



## **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 issued by the Securities Market Association applicable at any time. This Corporate Governance Statement is prepared pursuant to the Finnish Corporate Governance Code effective as from 1 October 2010 ("the code"). The code is available at [www.cgfinland.fi](http://www.cgfinland.fi).

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.

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

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

## **General Meetings**

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

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

## **The Board of Directors**

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

In addition to the Finnish Companies Act, other applicable legislation and the Articles of Association, Exel Composites' Board of Directors has confirmed a written charter that specifies the Board's duties, matters to be handled, meeting practice and decision-making

process. The charter is reviewed and updated annually in the first meeting following the election of the Board in the AGM. Board meetings are attended by the President and CEO and the CFO, who acts as the secretary of the Board.

The Board of Directors is responsible for the management of the Company and the proper organization of its activities in accordance with the Finnish Companies Act and the Company's Articles of Association. The Board's principal duties include confirmation of the corporate strategy and budget by function, and decisions on funding agreements, major investments and the purchase or sale of assets. The Board approves interim reports, financial statements and the report on operations, appoints and dismisses the President and CEO and decides on the President and CEO's compensation. The Board also approves the composition and remuneration of the Group Management Team upon proposal by the President and CEO.

The Board monitors the Company's financial position with the help of information provided by the Group Management Team. Sufficient information including the agenda for the Board meetings with all relevant information on the Company's structure, operations and markets is usually distributed at least 7 days before the meeting. The Board of Directors holds at least seven ordinary meetings per year.

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

The Board evaluates the independence of each member of the Board at the first meeting following the AGM, and thereafter each time any change occurs.

According to the Corporate Governance Code Recommendation 9, both genders shall be represented on the Board. Exel Composites' Board had a female member until the Annual General Meeting held on 17 March 2016, but she had announced not to be available for re-election in 2016. The Nomination Board was unable to find 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.

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

## **Members of the Board**

On 17 March 2016 the Annual General Meeting appointed Heikki Hiltunen, Matti Hyytiäinen and Reima Kerttula to continue on the Board of Directors. Petri Helsky and Jouko Peussa were elected as new members of the Board of Directors. Peter Hofvenstam and Kerstin Lindell were no longer available for re-election. The Annual General Meeting elected Reima Kerttula as Chairman of the Board of Directors and Matti Hyytiäinen as Vice Chairman of the Board of Directors.

Reima Kerttula was born in 1955. He holds an M.Sc. in Engineering. He is COO of the holding company and Managing Director of the operative companies of Amerplast Ltd. Reima Kerttula is independent of the Company and its major shareholders. On 17 March 2016 his holdings were 3,685 Exel Composites shares.

Heikki Hiltunen was born in 1962. He holds a B.Sc. in Engineering. He is SVP Sales, Marketing and Service for Danfoss Drives at Danfoss. Heikki Hiltunen is independent of the Company and its major shareholders. On 17 March 2016 his holdings were 3,685 Exel Composites shares.

Matti Hyytiäinen was born in 1960. He holds an M.Sc. in Economics. He is President and CEO of PKC Group Plc. Matti Hyytiäinen is independent of the Company and its major shareholders. On 17 March 2016 his holdings were 773 Exel Composites shares.

Petri Helsky was born in 1966. He holds and M.Sc. in Economics and an M.Sc. in Engineering. He is CEO of Metsä Tissue. Petri Helsky is independent of the Company and its major shareholders. On 17 March 2016 he had no Exel Composites holdings.

Jouko Peussa was born in 1957. He is Licenciante of Technology. He is Engineering and Technology Director at Ingersoll Rand Compression Technologies. Jouko Peussa is independent of the Company and its major shareholders. On 17 March 2016 he had no Exel Composites holdings.

The term of the current Board members will expire at the end of the AGM 2017.

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

### **Work of Board of Directors in 2015**

The Board of Directors convened 9 times in 2015 and the average attendance rate at these meetings was 96.3 per cent.

Attendance of Board members at Board meetings in 2015:

<b>Name</b>	<b>Position</b>	<b>Board Meetings</b>
Peter Hofvenstam	Chairman	100% (9/9)
Heikki Hiltunen	Member	89% (8/9)
Matti Hyytiäinen (as from 26.3.2015)	Member	100% (8/8)
Reima Kerttula	Member	100% (9/9)
Kerstin Lindell	Member	89% (8/9)
Göran Jönsson (until 26.3.2015)	Member	100% (1/9)

Besides the regular annual Board work during the financial year 2015, the key priorities included supervision of the implementation of the Company's new growth strategy, including supervision of the reinforcement of the organization and acceleration of the sales force activities.

### **Auditor**

Company auditor is elected annually by the Annual General Meeting based on the proposal by the Board of Directors.

Ernst & Young, Authorized Public Accountants, with Juha Hilmola, APA, as principal auditor, were elected to serve as company auditor in the AGM in 2016.

The fees paid to the auditor for audit services totaled EUR 190 (163) thousand and for non-audit services EUR 123 (51) thousand in 2015 (2014).

## **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, preparations for acquisitions and implementation of strategic projects, the increase in shareholder value, profitability and efficiency of operations, and investments within the limits defined by the Board.

The Board of Directors has adopted Rules of Procedure for the 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.

Riku Kytömäki is Exel Composites Plc's President and CEO. He was born in 1971 and holds an M.Sc. in Electrical Engineering. At the end of 2015 Riku Kytömäki's holdings were 13,350 Exel Composites shares.

## **Group Management Team**

The President is supported by the Group Management Team. The Group Management Team includes, in addition to the President and CEO as chair, the CFO, the SVP Human Resources, the SVP Operations, the SVP R&D and Technology, the SVP Sales and Marketing and the SVP Strategic Projects. The Team meets 8 to 10 times a year. The duties of the Group Management Team include, in addition to daily running of the business and development of all areas of the business in line with the approved strategy, also drawing up business and strategic plans and implementing the approved plans.

Mikko Kettunen is SVP & CFO. He is in charge of finance and controlling, administration and maintenance and development of IT-systems. He is secretary to the Company's Board of Directors. At the end of 2015 Mikko Kettunen held 1,000 Exel Composites shares.

Tiina Hiltunen is SVP Human Resources. She is in charge of leading the HR-function and creating, establishing and implementing the HR-strategy, -processes and -procedures globally. At the end of 2015 Tiina Hiltunen had no Exel Composites holdings.

Callum Gough is SVP Operations. His areas of responsibility are continuous productivity improvement, quality, environment and safety, strategic purchasing, investments and strategic site planning. At the end of 2015 Callum Gough held 17,837 Exel Composites shares.

Kim Sjö Dahl is SVP R&D and Technology. He is responsible for Group-wide development of products, product platforms and product technology and tooling. He is also in charge of leading, coordinating and developing product development activities in the Group. He also leads R&D and IPR management activities. At the end of 2015 Kim Sjö Dahl held 9,000 Exel Composites shares.

Kari Loukola is SVP Sales and Marketing. He is responsible for sales and marketing, leading and management of sales organization and development of the marketing function. At the end of 2015 Kari Loukola's Exel Composites holdings were 4,000 shares.

Ilkka Silvanto is SVP, Strategic Projects and Legal Counsel. He is in charge of strategic projects and legal matters. At the end of 2015 Ilkka Silvanto owned 16,496 Exel Composites shares.

### **Significant related-party transactions**

Exel Composites' permanent public insiders include Exel Composites' Board members, the President and CEO, the members of the Group Management Team and the audit firm's auditor with principal responsibility for Exel Composites. No significant related-party transactions were conducted by the Group or the permanent insiders in 2015.

### **Shareholders' Nomination Board**

Exel Composites' shareholders have considered it essential that the Annual General Meeting annually appoints a Shareholders' Nomination Board for the preparation of a proposal for election of Board members and fees to be paid to the Board members to be presented to the Annual General Meeting. The Nomination Board is elected annually by the Annual General Meeting on proposal of the Board of Directors. The Nomination Board consists of the representatives of the four largest shareholders and of the Chairman of the Board of Directors, acting as an expert member. The Company's largest shareholders entitled to appoint members to the Nomination Board are determined on the basis of the registered holdings in the Company's shareholder register held by Euroclear Finland Oy as of the 1st working day in October preceding the next Annual General Meeting. Should a shareholder not wish to use its right to nominate, this right will be passed on to the next largest shareholder.

If a shareholder who has distributed his/her holdings e.g. into several funds and has an obligation under the Finnish Securities Markets Act to take these holdings into account when disclosing changes in his/her share of ownership, or whose holdings are nominee registered, makes a written request to such effect to the Chairman of the Board of Directors by 30 September 2016, such shareholder's holdings in several funds or nominee register will be considered together with the potential directly registered holdings of said shareholder when calculating the share of votes which determines the nomination right. The request must be accompanied by sufficient evidence of title to the nominee registered

shares or of the obligation to take the holdings into account under the Finnish Securities Markets Act

In 2015, the Shareholders' Nomination Board comprised of Ted Roberts (Nordea) as chairman, Tuomas Virtala (Danske Capital Finland), Henrik Viktorsson (Alandia Insurance), Kalle Saariaho (OP Financial Group) and Peter Hofvenstam, the Chairman of the Board of Directors, acting as an expert member. The Nomination Board met five times.

Ted Roberts was born in 1974. He holds an M.Sc. in Technology. He is Head of Finnish Equities at Nordea Asset Management.

Tuomas Virtala was born in 1974. He holds an M.Sc. in Finance and a BA (Hons) in European Business. He is Head of Danske Capital Finland.

Henrik Viktorsson was born in 1975. He holds an M.Sc. in Economics. He is Senior Portfolio Manager and Deputy Chief Investment Officer at Alandia Insurance.

Kalle Saariaho was born in 1972. He holds an M.Sc. in Economics. He is Director, Investment Products and CEO, OP Fund Management Co at OP Financial Group.

### **Internal control**

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

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

Exel Composites has established a Controller's manual (accounting and reporting rules), which is regularly updated and communicated throughout the organization. Other internal policies and rules related to the financial reporting process include 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 2015. The notes to the consolidated financial statements are also in compliance with the Finnish Accounting and Companies Acts.

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

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

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

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

In 2015 Exel Composites started fully implementing the new strategy that was launched in late 2014. The cornerstones of the new strategy to generate next level growth are: 1) Accelerate growth in China, 2) Penetrate new applications, 3) Create true local footprint, and 4) Grow in new technologies. The Company wants to differentiate from its competitors by providing clear value propositions, local presence globally, top-quality service and world-class operations. During 2015 the Company has advanced these strategic initiatives by strengthening the organization, developing competencies, improving processes, adding

flexibility and increasing production capacity in order to pursue organic and in-organic growth. M&A screening activities continued throughout the year. Operations were improved in many fronts, including supply chain management, health & safety, on-time-delivery (OTD) promptness to clients and continued implementation of the new global ERP.

## **Risk management**

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

The Board of Directors governs the risk management of the Company through a risk management policy. In addition, the Board of Directors makes a risk assessment as part of the review and approval process of each set of quarterly and annual financial statements. Risk factors are also considered by the Board in connection with any future guidance disclosed by the Company.

The operative risk management, including risk monitoring, is part of the key duties of the operative management. Whereas risks are considered in conjunction with each business decision, they are also monitored by the managing director and other group management on a monthly basis when the team reviews the business development and any near and long-term risks upon presentation of the business unit heads and controllers.

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

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

Strategic risks also include risks related to acquisitions where the realized level of benefits and synergies may differ from the planned. Furthermore, continuing low demand in the Australian market may require such further corrective actions that could result in non-recurring items.

The most significant operational risks relate to product development and sales as well as production. Exel Composites' product range is very broad and often customer customized, which adds complexity to the product development and production. Designing, producing and selling a product that does not meet the requirements agreed with a client could potentially lead to substantial losses and damages. In addition, availability of skilled employees, protection of self-developed proprietary technology, fraud, availability and pricing of key raw materials and health problems due to long-term exposure to chemicals belong to the most significant operational risks. Pre-emptive management of operative



risks through careful contracting as well as appropriate business processes and working instructions are in key roles to prevent possible damages.

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 primarily by natural hedging or by using derivative instruments. Credit insurance is in place to cover risks related to trade receivables.

Hazard risks, such as damages caused to property because of fire or chemical spill, as well as losses resulting from related business interruptions, are mainly covered by insurance policies. This type of risks are also regularly audited by third parties that provide recommendations for improvement to reduce risk probability.

### **Insider issues**

Exel Composites' Board of Directors has adopted an Insider Policy, which complies with the insider guidelines of Nasdaq Helsinki. The policy contains regulations on insider information, prohibition against abuse of insider information, insider registers, trading restrictions applying to insiders, and insider management.

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