

## **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 ("the code") issued by the Securities Market Association and which came into effect on 1 October 2010. This Corporate Governance Statement has been prepared in accordance with the Recommendation 54 of the Code. The code is available at [www.cgfinland.fi](http://www.cgfinland.fi).

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

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](http://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 decides on the President and CEO's salary.

The Board monitors the Company's financial position with the help of information provided by the Group Management Team. Sufficient information including the agenda for the

Board meetings with all relevant information on the Company's structure, operations and markets is 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 Board'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 Board did not propose any changes of the Board in 2012, and the all-male Board was elected to continue one more year. The Nomination Board is searching for female candidates that have industrial experience from businesses similar to 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 of Directors 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 Board for the preparation of a proposal for election of Board members and fees to be paid to the Board members to be presented to the Annual General Meeting. The Nomination Board comprises the Chairman of the Board and the persons selected by the four largest shareholders (as of the shareholder register situation on 1 November preceding the Annual General Meeting).

In 2012, the Shareholders' Nomination Board comprised Tomas Billing as chairman (Nordstjernan AB), Matti Rusanen (Ilmarinen Mutual Pension Insurance Company), Samuli Sipilä (OP Fund Management), Erkki Myllärniemi (Ulkomarkkinat Oy) and Peter

Hofvenstam, the Chairman of the Board of Directors, acting as an expert member. The Nomination Board met three times in 2012.

Tomas Billing was born in 1963. He holds an M.Sc. in Economics. He is CEO of Nordstjernan AB.

Matti Rusanen was born in 1961. He holds an M.Sc. in Agriculture and Forestry. He is Head of Listed Securities of Ilmarinen Mutual Pension Insurance Company.

Samuli Sipilä was born in 1968. He holds an M.Sc. in Economics & Business Administration. He is Managing Director of OP Fund Management Company Ltd.

Erkki Myllärniemi was born in 1948. He is Managing Director of Umo Capital Oy.

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

### *Members of the Board*

On 29 March 2012 the Annual General Meeting re-elected all the members: Heikki Hiltunen, Peter Hofvenstam, Göran Jönsson, Reima Kerttula and Heikki Mairinoja to the Board of Directors. 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.

Heikki Hiltunen was born in 1962. He holds a B.Sc. in Engineering. He is Executive Vice President and Deputy to CEO of Vacon Plc.

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.

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 2012, Exel Composites' Board of Directors has evaluated the Board members' independence of the Company in accordance with Recommendation 15 of the Corporate Governance Code. Heikki Hiltunen, 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 2013.

Further information on the Board (biographical details, holdings and compensation) is presented separately under the heading "Board of Directors" on page 38 of the Annual Report and on the Company website at [www.exelcomposites.com](http://www.exelcomposites.com).

#### *Work of Board of Directors in 2012*

The Board of Directors convened 11 times in 2012 and the average attendance rate at these meetings was 96 per cent.

Besides the regular annual Board work during the financial year 2012, the key priorities in 2012 included continued measures to protect the financial fundamentals and to reinforce the financial position with the weakening of the market environment and the deepening of the global recession, to reinforce the focus on the core composite business, to develop the Group organization, to accelerate the sales force activities and to refine the Group strategy.

#### **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 Composites' President and CEO. He was born in 1962 and holds an M.Sc. in Economics.

The 2012 information on the President and CEO (biographical details and holdings) is presented separately under the heading "Group Management Team" on page 40 of the Annual Report and on the company website at [www.exelcomposites.com](http://www.exelcomposites.com).

#### **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 Decision Making and Signature Policies.

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

The consolidated financial statements of Exel Composites have been prepared in compliance with International Financial Reporting Standards (IFRS), applying IAS and IFRS standards, as well as SIC and IFRIC interpretations, valid on 31 December 2012. 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.

In 2011 Exel Composites launched ExelWay-project, which was continued in 2012. The project targets improving co-operation between units and harmonizing and developing processes between the units. The project aims at identifying, sharing and taking into use best practices from the different units of the Group. The first improved practices were taken into use in 2012 and the development work will continue in the years to come.

Sales process evaluation started in 2012 with the identification of key risks and definition of appropriate control measures followed by unit level reviews aimed at establishing the current status and adequacy of controls as well as establishing improvement actions when necessary. Guidance was reviewed to avoid credit risks and contract liabilities. Group Controller function will monitor the progress of and drive internal control improvements in line with the action plans in the course of financial reporting controls reviews.