS PER SHARE

The Annual General Meeting held on 31 March 2010 approved the Board's proposal to distribute a dividend of EUR 0.25 per share for the 2009 financial year.

Following the balance sheet date the Board of Directors has proposed for approval at the Annual General Meeting that a dividend of EUR 0,50 per share be distributed (not recognized as a liability as at 31 December).

## NOTE 21 INTANGIBLE ASSETS

The Group has no internally created intangible assets.

| **Goodwill EUR 1,000** | **2010** | **2009** |
|---|---|---|
| Acquisition cost at 1 Jan. | 14,072 | 12,466 |
| Additions | 0 | 0 |
| Exchange rate differences | 1,669 | 1,606 |
| Acquisition cost at 31 Dec. | 15,741 | 14,072 |
| Accumulated amortization at 1 Jan. | -4,104 | -4,104 |
| Impairment charge | 0 | 0 |
| Accumulated amortization at 31 Dec. | -4,104 | -4,104 |
| Book value at 1 Jan. | 9,968 | 8,362 |
| Book value at 31 Dec. | 11,637 | 9,968 |

| **Other intangible assets, EUR 1,000** | **2010** | **2009** |
|---|---|---|
| Acquisition cost at 1 Jan. | 4,775 | 4,106 |
| Additions | 4 | 3 |
| Decreases | 0 | 0 |
| Transfers between asset groups | 0 | 0 |
| Exchange rate differences | 692 | 666 |
| Acquisition cost at 31 Dec. | 5,471 | 4,775 |
| Accumulated amortization at 1 Jan. | -2,874 | -2,331 |
| Amortization for the period | -355 | -294 |
| Impairment charge and write-downs | 0 | 0 |
| Decreases | 0 | 0 |
| Exchange rate differences | -326 | -249 |
| Accumulated amortization at 31 Dec. | -3,555 | -2,874 |
| Book value at 1 Jan. | 1,900 | 1,775 |
| Book value at 31 Dec. | 1,916 | 1,900 |

| Other long-term expenses, EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Acquisition cost at 1 Jan. | 2,970 | 2,942 |
| Additions | 83 | 15 |
| Decreases | 0 | 0 |
| Transfers between asset groups | 39 | 13 |
| Translation differences | 0 | 0 |
| Acquisition cost at 31 Dec. | 3,092 | 2,970 |
| Accumulated amortization at 1 Jan. | -2,408 | -2,202 |
| Amortization for the period | -174 | -206 |
| Decreases | 0 | 0 |
| Translation differences | 0 | 0 |
| Accumulated amortization at 31 Dec. | -2,582 | -2,408 |
| Book value at 1 Jan. | 560 | 739 |
| Book value at 31 Dec. | 510 | 560 |

## NOTE 22 PROPERTY, PLANT AND EQUIPMENT

| Land and water areas, EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Acquisition cost at 1 Jan. | 779 | 797 |
| Additions | 0 | 0 |
| Decreases | 0 | -26 |
| Transfer between asset groups | 0 | -5 |
| Exchange rate differences | 49 | 13 |
| Acquisition cost at 31 Dec. | 828 | 779 |
| Impairment charge and write-downs | -34 | -27 |
| Exchange rate differences | -3 | 0 |
| Book value at 1 Jan. | 752 | 776 |
| Book value at 31 Dec. | 790 | 752 |

| Buildings and structures, EUR 1,000 | 2009 | 2008 |
|---|---|---|
| Acquisition cost at 1 Jan. | 5,941 | 6,045 |
| Additions | 61 | 8 |
| Decreases | 0 | -310 |
| Transfer between asset groups | 572 | 119 |
| Exchange rate differences | 193 | 79 |
| Acquisition cost at 31 Dec. | 6,767 | 5,941 |
| Accumulated amortization at 1 Jan. | -3,228 | -3,032 |
| Amortization for the period | -294 | -322 |
| Decreases | 0 | 153 |
| Exchange rate differences | -46 | -27 |
| Accumulated amortization at 31 Dec. | -3,568 | -3,228 |
| Book value at 1 Jan. | 2,714 | 3,014 |
| Book value at 31 Dec. | 3,200 | 2,714 |



| Machinery and equipment, EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Acquisition cost at 1 Jan. | 31,761 | 30,377 |
| Additions | 982 | 863 |
| Decreases | -18 | -109 |
| Transfers between asset groups | 639 | 81 |
| Exchange rate differences | 765 | 548 |
| Acquisition cost at 31 Dec. | 34,129 | 31,761 |
| Accumulated amortization at 1 Jan. | -26,082 | -23,856 |
| Amortization for the period | -1,894 | -2,033 |
| Impairment charge and write-downs | 0 | 0 |
| Decreases | 0 | 104 |
| Translation differences | -439 | -297 |
| Accumulated amortization at 31 Dec. | -28,415 | -26,082 |
| Book value at 1 Jan. | 5,677 | 6,519 |
| Book value at 31 Dec. | 5,711 | 5,677 |

| Advance payments and construction in progress, EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Acquisition cost at 1 Jan. | 930 | 636 |
| Additions | 440 | 501 |
| Transfers between asset groups | -678 | -207 |
| Decreases | 0 | 0 |
| Exchange rate differences | 0 | 0 |
| Acquisition cost at 31 Dec. | 692 | 930 |
| Book value at 1 Jan. | 930 | 636 |
| Book value at 31 Dec. | 692 | 930 |

| Finance lease arrangements, EUR 1,000 | 2010 | 2009 |
|---|---|---|
| BUILDINGS | | |
| Acquisition cost at 1 Jan. | 1,677 | 1,677 |
| Transfer between asset groups | -572 | 0 |
| Acquisition cost at 31 Dec. | 1,105 | 1,677 |
| Accumulated amortization at 1 Jan. | -959 | -799 |
| Amortization for the period | -146 | -160 |
| Accumulated amortization at 31 Dec. | -1,105 | -959 |
| Book value at 1 Jan. | 719 | 878 |
| Book value at 31 Dec. | 0 | 719 |

| Finance lease arrangements, EUR 1,000 | 2010 | 2009 |
|---|---|---|
| MACHINERY AND EQUIPMENT | | |
| Acquisition cost at 1 Jan. | 1,810 | 1,760 |
| Additions | 0 | 50 |
| Decreases | 0 | 0 |
| Exchange rate differences | 0 | 0 |
| Acquisition cost at 31 Dec. | 1,810 | 1,810 |
| Accumulated amortization at 1 Jan. | -1,766 | -1,760 |
| Amortization for the period | -10 | 0 |
| Impairment charge and write-down | 0 | 0 |
| Decreases | 0 | 0 |
| Exchange rate differences | 0 | 0 |
| Accumulated amortization at 31 Dec. | -1,776 | -1,766 |
| Book value at 1 Jan. | 44 | 0 |
| Book value at 31 Dec. | 34 | 44 |

The Group had no assets for sale.

## NOTE 23 OTHER NON-CURRENT ASSETS

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

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Book value at 1 Jan. | 64 | 68 |
| Decreases | 0 | -8 |
| Change in fair value | 0 | 3 |
| Book value at 31 Dec. | 64 | 64 |

## NOTE 24 INVENTORIES

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Raw materials | 4,755 | 4,322 |
| Work in progress | 727 | 550 |
| Finished products and goods | 4,119 | 3,910 |
| TOTAL INVENTORIES | 9,600 | 8,782 |

During the 2010 financial year an expense of EUR 0.4 million was recognized to reduce the book value of inventories to their net realizable value (EUR 0.4 million in 2009).

## NOTE 25 TRADE AND OTHER RECEIVABLES

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Trade receivables | 8,796 | 9,042 |
| Deferred income | 381 | 385 |
| Other receivables | 364 | 854 |
| TOTAL RECEIVABLES | 9,540 | 10,281 |

During the 2010 financial year credit losses of EUR 1,170 thousand were recorded (EUR 143 thousand in 2009), consisting of actual credit losses amounting to EUR 741 thousand (EUR 37 thousand in 2009) and change in the bad debt provision amounting to EUR 429 thousand (EUR 105 thousand in 2009) covering all overdue trade receivables which are over 90 days overdue.

As at 31 December, the ageing analysis of trade receivables is as follows (figures in EUR 1,000):

| | | | Past due but not impaired | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total | Neither past due nor impaired | < 30 days | 30–60 days | 61–90 days | 91–180 days | 181–365 days | Over 1 year |
| 2010 | 8,796 | 6,690 | 1,712 | 278 | 115 | 0 | 0 | 0 |
| 2009 | 9,042 | 6,847 | 1,079 | 684 | 432 | 0 | 0 | 0 |

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

## NOTE 26 CASH AND CASH EQUIVALENTS

Cash assets and short-term deposits consist of cash-in-hand and bank accounts amounting to EUR 11,606 (12,597) thousand.



## NOTE 27 TRADE AND OTHER NON-INTEREST-BEARING LIABILITIES

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Trade payables | 6,692 | 4,954 |
| Accrued expenses | 5,561 | 6,754 |
| Advance payments | 275 | 0 |
| Other current interest-free liabilities | 722 | 768 |
| Non-current interest-free liabilities | 362 | 330 |
| TOTAL | 13,612 | 12,806 |

## NOTE 28 INTEREST-BEARING LOANS AND BORROWINGS

| Non-current interest-bearing loans and borrowings, EUR 1,000 | 2010 | 2009 |
|---|---|---|
| | Book values | Book values |
| Loans from financial institutions | 10,000 | 15,057 |
| Pension loans | 179 | 150 |
| Finance lease liabilities | 25 | 1,139 |
| TOTAL | 10,204 | 16,346 |
| **Current interest-bearing loans and borrowings, EUR 1,000** | | |
| Short-term loans from financial institutions | 5 | 103 |
| Current portion of long-term debt (repayments) | 0 | 1,800 |
| Finance lease liabilities | 10 | 420 |
| TOTAL | 15 | 2,324 |
| **Maturity of non-current interest-bearing liabilities, EUR 1,000** | | |
| 2010 | 0 | 1,800 |
| 2011 | 0 | 7,557 |
| 2012 | 720 | 714 |
| 2013 | 1,440 | 714 |
| 2014 | 1,440 | 714 |
| 2015 | 6,400 | 0 |
| 2016 | 0 | 0 |
| later | 0 | 5,357 |
| TOTAL | 10,00 | 16,857 |

| Maturity of finance lease liabilities, EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Finance lease liabilities – total value of minimum lease payments | | |
| Not later than 1 year | 11 | 455 |
| 1–5 years | 26 | 473 |
| Finance lease liabilities – present value of minimum lease payments | | |
| Not later than 1 year | 10 | 422 |
| 1–5 years | 25 | 868 |
| Future finance charges | 2 | 62 |
| TOTAL FINANCE LEASE LIABILITIES | 35 | 1,559 |

Among interest bearing loans EUR 10,000 thousand (EUR 10,000 thousand in 2009) has been converted to fixed interest rates through interest rate swap agreements.

## NOTE 29 IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES

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

| Distribution of goodwill, EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Finland | 135 | 135 |
| Germany | 1,305 | 1,305 |
| Belgium | 209 | 209 |
| Austria | 688 | 688 |
| Pacific Composites | 9,301 | 7,632 |
| TOTAL | 11,637 | 9,968 |

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

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

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

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 annual growth of 3% on the industry in the long term. The level of gross margins in these forecasts is expected to remain on average at the current level.

Discount rates are defined separately 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 7.5% -9.9%.

With regard to the assessment of value in use the management believes that the turnover can drop with 15% before there would be a situation where the carrying value would not exceed the recoverable amount.

On the basis of the impairment test, the amount of money that can be accrued by all cash-generating units exceed the corresponding balance sheet values. In 2010 no impairment losses were booked.

## NOTE 30 FINANCIAL RISK MANAGEMENT

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

### Foreign currency risk

The Group operates internationally and is thus exposed to various transactions risks caused by currency positions and risks that are generated when investments made in different currencies are converted into the parent company's operating currency. In addition to the euro (EUR), the main currencies are the Australian dollar (AUD), the British pound (GBP), the US dollar (USD) and the Chinese renminbi (RMB). Foreign exchange risks are generated by commercial transactions, from monetary items in the assets and liabilities and from net investments in foreign subsidiaries. The objective of foreign exchange risk management is to protect the operating result and shareholders' equity against foreign exchange rate fluctuations.

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

Currency positions are assessed at their net amount in each currency generally for the following 12-month period. Currency flows are partly protected by forward agreements and currency options. The Group's transaction exposure is in USD amounting to USD 0.1 million on 31 December 2010.



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

| Net investment, EUR 1,000 | 31 Dec. 2010 | 31 Dec. 2009 |
|---|---|---|
| AUD | 19,349 | 15,263 |
| GBP | 5,317 | 5,343 |
| RMB | 3,073 | 3,146 |

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

| 31 December 2010 | AUD | GBP | RMB |
|---|---|---|---|
| Increase in currency rate vs EUR | 5% | 5% | 5% |
| Effect on profit before tax in EUR 1,000 | | | |
| Effect on equity EUR 1,000 | -967 | -266 | -154 |

| 31 December 2009 | AUD | GBP | RMB |
|---|---|---|---|
| Increase in currency rate vs EUR | 5% | 5% | 5% |
| Effect on profit before tax in EUR 1,000 | | | |
| Effect on equity EUR 1,000 | -763 | -267 | -157 |

### Interest rate risk

The Group's currency-denominated borrowings are in the functional currencies of Group companies. The nominal values of interest-bearing liabilities on 31 December 2010 were divided to the currencies as follows:

| Currency | Amount EUR 1,000 | % |
|---|---|---|
| EUR | 10,035 | 100 |
| USD | 5 | 0 |
| TOTAL | 10,040 | 100 |

NON-CURRENT LOANS have adjustable rates of interest, but they are partially protected against interest rate risks by converting them to fixed interest rates through interest rate swaps. At the balance sheet date the Group had interest swap contracts worth EUR 10,000 thousand, where the Group pays 2.50–2.552% fixed interest. The Group does not use the hedge accounting to the interest swap or option contracts.

The Group's exposure to the risk of changes in the market interest rates relates primarily to the Group's loans. The effect of one percentage point in the interest rates on 31 December 2010 was EUR 100 thousand (EUR 187 thousand in 2009).

### Liquidity and funding risk

The Group aims to ensure adequate liquidity under all circumstances and to optimize the use of liquid assets in financing business operations. In addition, the objective is to minimize net interest costs and bank charges. Cash reserves are invested only in objects that can be realized quickly. In addition to cash reserves and interest rate investments, the Group had unused credit limits on 31 December 2010 amounting to EUR 14 million of which EUR 9 million were committed.

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

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

The table below summarizes the maturity profile of the Group's financial liabilities excluding pension and finance lease liabilities at 31 December based on contractual undiscounted payments in EUR 1000´s.

| Year ended 31 Dec. 2010 | On demand | Less than 3 months | 3–12 months | 1–5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| Interest-bearing liabilities | 5 | 0 | 0 | 10,000 | 0 | 10,005 |
| Trade and other current payables | | 13,250 | | | | 13,250 |

| Year ended 31 Dec. 2009 | On demand | Less than 3 months | 3–12 months | 1–5 years | > 5 years | Total |
|---|---|---|---|---|---|---|
| Interest-bearing liabilities | 103 | 0 | 1,800 | 9,699 | 5,357 | 16,960 |
| Trade and other current payables | | 12,476 | | | | 12,476 |

**Credit and counterparty risk**

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

Counterparty risk refers to a situation in which a contracting party is unable to fulfill its contractual obligations. Derivative instruments and cash reserve investments are only employed with counterparties that have a good credit rating. At the end of the 2010 financial year, the Group's only counterparties were financial institutions.

The Group's maximum credit risk is the amount of the financial assets in the end of the financial year. The aging of the trade receivables is presented in Note 25.

**Capital management**

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

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

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

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Interest-bearing liabilities | 10,219 | 18,669 |
| Cash and cash equivalents | 11,606 | 12,597 |
| Net interest-bearing liabilities | -1,387 | 6,072 |
| Shareholders´ equity | 32,507 | 25,580 |
| Net gearing % | -4.3 | 23.7 |

## NOTE 31 PENSION AND OTHER POST-EMPLOYMENT OBLIGATIONS

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

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

| Amounts recognized in the income statement, EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Service cost for the financial year | 1,563 | 1,618 |
| Differences in benefit schemes | 44 | -72 |
| TOTAL INCLUDED IN PERSONNEL EXPENSES | 1,607 | 1,546 |

| Amounts recognized in the balance sheet, EUR 1,000 | 2010 | 2009 |
|---|---|---|
| At the beginning of financial period | 150 | 468 |
| Transferred to other liabilities | -16 | -247 |
| Pension expenses in the balance sheet | 45 | -72 |
| AT THE END OF FINANCIAL PERIOD | 179 | 150 |



## NOTE 32 PROVISIONS

In 2009 The Group released the restructuring provision for Exel Sports Brands business amounting to EUR 0.9 million which covered the estimated remaining costs arising from the restructuring made in 2008.

## NOTE 33 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

Net fair values and nominal values of financial assets and liabilities:

| EUR 1,000 | 2010 Net fair value | 2010 Nominal value | 2009 Net fair value | 2009 Nominal value |
|---|---|---|---|---|
| Trade and other receivables | 9,540 | 9,540 | 10,281 | 10,281 |
| Cash and cash equivalents | 11,606 | 11,606 | 12,597 | 12,597 |
| Interest rate swap agreements | -222 | 10,000 | -224 | 10,000 |
| Forward contract | 0 | 0 | 3 | 341 |
| Bank loans | 9,961 | 10,000 | 17,067 | 16,857 |
| Finance leasing | 35 | 37 | 868 | 927 |
| Non-current loan facilities | 5 | 5 | 103 | 103 |
| Trade and other payables | 13,250 | 13,250 | 12,476 | 12,476 |

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

## NOTE 34 CONTINGENT LIABILITIES

| EUR 1,000 | 2010 | 2009 |
|---|---|---|
| COMMITMENTS ON OWN BEHALF | | |
| Mortgages | 2,783 | 2,783 |
| Floating charges | 12,500 | 12,500 |
| OPERATING LEASES | | |
| Not later than one year | 887 | 994 |
| 1–5 years | 2,770 | 2,592 |
| OTHER LIABILITIES | 10 | 39 |

### NOTE 35 SHARE CAPITAL

| EUR 1,000 | Number of shares (1,000) | Share capital | Share premium fund | Total |
|---|---|---|---|---|
| 1 January 2009 | 11,897 | 2,141 | 8,448 | 10,589 |
| Share issue | | | | |
| 31 December 2009 | 11,897 | 2,141 | 8,448 | 10,589 |
| Share issue | | | | |
| 31 December 2010 | 11,897 | 2,141 | 8,488 | 10,589 |

UNDER THE ARTICLES of association of the Company, the authorized 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 31 March 2010 the Annual General Meeting authorized the Board of Directors to acquire the Company's own shares by using unrestricted equity. The maximum amount to be acquired is 600,000 shares. The authorization is valid until the next Annual General Meeting.

On 31 March 2010 the Annual General Meeting authorized the Board of Directors to issue a maximum of 2,400,000 new shares and convey a maximum of 600,000 own shares. By virtue of the authorization, the Board of Directors also has the right to grant option rights, convertible bonds and/or special rights referred to in Chapter 10, Section 1 of the Companies Act. The authorization is valid until 31 March 2013.

These authorizations have not been exercised during the year.

### NOTE 36 SHARE-BASED PAYMENT PLANS

THE GROUP HAS a long-term incentive program for the Group Management Team and selected key employees of the Company. The aim of the program is to commit persons entitled to participate in the Program to improve Exel Composites Plc's long-term profitability and value and reward them for achieving these goals in line with Exel Composites' strategy and financial targets. The Program is confirmed annually by the Board of Directors.

The Participants shall earn the reward under the annual program if the financial performance targets as set by the Board of Directors for the program have been met. The Board of Directors will decide on the targets related to the growth of the Exel Composites Group's earnings per share (EPS) and return on capital employed (ROCE) for each program separately before the beginning of the program. The maximum amount of reward for each annual program is decided by the Board of Directors and can be denominated as cash or a corresponding number of granted shares. There is a vesting period of two years before the title of the shares is transferred. The cost of the program will be accounted for as operating expenses and accrued for in the financial statements. Under the 2010 program, the reward was denominated as cash and the allocated rewards totaled EUR 0.6 million (before tax).

### NOTE 37 DISTRIBUTABLE FUNDS, 31 DECEMBER 2009

The parent company's distributable funds on 31 December 2010 were EUR 21,852 thousand.

### NOTE 38 CASH FLOW FROM BUSINESS OPERATIONS

| Non-cash adjustments to the result for the financial year, EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Depreciation, impairment charges and write-offs | 2,880 | 3,028 |
| Gain on disposal of property | 0 | -217 |
| Taxes | 2,165 | 2,446 |
| Financial expenses | 671 | 1,294 |
| Financial income | -178 | -1,266 |
| Other adjustments | 738 | -456 |
| TOTAL | 6,276 | 4,829 |



### NOTE 39 RELATED PARTY TRANSACTIONS

The Group's parent company and subsidiary relationships are as follows:

| Name of subsidiary | Domicile | Group share of holding % |
|---|---|---|
| Exel GmbH | Germany | 100 |
| Exel Composites N.V. | Belgium | 100 |
| Exel Composites GmbH | Austria | 100 |
| Exel USA, Inc. | USA | 100 |
| Exel Sports Sweden AB | Sweden | 100 |
| Exel Composites (Nanjing) Ltd | China | 100 |
| Exel Composites (Australia) Pty Ltd | Australia | 100 |
| Pacific Composites Ltd | Australia | 100 |
| Pacific Composites (Europe) Ltd | United Kingdom | 100 |
| Fibreforce Composites Ltd | United Kingdom | 100 |
| Pacific Composites (Clacton) Ltd | United Kingdom | 100 |
| Pacific Composites Ltd | New Zealand | 100 |
| Pro Stick Oy | Finland | 100 |

The ultimate parent company is Exel Composites Plc.

**Management remuneration**

| Senior management salaries, fees and bonuses, EUR 1,000 | 2010 | 2009 |
|---|---|---|
| President & CEO | 520 | 495 |
| Members of the Board of Directors | 154 | 139 |
| Pension costs in the income statement | 0 | 0 |
| TOTAL | 674 | 634 |

| Salaries and fees per person | EUR 1,000 |
|---|---|
| Vesa Korpimies, President & CEO | 520 |
| Peter Hofvenstam, Chairman of the Board | 50 |
| **Members of the Board** | |
| Göran Jönsson | 26 |
| Vesa Kainu | 26 |
| Reima Kerttula | 26 |
| Heikki Mairinoja | 26 |

### NOTE 40 EVENTS AFTER THE BALANCE SHEET DATE

MR. LASSE ORRE, SVP Sales, was appointed VP Sales of the Group's Nanjing unit in China as of 1 February 2011. Due to his new responsibilities he is no longer member of the Group Management. The Group Management consists of Vesa Korpimies, Ilkka Silvanto and Callum Gough.

### PARENT COMPANY INCOME STATEMENT, EUR 1,000

| | Notes | 1.1.–31.12.2010 | 1.1.–31.12.2009 |
|---|---|---|---|
| NET SALES | 1 | 38,931 | 37,393 |
| Increase(+)/Decrease(-) in inventories of finished goods and work in progress | | 246 | -358 |
| Other operating income | | 3,331 | 1,150 |
| Materials and services | | -14,095 | -13,546 |
| External services | | -880 | -316 |
| Personnel expenses | 2 | -9,431 | -9,182 |
| Depreciation and write-down | | | |
| Planned depreciation | 3 | -1,236 | -3,282 |
| Other operating expenses | 4 | -9,779 | -7,142 |
| OPERATING PROFIT | | 7,088 | 4,716 |
| Financial income and expenses | 5 | | |
| Interest paid and other financial expenses | | 1,338 | 497 |
| PROFIT BEFORE EXTRAORDINARY ITEMS | | 8,427 | 5,214 |
| Group subsidy | 6 | 0 | 0 |
| PROFIT BEFORE APPROPRIATIONS AND TAXES | | 8,427 | 5,214 |
| Direct taxes | 7 | -1,643 | -1,796 |
| PROFIT FOR THE PERIOD | | 6,784 | 3,417 |



### PARENT COMPANY BALANCE SHEET, EUR 1,000

| | Notes | 31.12.2010 | 31.12.2009 |
|---|---|---|---|
| ASSETS | | | |
| NON-CURRENT ASSETS | 8 | | |
| Intangible assets | | | |
| Intangible rights | | 271 | 435 |
| Other capitalized expenditure | | 531 | 582 |
| | | 802 | 1,017 |
| TANGIBLE ASSETS | | | |
| Land and water | | 90 | 90 |
| Buildings | | 1,678 | 1,245 |
| Machinery and equipment | | 1,652 | 1,454 |
| Construction in progress | | 593 | 923 |
| | | 4,013 | 3,712 |
| INVESTMENTS | 9 | | |
| Holdings in Group companies | | 25,419 | 25,419 |
| Other shares and holdings | | 53 | 53 |
| | | 25,472 | 25,472 |
| TOTAL NON-CURRENT ASSETS | | 30,286 | 30,201 |
| CURRENT ASSETS | | | |
| Inventories | | | |
| Raw-materials and consumables | | 2,737 | 2,567 |
| Work in progress | | 686 | 528 |
| Finished products | | 941 | 853 |
| | | 4,365 | 3,948 |
| Current receivables | 10 | | |
| Trade receivables | | 3,630 | 4,319 |
| Receivables from Group companies | | 350 | 162 |
| Other receivables | | 10 | 535 |
| Prepaid expenses and accrued income | | 1 | 699 |
| | | 3,991 | 5,715 |
| Cash in hand and at bank | | 3,202 | 5,778 |
| TOTAL CURRENT ASSETS | | 11,558 | 15,441 |
| TOTAL ASSETS | | 41,844 | 45,642 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| EQUITY | 11 | | |
| Share capital | | 2,141 | 2,141 |
| Invested unrestricted equity fund | | 8,488 | 8,488 |
| Retained earnings | | 6,581 | 6,138 |
| Profit for the financial period | | 6,784 | 3,417 |
| TOTAL EQUITY | | 23,994 | 20,184 |
| LIABILITIES | | | |
| NON-CURRENT LIABILITIES | 12 | | |
| Loans from financial institutions | | 10,000 | 15,057 |
| CURRENT LIABILITIES | 13 | | |
| Loans from financial institutions | | 0 | 1,800 |
| Accounts payable | | 275 | 10 |
| Trade payables | | 2,597 | 1,925 |
| Liabilities to Group companies | | 1,489 | 1,502 |
| Other liabilities | | 391 | 1,131 |
| Accrued liabilities and deferred income | | 3,099 | 4,032 |
| TOTAL LIABILITIES | | 17,850 | 25,458 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 41,844 | 45,642 |

## PARENT COMPANY CASH FLOW STATEMENT, EUR 1,000

| | 2010 | 2009 |
|---|---|---|
| **CASH FLOW FROM BUSINESS OPERATIONS** | | |
| Profit for the year | 6,784 | 3,417 |
| Profit for the year adjustments | 1,597 | 3,487 |
| Change in net working capital | 936 | 7,874 |
| Interest paid and other financial expenses | -502 | -927 |
| Dividends received | 1,855 | 57 |
| Interest received | 70 | 3,552 |
| Income taxes paid | -2,216 | 1,063 |
| **CASH FLOW FROM BUSINESS OPERATIONS** | 8,524 | 18,523 |
| **NET CASH FLOW FROM INVESTMENTS** | | |
| Disposal of business | 0 | 0 |
| Capital expenditure | -1,268 | -906 |
| Instalments in subsidiaries' shares | 0 | -8,303 |
| Proceeds from sale of fixed assets | 0 | 410 |
| **NET CASH FLOW FROM INVESTMENTS** | -1,268 | -8,799 |
| **CASH FLOW BEFORE FINANCING** | 7,256 | 9,724 |
| **CASH FLOW** | | |
| Withdrawals of non-current loans | -6,857 | -7,623 |
| Repayments of non-current loans | 0 | 500 |
| Net withdrawals of/repayment of current loans | 0 | -500 |
| Group subsidies | -2,974 | 0 |
| Dividend paid | | |
| **CASH FLOW FROM FINANCING** | -9,831 | -7,623 |
| **CHANGE IN LIQUID FUNDS** | -2,575 | 2,101 |
| Liquid funds on January 1 | 5,778 | 3,496 |
| Liquid assets from merger | 0 | 180 |
| **LIQUID FUNDS ON DECEMBER 31** | 3,202 | 5,778 |



## NOTE 1 NET SALES, EUR 1,000

| | Parent Company 2010 | Parent Company 2009 |
|---|---|---|
| **BY MARKET AREA** | | |
| Nordic Countries | 14,312 | 13,678 |
| Other European Countries | 21,456 | 20,273 |
| Other Countries | 3,163 | 3,442 |
| **TOTAL** | 38,931 | 37,393 |

## NOTE 2 PERSONNEL EXPENSES

| Management salaries and remunerations, EUR 1,000 Paid in 2009 | Parent Company 2010 | Parent Company 2009 |
|---|---|---|
| President | 504 | 284 |
| Members of the Board | 154 | 140 |
| **TOTAL** | 658 | 424 |
| **AVERAGE PERSONNEL EMPLOYED BY THE GROUP AND THE PARENT COMPANY** | | |
| Salaried employees | 67 | 69 |
| Non-salaried employees | 112 | 124 |
| **TOTAL** | 178 | 193 |

## NOTE 3 DEPRECIATION

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.

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

| Planned depreciation, amortization and impairment, EUR 1,000 | Parent Company 2010 | Parent Company 2009 |
|---|---|---|
| Intangible rights | 165 | 25 |
| Other capitalized expenditure | 174 | 201 |
| Buildings | 198 | 236 |
| Machinery and equipment | 699 | 741 |
| Write-downs of non-current assets | 0 | 2,080 |
| **TOTAL** | 1,236 | 3,282 |

## NOTE 4 OTHER OPERATING EXPENSES, EUR 1,000

| | Parent Company 2010 | Parent Company 2009 |
|---|---|---|
| Rents | 417 | 643 |
| Marketing expenses | 212 | 186 |
| Other expenses | 9,150 | 6,314 |
| **TOTAL** | 9,779 | 7,142 |
| | | |
| Auditor's fee | 64 | 46 |
| Tax counseling | 4 | 1 |
| Other fees | 3 | 6 |
| **TOTAL** | 71 | 53 |

## NOTE 5 FINANCIAL INCOME AND EXPENSES, EUR 1,000

| | Parent Company 2010 | Parent Company 2009 |
|---|---|---|
| OTHER INTEREST AND FINANCIAL INCOME | | |
| From Group companies | 1,853 | 162 |
| From others | 47 | 1,229 |
| TOTAL | 1,901 | 1,335 |
| INTEREST AND OTHER FINANCIAL EXPENSES | | |
| To Group companies | -20 | -27 |
| To others | -542 | -811 |
| TOTAL | -562 | -838 |
| TOTAL FINANCIAL INCOME AND EXPENSES | 1,338 | 497 |

## NOTE 6 EXTRAORDINARY ITEMS, EUR 1,000

| | Parent Company 2010 | Parent Company 2009 |
|---|---|---|
| Extraordinary items / Group subsidy | 0 | 0 |

## NOTE 7 DIRECT TAXES, EUR 1,000

| | Parent Company 2010 | Parent Company 2009 |
|---|---|---|
| Income tax on actual operations | -1,643 | -1,796 |

## NOTE 8 INTANGIBLE AND TANGIBLE RIGHTS, EUR 1,000

| | Parent Company 2010 | Parent Company 2009 |
|---|---|---|
| INTANGIBLE RIGHTS | | |
| Acquisition cost Jan. 1 | 1,010 | 643 |
| Increase | 0 | 367 |
| Decrease | 0 | 0 |
| Reclassification between items | 0 | 0 |
| Acquisition cost Dec. 31 | 1,010 | 1,010 |
| Accumulated planned depreciation Jan. 1 | -575 | -550 |
| Planned depreciation | -165 | -25 |
| Planned depreciation of decrease | 0 | 0 |
| Accumulated planned depreciation 31 Dec. | -740 | -575 |
| Book value Jan. 1 | 435 | 92 |
| Book value Dec. 31 | 270 | 435 |

| CAPITALIZED EXPENDITURE | 2010 | 2009 |
|---|---|---|
| Acquisition cost Jan. 1 | 2,864 | 2,836 |
| Increase | 83 | 15 |
| Decrease | 0 | 0 |
| Reclassification between items | 39 | 13 |
| Acquisition cost Dec. 31 | 2,987 | 2,864 |
| Accumulated planned depreciation Jan.1 | -2,282 | -2,081 |
| Planned depreciation | -174 | -201 |
| Planned depreciation of decrease | 0 | 0 |
| Accumulated planned depreciation Dec. 31 | -2,456 | -2,282 |
| Book value at Jan. 1 | 582 | 755 |
| Book value Dec. 31 | 531 | 582 |

| LAND AND WATER | 2010 | 2009 |
|---|---|---|
| Acquisition cost Jan. 1 | 90 | 116 |
| Decrease | 0 | -26 |
| Acquisition cost Dec. 31 | 90 | 90 |
| Book value Jan. 1 | 90 | 116 |
| Book value Dec. 31 | 90 | 90 |

| BUILDINGS | 2010 | 2009 |
|---|---|---|
| Acquisition cost Jan. 1 | 4,101 | 4,284 |
| Increase | 631 | 127 |
| Decrease | 0 | -310 |
| Reclassification between items | 0 | 119 |
| Acquisition cost Dec. 31 | 4,732 | 4,101 |
| Accumulated planned depreciation Jan. 1 | -2,856 | -2,773 |
| Planned depreciation | -198 | -236 |
| Planned depreciation of decrease | 0 | 153 |
| Accumulated planned depreciation Dec. 31 | -3,054 | -2,856 |
| Book value Jan. 1 | 1,245 | 1,511 |
| Book value Dec. 31 | 1,678 | 1,245 |

| MACHINERY AND EQUIPMENT | 2010 | 2009 |
|---|---|---|
| Acquisition cost Jan. 1 | 18,159 | 17,783 |
| Increase | 259 | 453 |
| Decrease | 0 | -77 |
| Reclassification between items | 639 | 76 |
| Acquisition cost Dec. 31 | 19,057 | 18,159 |
| Accumulated planned depreciation Jan. 1 | -16,706 | -16,040 |
| Planned depreciation | -699 | -741 |
| Planned depreciation of decrease | 0 | 75 |
| Accumulated planned depreciation Dec. 31 | -17,405 | -16,706 |
| Book value Jan. 1 | 1,454 | 1,744 |
| Book value Dec. 31 | 1,652 | 1,454 |
| Undepreciated acquisition cost of production machinery and equipment | 1,624 | 1,414 |

| ADVANCE PAYMENT AND CONSTRUCTION IN PROGRESS, EUR 1,000 | 2010 | 2009 |
|---|---|---|
| Acquisition cost Jan. 1 | 923 | 630 |
| Increase | 348 | 501 |
| Reclassification between items | -678 | -208 |
| Decrease | 0 | 0 |
| Acquisition cost Dec. 31 | 593 | 923 |
| Book value at Jan. 1 | 923 | 630 |
| Book value at Dec. 31 | 593 | 923 |

| SHARES | 2010 | 2009 |
|---|---|---|
| Group companies | | |
| Acquisition cost Jan. 1 | 25,418 | 21,031 |
| Increase Dec .31 | 0 | 8,303 |
| Decrease Dec.31 | 0 | -3,916 |
| Acquisition cost Dec. 31 | 25,418 | 25,418 |

| OTHER SHARES AND HOLDINGS | 2010 | 2009 |
|---|---|---|
| Acquisition cost Jan. 1 | 53 | 61 |
| Decrease Dec. 31 | 0 | -8 |
| Acquisition cost Dec. 31 | 53 | 53 |

## NOTE 9 COMPANIES OWNED BY PARENT COMPANY

| Shares in subsidiaries<br>Name of company | Registration country | Owned by the parent company % |
|---|---|---|
| Exel GmbH | Germany | 100 |
| Exel Composites N.V. | Belgium | 100 |
| Exel Composites GmbH | Austria | 100 |
| Exel USA, Inc. | USA | 100 |
| Exel Sports Sweden AB | Sweden | 100 |
| Exel Composites (Nanjing) Ltd | China | 100 |
| Exel Composites (Australia) Pty Ltd | Australia | 100 |
| Pacific Composites Ltd | Australia | 100 |
| Pacific Composites (Europe) | UK | 100 |
| Fibreforce Composites Ltd | UK | 100 |
| Pacific Composites (Clacton) Ltd | UK | 100 |
| Pacific Composites Ltd | New Zealand | 100 |
| Pro Stick Oy | Finland | 100 |

## NOTE 10 RECEIVABLES

| Current receivables, EUR 1,000 | Parent Company 2010 | Parent Company 2009 |
|---|---|---|
| RECEIVABLES FROM GROUP COMPANIES | | |
| Trade receivables | 350 | 63 |
| Loan receivables | 0 | 100 |
| Prepaid expenses and accrued income | 0 | 0 |
| TOTAL RECEIVABLES FROM GROUP COMPANIES | 350 | 162 |
| RECEIVABLES FROM OTHERS | | |
| Trade receivables | 3,630 | 4,319 |
| Other receivables | 10 | 535 |
| Prepaid expenses and accrued income | 1 | 699 |
| TOTAL RECEIVABLES FROM OTHERS | 3,641 | 5,553 |
| TOTAL CURRENT RECEIVABLES | 3,991 | 5,715 |

Deferred tax assets amounting to EUR 187 (222) thousand have not been booked from cumulative depreciation exceeding the maximum tax depreciations by 0.7 (0.9) million.

## NOTE 11 EQUITY, EUR 1,000

| | Parent Company 2010 | Parent Company 2009 |
|---|---|---|
| Share capital Jan. 1 | 2,141 | 2,141 |
| SHARE CAPITAL DEC. 31 | 2,141 | 2,141 |
| Invested unrestricted equity fund Jan. 1 | 8,488 | 8,488 |
| INVESTED UNRESTRICTED EQUITY FUND DEC. 31 | 8,488 | 8,488 |
| Retained earnings | 9,555 | 6,138 |
| Dividend paid | -2,974 | 0 |
| Retained earnings | 6,581 | 6,138 |
| Operating profit for the financial year | 6,784 | 3,417 |
| TOTAL EQUITY | 23,994 | 20,184 |



| CALCULATION OF FUNDS DISTRIBUTABLE AS PROFIT DEC. 31 | 2010 | 2009 |
|---|---|---|
| Non-restricted equity fund | 8,488 | 8,488 |
| Retained earnings | 6,581 | 6,138 |
| Operating profit/loss for the financial year | 6,784 | 3,417 |
| TOTAL NON-CURRENT LIABILITIES | 21,852 | 18,043 |

## NOTE 12 NON-CURRENT LIABILITIES, EUR 1,000

| | Parent Company 2010 | Parent Company 2009 |
|---|---|---|
| Loans from financial institutions | 10,000 | 15,057 |
| Total non-current liabilities | 10,000 | 15,057 |
| Liabilities falling due in a period longer than five years | 0 | 5,357 |

## NOTE 13 CURRENT LIABILITIES, EUR 1,000

| | Parent Company 2010 | Parent Company 2009 |
|---|---|---|
| LIABILITIES TO GROUP COMPANIES | | |
| Trade payables | 139 | 152 |
| Accrued liabilities and deferred income | 1,350 | 1,350 |
| TOTAL | 1,489 | 1,502 |
| LIABILITIES TO OTHERS | | |
| Loans from financial institutions | 0 | 1,800 |
| Advance payments | 275 | 10 |
| Trade payables | 2,597 | 1,925 |
| Other liabilities | 391 | 1,131 |
| Accrued liabilities and deferred income | 3,099 | 4,032 |
| TOTAL LIABILITIES TO OTHERS | 6,361 | 8,898 |
| TOTAL CURRENT LIABILITIES | 8,091 | 10,400 |
| SPECIFICATION OF ACCRUED LIABILITIES AND DEFERRED INCOME | | |
| Salaries, wages and holiday pay, including social security expenses | 2,344 | 2,312 |
| Other accrued liabilities and deferred income | 755 | 1,720 |
| TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME | 3,099 | 4,032 |

## NOTE 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 2008 – 2014.

| EUR 1,000 | Face value | Fair market value |
|---|---|---|
| Interest swaps (NPV) | | |
| Interest swaps | 10,000 | -222 |

| Liabilities for which a corporate mortgage and real estate mortgages have been provided as collateral | | |
|---|---|---|
| Financial institution loans | 10,000 | 16,857 |
| Mortgages given on land and buildings | 2,783 | 2,783 |
| Corporate mortgage given | 12,500 | 12,500 |
| Collateral for Group companies | | |
| | 2 | 103 |
| Credit limit guarantee | | |

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

## NOTE 15 LEASING, RENTAL AND OTHER LIABILITIES, EUR 1,000

| | Parent Company 2010 | Parent Company 2009 |
|---|---|---|
| LEASING LIABILITIES | | |
| Falling due in 2011 | 104 | 431 |
| Falling due later | 44 | 562 |
| Rental liabilities | | |
| Falling due in 2011 | 0 | 195 |
| Falling due later | 0 | 373 |
| Other liabilities | 10 | 38 |

## NOTE 16 SHARE OWNERSHIP

| Distribution of share ownership on 31 December 2010 | % |
|---|---|
| Private companies | 15.7 |
| Financial and insurance institutions | 24.9 |
| Public sector entities | 7.4 |
| Non-profit organizations | 2.7 |
| Households | 18.9 |
| Foreign | 29.6 |
| Of which, nominee registration | 0.8 |

**Distribution of share ownership on 31 December 2010**

| Shares | Number of shareholders | Percentage of shareholders | Total number of shares | Percentage of total number of shares |
|---|---|---|---|---|
| 1–1,000 | 1,962 | 83.03 | 648,133 | 5.45 |
| 1,001–10,000 | 341 | 14.43 | 1,031,019 | 8.67 |
| 10,001–50,000 | 31 | 1.31 | 738,858 | 6.21 |
| over 50,000 | 29 | 1.23 | 9,478,834 | 79.68 |

## NOTE 17 SHAREHOLDERS

**Information on shareholders on 31 December 2009**

| Shareholder | Number of shares | Percentage of shares and votes |
|---|---|---|
| Nordstjernan AB | 3,496,506 | 29.4 |
| Ilmarinen Mutual Pension Insurance Company | 689,400 | 5.8 |
| Veikko Laine Oy | 618,896 | 5.2 |
| Ulkomarkkinat Oy | 480,000 | 4.0 |
| OP-Suomi Small Cap Investment Group | 451,085 | 3.8 |
| Fondita Nordic Micro Cap Investment Fund | 450,000 | 3.8 |
| Mutual Fund Evli Finnish Equity | 319,581 | 2.7 |
| Matti Suutarinen | 294,400 | 2.5 |
| Aktia Capital Investment Fund | 250,000 | 2.1 |
| Nominee registration | 92,737 | 0.8 |
| Other | 4,445,754 | 37.4 |
| TOTAL | **11,896,843** | **100.0** |

## NOTE 18 MANAGEMENT INTERESTS

The aggregate holding of the members of Board of Directors and the President was 87,155 shares on 31 December 2010. This accounts for 0.7% of corporate shares and 0.7% of the votes carried by all shares. The members of the Board of Directors and the President do not have any unsubscribed option rights.

## NOTE 19 SHARE ISSUE AND OPTION PROGRAMS

On 31 March 2010 the Annual General Meeting authorized the Board of Directors to acquire the Company's own shares by using unrestricted equity. The maximum amount to be acquired is 600,000 shares. The authorization is valid until the next Annual General Meeting.

On 31 March 2010 the Annual General Meeting authorized the Board of Directors to issue a maximum of 2,400,000 new shares and convey a maximum of 600,000 own shares. By virtue of the authorization, the Board of Directors also has the right to grant option rights, convertible bonds and/or special rights referred to in Chapter 10, Section 1 of the Companies Act. The authorization is valid until 31 March 2013. These authorizations have not been exercised during the year.

## NOTE 20 SHARE PRICE AND TRADING

| **Share price (EUR)** | **2006** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|---|
| Average price | 12.86 | 14.14 | 5.92 | 4.08 | 5.86 |
| Lowest price | 10.50 | 10.55 | 2.41 | 2.37 | 5.00 |
| Highest price | 15.13 | 17.45 | 12.20 | 6.20 | 7.25 |
| Share price at end of financial year | 13.60 | 11.90 | 2.72 | 5.39 | 7.06 |
| Market capitalization, EUR million | 161.8 | 141.6 | 32.4 | 64.1 | 84.0 |
| **Share trading** | | | | | |
| Number of shares traded | 5,172,938 | 4,907,765 | 1,653,992 | 3,522,974 | 2,298,611 |
| **% OF TOTAL** | **43.5** | **41.3** | **13.9** | **29.6** | **19.3** |
| **Number of shares adjusted for share issues** | | | | | |
| Average number | 11,846,725 | 11,896,843 | 11,896,843 | 11,896,843 | 11,896,843 |
| Number at end of financial year | 11,896,843 | 11,896,843 | 11,896,843 | 11,896,843 | 11,896,843 |

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

## NOTE 21 KEY INDICATORS

Key indicators illustrating financial trends

| **Figures given in EUR 1,000 (unless otherwise stated)** | **2006 IFRS** | **2007 IFRS** | **2008 IFRS**** | **2009 IFRS**** | **2010 IFRS**** |
|---|---|---|---|---|---|
| Net sales | 112,395 | 113,489 | 94,925 | 70,005 | 72,872 |
| Operating profit | 386 | 4780 | 8,593 | 7,990 | 9,430 |
| % of net sales | 0.3 | 4.2 | 10.1 | 11.4 | 12.9 |
| Profit before extraordinary items | -681 | 2,420 | 5,590 | 7,970 | 8,936 |
| % of net sales | -0.6 | 2.1 | 6.6 | 11.4 | 12.3 |
| Profit before provisions and income taxes | -681 | 2,420 | 5,590 | 7,970 | 8,936 |
| % of net sales | -0.6 | 2.0 | 6.6 | 11.4 | 12.3 |
| Total assets | 81,924 | 75,192 | 59,275 | 57,303 | 56,885 |
| Return on equity, % | -2.9 | 8.4 | -14.7 | 31.3 | 23.3 |
| Return on investment, % | 1.2 | 7.3 | 0.0 | 20.9 | 21.8 |
| Solvency ratio, % | 29.9 | 31.3 | 28.2 | 44.6 | 57.4 |
| Net gearing, % | 112.8 | 118.4 | 123.9 | 23.7 | -4.3 |
| Gross investment in fixed assets | 19,863 | 2,469 | 1,765 | 1,440 | 1,570 |
| % of net sales | 17.7 | 2.2 | 2.1 | 2.1 | 2.2 |
| R&D expenses | 2,169 | 2,824 | 1,361 | 1,407 | 1,312 |
| % of net sales | 1.9 | 2.5 | 1.6 | 2.0 | 1.8 |
| Average personnel | 600 | 568 | 527 | 436 | 404 |
| Personnel at year end | 555 | 579 | 470 | 419 | 408 |
| **Share data** | | | | | |
| Earnings per share (EPS), EUR | -0.06 | 0.17 | 0.34 | 0.50 | 0.57 |
| Adjusted earnings per share (EPS), EUR* | -0.06 | 0.17 | 0.34 | 0.50 | 0.57 |
| Equity per share, EUR | 2.05 | 1.98 | 1.40 | 2.15 | 2.73 |
| Dividend per share, EUR | 0.20 | 0.20 | 0.00 | 0.25 | 0.50 |
| Payout ratio, % | -322.70 | 118.40 | 0.00 | 50.00 | 87.80 |
| Effective yield of shares, % | 1.47 | 1.68 | 0.00 | 4.64 | 7.08 |
| Price/earnings (P/E), % | -219.41 | 70.44 | 8.00 | 10.79 | 12.40 |

* Adjusted for the dilution of option rights
** From continuing operations



**Return on equity %**

profit before extraordinary items, provisions and income taxes less income taxes
........................................ x100
equity + minority interest + voluntary provisions and depreciation difference less deferred tax liabilities (average)

**Return on investment %**

profit before extraordinary items, provisions and income taxes + interest and other financial expenses
........................................ x100
total assets less non-interest-bearing liabilities (average)

**Solvency ratio %**

equity + minority interest + voluntary provisions and depreciation difference less deferred tax liabilities
........................................ x100
total assets less advances received

**Net gearing %**

net interest-bearing liabilities (=interest-bearing liabilities less liquid assets)
........................................ x100
equity

**Earnings per share (EPS) EUR**

profit before extraordinary items, provisions and income taxes less income taxes +/- non-controlling interest
........................................ x100
average adjusted number of shares in the financial period

**Equity per share EUR**

equity + voluntary provisions + depreciation difference less deferred tax liabilities and minority interest
........................................
adjusted number of shares on closing date

**Dividend per share EUR**

dividend for the financial period
........................................
adjusted number of shares on closing date

**Payout ratio %**

dividend per share
........................................ x100
earnings per share (EPS)

**Effective yield of shares %**

dividend per share x 100
........................................ x100
adjusted average share price at year end

**Price/earnings (P/E) %**

adjusted average share price at year end
........................................ x100
earnings per share

Exel Composites Plc's distributable funds are EUR 21,852,251.73 of which profit for the financial period accounts for EUR 6,783,571.59

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

| | |
|---|---|
| • a dividend of EUR 0.50 per share | 5,948,421.50 |
| • carried over as equity | 15,903,830.23 |
| | 21,852,251.73 |

Vantaa, 17 February 2011

| | | |
|---|---|---|
| Peter Hofvenstam<br>Chairman | Göran Jönsson | Vesa Kainu |
| Reima Kerttula | Heikki Mairinoja | |

Vesa Korpimies
President and CEO

Our auditor's report has been issued today.

Vantaa, 17 February 2011

Ernst & Young
Authorized Public Accountant Firm

Juha Hilmola
Authorized Public Accountant



**To the Annual General Meeting of Exel Composites Plc**

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Exel Composites Plc for the financial period 1.1.–31.12.2010. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

**Responsibility of the Board of Directors and the Managing Director**

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company and the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

**Opinion on the consolidated financial statements**

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

**Opinion on the company's financial statements and the report of the Board of Directors**

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

**Opinions based on the decision of the Board of Directors**

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

Vantaa, 17 February 2011
Ernst & Young Oy
Authorized Public Accountant Firm

Juha Hilmola
Authorized Public Accountant

**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.

**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 subgroups of composites. Composites consisting of strong fibers and plastic substances are called (glass fiber) 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.

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

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

**EuCIA (European Composites Industry Association)**
EuCIA is the European umbrella of the composites industry. Its main objective is representation of the European National Composite Associations as well as industry specific sector groups, such as those targeting end-segments like automotive or those promoting particular product groups or processes.

**Fabric guiding pole**
A pole used upon changing and placing the fabric of a paper machine.

**Filament winding**
Filament winding consists of winding resin impregnated fibers or rovings of glass aramid, or carbon on a rotating mandrel in predetermined patters. The method provides the greatest control over fiber placement and uniformity of structure. After the layers are wound, the component is cured and removed from the mandrel.

**Glide Path Tower**
Part of the Instrument Landing System with which aircrafts can be guided for landing during poor visibility.

**Hand lay-up**
Hand lay-up is the simplest and oldest open molding method of the composite fabrication processes. It is a low volume, labor intensive method suited especially for large components. Glass or other reinforcing mat or woven fabric or roving is positioned manually in the open mold, and resin is poured, brushed, or sprayed over and into the glass plies. Curing is initiated by a catalyst in the resin system, which hardens the fiber reinforced resincomposite without external heat. For a high quality part surface, a pigmented gel coat is first applied.

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

**Pull-Winding**
A continuously working production method developed by Exel Composites, combining the pultrusion and continuous winding methods.

**Pultruder**
A company manufacturing products with pultrusion technology.

**Pultrusion**
The pultrusion process is a proven continuous manufacturing method for obtaining high quality composite profiles with consistently repeatable mechanical properties. Pultruded products are essentially composed of high performance fibers (glass, carbon, or aramid) individually or in combination, embedded in a polymer matrix (polyester, vinylester, epoxy or phenolic).

The pultrusion process starts by pulling/drawing continuous reinforcements through a resin impregnation system. The coated fibers are passed through preforming guides to align reinforcement and preform the part to the desired shape before entering the heated die. The fully cured section can be cut to length downstream of the pulling mechanism by a circular saw or, if size and shape permit, be wound onto a drum as a continuous length. The only limitations on length for cut sections are storage and transportation.

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

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

**Spray-up**
Spray up is an open mold process involving simultaneous deposition of chopped fiber and resin in a cavity mold or mandrel to build an intimately mixed layer of the two.

# Tailor-made solutions

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