ANNUAL FINANCIAL REPORT 2017





EXEL COMPOSITES IN BRIEF

Exel Composites is a leading composite technology company that designs, manufactures and markets composite products and solutions for demanding applications. Exel Composites provides superior customer experience through continuous innovation, world-class operations and long-term partnerships.

The core of the operations is based on own, internally developed composite technology, product range based on it and 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 employees' expertise and high level of technology play a major role in Exel Composites' operations. Exel Composites Plc share is listed in Nasdaq Helsinki Ltd.

For more information, please visit us at www.exelcomposites.com.

INFORMATION TO SHAREHOLDERS

Annual General Meeting 2018

The Annual General Meeting will be held on Thursday 22 March 2018 at 10:00 EET at Radisson Blu Royal Hotel at the address of Runeberginkatu 2, Helsinki, Finland.

Dividend

The Board of Directors proposes that a dividend of EUR 0.30 (0.10) per share be paid for the financial year 2017.

The dividends' record date is Monday 26 March 2018 and payment date Wednesday 4 April 2018.

Financial calendar 2018

Exel Composites publishes the following financial reports in 2018:

- Financial Statements Release 2017: 16 February 2018
- Business Review January - March: 9 May 2018
- Half Year Financial Report January - June: 24 July 2018
- Business Review January - September: 31 October 2018

The Annual Financial Report, Corporate Governance Statement and Remuneration Statement for 2017 are available in electronic format at the company's website www.exelcomposites.com.

    

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CEO REVIEW

I am delighted to say that the year 2017 was in many ways a very good year for Exel Composites. Both revenue and adjusted operating profit increased significantly compared to 2016, first and foremost as a result of our strategic efforts, improved operational efficiency and continued tight cost control, but also reflecting signs towards a general market recovery.

All our markets and customer segments performed well in 2017. From the customer segment point of view, Industrial Applications continued to drive revenue growth. Construction & Infrastructure also delivered significant growth, supported by an increasing number of industrial investments and projects. In terms of regions and markets, our main market area Europe continued its steady revenue growth. China and the Asia-Pacific (APAC) region contributed however most to revenue growth. In addition to significant organic growth, the Nanjing Jianhui business, which was acquired in April 2017, had a substantial positive impact on APAC revenue.

"Our adjusted operating profit for 2017 more than doubled compared to previous year."

We took good steps forward in the implementation of our strategy in 2017. This translated into increased revenue, which together with further operational efficiency improvements were the main factors behind a more than doubled adjusted operating profit.

The Nanjing Jianhui acquisition was an important milestone, ticking practically all of the boxes in terms of our strategic growth initiatives – expanding into China, creating true global footprint, as well as expanding into new technologies and new applications. The acquisition clearly strengthened our position in China and in APAC and improved our export capacity to other markets. We expanded our manufacturing capacity, local sales coverage as well as local product development capabilities. Our production capacity in China now adequately responds to the increasing demand for advanced composites in the APAC region. Also the APAC reorganization, the successful downsizing and ceasing of production in Australia as well as new customer acquisition and new business especially in China all contributed to revenue growth and profitability improvement.

"We took good steps forward in the implementation of our strategy in 2017."

Across the Group, we extended also our technology capabilities in product design and composite production, e.g. strengthening the R&D organization, developing advanced laminate products and producing long-length carbon fiber products. Active development work was also done to penetrate new applications, leading to growth in new mid-segment applications. Additionally Exel has increased further processing capabilities, for example in terms of CNC- machining.

At the end of 2017 we confirmed our overall strategic direction for the next three years. Going forward we will have an increased focus on high growth segments. We believe high growth can be found especially in construction, transportation, energy and telecommunications segments over the next few years. Within these segments global megatrends such as urbanization and sustainability increase demand for advanced composites. Increased energy efficiency requirements, escalating need for anti-corrosive applications and increasing demands on telecommunication networks due to digitalization mean that in the future the choice of material will matter more than ever. Our ambition is to leverage on these trends by offering our knowledge on composites and providing attractive products that fit the demand. We will continue to build leadership in China and expand our global coverage, both organically and through potential acquisitions. Growth in mid-segment is also strategically important to us, since these products contribute positively to the operating profit through higher volumes and by broadening our customer base.

"Going forward we will have an increased focus on high growth segments such as construction, transportation, energy and telecommunication."

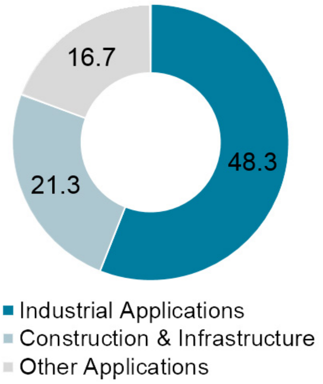
Superior customer service and efficient, world-class operations are important differentiators for us also in the future. This means striving to be fast, flexible and responsive throughout our organization. Our corporate values – Customer focus, Integrity, One Exel, Caring People and Innovation – provide us the common framework that is necessary when taking Exel to the next level.

I would like to say a warm thank you and express my appreciation to all Exel Composites' employees for their commitment and hard work – we can all be very happy with our achievements in 2017. Thank you also to our dear customers, business partners and shareholders. Now let's make 2018 as good – and even better!

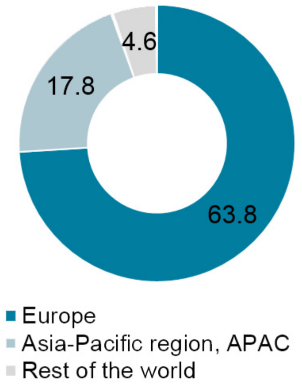
Riku Kytömäki
President and CEO

KEY FIGURES 2017

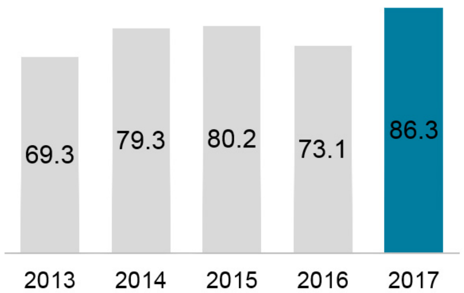
Revenue by customer segment, EUR million



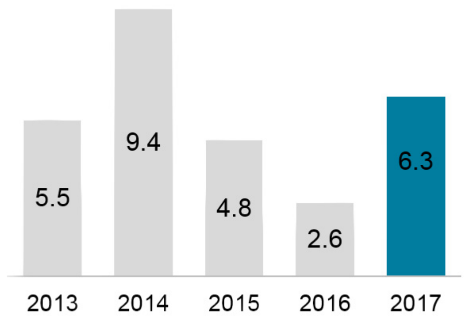
Revenue by region, EUR million



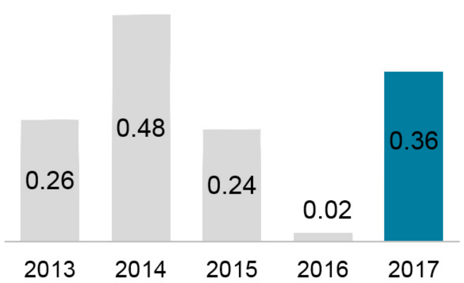
Revenue, EUR million



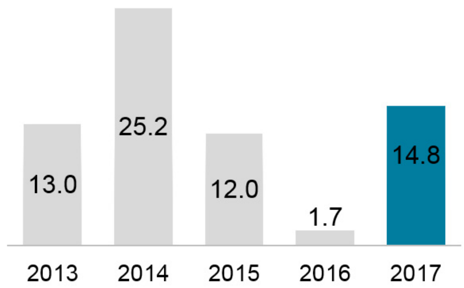
Adjusted operating profit, EUR million



Earnings per share, EUR



Return on capital employed, %



CONSOLIDATED FINANCIAL STATEMENTS 2017

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BOARD OF DIRECTORS' REPORT

Business model

Exel Composites is a leading composite technology company that designs, manufactures and markets composite products and solutions for demanding applications. The core of the operations is based on own, internally developed composite technology which has been perfected over decades through a firm focus on innovation. Composites are fiber reinforced plastics that gain their undeniable qualities based on low weight, strength and durability depending on determined mechanical and chemical conditions. Consequently, the high level of technology and employee expertise play a major role in the company's operations.

Exel Composites operates globally, serving customers in diverse segments, such as construction, energy, transportation industries and telecommunication, among other. The product portfolio is composed of both tailored and standardized products, such as profiles, tubes and laminates that often form parts of an end product. Additionally the company produces a number of complete end products and systems.

The company has a global supply chain and sources its raw materials from multiple sources from various countries and continents, when possible. The main raw material categories are fiber reinforcements, such as glass and carbon fibers, and matrix systems, such as polyester, epoxy and vinyl ester resins. Natural fibers as well as bio-resins are also increasingly used.

Market environment

Exel Composites is a global player in the composites market, serving customers from diverse segments grouped into three customer segments. Industrial Applications, which includes telecommunication, paper, electrical, machine and transportation industries, is the largest and represents approximately half of Exel's total revenue. The other two customer segments – Construction & Infrastructure and Other Applications – are more or less similar in size. Construction & Infrastructure includes building and construction industry, infrastructure and energy industry. Other Applications comprises areas such as cleaning and maintenance, sports and leisure as well as other industries.

Exel's customer base is geographically widespread with customers worldwide. Europe is Exel's largest and main market area, followed by the rapidly growing Asia where increasing number of business opportunities are seen. Particularly in China global megatrends are strongly driving growth and presenting new business opportunities.

Demand for composites during the financial year developed positively in all Exel Composites' market areas. In Europe the increasing number of industrial investments was behind the general positive development of the economy, which consequently had a positive impact on Exel's business volumes. In 2017 also the Asia-Pacific (APAC) region was a major contributor to revenue growth, including the Nanjing Jianhui unit acquired in April. The region Rest of the World represents only a minor part of Exel's total revenue, but revenue from this region also doubled during the financial year.

The customer segment of Industrial Applications continued to drive growth in the financial year. Strong order intake and revenue increase were a result of focused efforts in new customer acquisition especially in the mid-segment. Also Construction & Infrastructure and Other Applications grew during 2017. The focus areas going forward and where most growth opportunities are seen in the short and mid-term are energy, transportation and construction industries.

In the very fragmented composites market, Exel Composites is a large, global player with leading and established market positions. In general the company estimates that Exel's market shares in key customer segments have remained at the same level or increased compared to previous year. Interest towards composite materials is steadily growing along with growing quality and environmental awareness. Global megatrends such as urbanization, demographic change, sustainability and total life cycle cost management bring new business opportunities in the long-term in all Exel's customer segments and market areas. For example, increased energy efficiency requirements especially within the transportation industry, escalating need for anti-corrosive applications and greater focus on life cycle costs in the construction industry as well as increasing demands on telecommunication networks due to digitalization are all increasing demand for advanced composite products.

Revenue by customer segment

EUR thousand	1.1.-31.12.2017	1.1.-31.12.2016	Change, %
Industrial Applications	48,249	40,297	19.7
Construction & Infrastructure	21,266	17,456	21.8
Other Applications	16,740	15,326	9.2
Total	86,255	73,079	18.0

Revenue by region

EUR thousand	1.1.-31.12.2017	1.1.-31.12.2016	Change, %
Europe	63,828	59,636	7.0
APAC	17,824	11,274	58.1
Rest of world	4,603	2,170	112.1
Total	86,255	73,079	18.0

Order intake and order backlog

Order intake for the full year 2017 was EUR 86.5 million (74.8), and increased 15.7% compared to 2016. The Group's order backlog on 31 December 2017 increased to EUR 17.1 million (16.7).

Revenue

Group revenue for the financial year amounted to EUR 86.3 million (73.1), and increased by 18.0% compared to 2016. Revenue growth was impacted mainly by growth in delivery volumes by 24.6%, acquisitions (Nanjing Jianhui) by 9.3%, a negative impact from changes in the sales mix of 14.9%, and exchange rates effects of -1.0%.

Industrial Applications was the main growth driver in 2017 and revenue increased compared to last year by 19.7% to EUR 48.2 million (40.3). The increase was mainly driven by new customer acquisition and increased mid-segment sales. General market recovery, despite some prevailing uncertainties, supported the increase in business volumes. The demand of the project driven Construction & Infrastructure customer segment showed improvement throughout the financial year period, and revenue grew by 21.8% to EUR 21.3 million (17.5). Also revenue for Other Applications grew by 9.2% from previous year to EUR 16.7 million (15.3).

In our main market Europe revenue increased by 7.0% to EUR 63.8 million (59,6) driven by industrial investments, which have generally started to pick up in the region. Revenue for APAC region grew by 58.1% to EUR 17.8 million (11.3). A major contributor to the region's revenue growth was the Nanjing Jianhui business, acquired in April, which performed according to expectations. Revenue for region Rest of the World increased during the period under review by 112.1% to EUR 4.6 million (2.2).

Operating profit

In 2017 and compared to previous year, operating profit increased to EUR 6.1 million (0.6), 7.1% (0.9) of revenue. Adjusted operating profit (excluding material items affecting comparability, such as restructuring costs, impairment losses and reversals, and costs related to planned or realized business acquisitions or disposals) was EUR 6.3 million (2.6), 7.3% (3.6) of revenue. Operating profit improved significantly due to increased topline, APAC business reorganization, operational efficiency and continued tight cost control.

In 2017 EUR 0.4 million of one-off expenses related to M&A screening activities and EUR -0,1 million restructuring costs were recorded in the group accounts.

The Group's net financial expenses in 2017 were EUR -0.7 million (0.0). The Group's profit before taxes was EUR 5.3 million (0.7) and profit after taxes EUR 4.2 million (0.2).

Adjusted operating profit

EUR thousands	1.1. -31.12.2017	1.1. -31.12.2016
Operating profit	**6,081**	**649**
Restructuring costs	-149	1,508
Impairment losses and reversals	0	0
Costs related to planned or realized business acquisitions and disposals	387	464
Sale of intangible and tangible assets	0	0
Expenses related to changes in legislation or legal proceedings	0	0
Adjusted operating profit	**6,319**	**2,621**

Financial position

Net cash flow from operating activities for 2017 was EUR 4.9 million (3.1). Cash flow before financing, but after capital expenditure, amounted to EUR -3.7 million (0.0). The capital expenditure on fixed assets amounted to EUR 8.5 million (3.1). Capital expenditure was financed with cash flow from business operations and interest bearing loans. At the end of the financial year, the Group's liquid assets stood at EUR 7.6 million (6.9). Total depreciation, amortization and impairment of non-current assets during the financial year amounted to EUR 3.2 million (3.2).

The Group's consolidated total assets at the end of the financial year were EUR 64.4 million (53.1). Interest bearing liabilities amounted to EUR 16.4 million (10.2). Net interest bearing liabilities were EUR 8.7 million (3.3).

Equity at the end of 2017 was EUR 28.8 million (27.0) and equity ratio 44.8% (51.3). The net gearing ratio was 30.3% (12.2). Fully diluted total earnings per share were EUR 0.36 (0.02). Return on capital employed in 2017 was 14.8% (1.7). Return on equity was 15.1% (0.7).

The company paid total dividends during the financial year of EUR 1.2 million (2.6). Dividend per share was EUR 0.10 (0.22).

Business development and strategy implementation

Exel Composites' target is to deliver profitable growth and to be an efficient company in terms of its capital expenditure. At the end of 2017 the company's overall strategic direction was confirmed for 2017-2020. The strategy is based on five pillars: 1) protect and grow our stronghold customers providing competitive edge and best customer service, 2) building leadership in China, 3) penetrating growing/ new applications, 4) creating true global footprint and 5) growth in new technologies.

An important milestone concerning the ambition to create true global footprint was achieved in 2017 through the acquisition of the Chinese composites production business, Nanjing Jianhui Composite Material (JHFRP). The transaction was announced in October 2016 and closed in April 2017. The unit was consolidated into group accounts as of May 2017. The integration of the business to the Group was carried out during the year according to plan. The acquisition of Nanjing Jianhui strengthened Exel's position in China as well as in the APAC region and improved the company's export capacity to other markets. The Nanjing Jianhui unit performed according to expectations during the financial year and contributed to significant revenue growth in the APAC region.

The Nanjing Jianhui acquisition and the reorganization of the APAC business increased production capacity in China, which now adequately responds to the increasing demand for advanced composites in the APAC region. Downsizing of the Australian unit was completed during the financial year according to plan and improved the overall profitability of the region. By the end of 2017 all manufacturing was successfully transferred mainly to Exel's two production units in China.

Global M&A screening activities continued in 2017 in line with the company's strategy.

Continuous innovation and technological expertise in composites is one of Exel Composites' key strengths and strategic priorities. During the financial year, Exel has extended its capabilities in product design and composite production. These initiatives included strengthening of the R&D organization and development of advanced laminate products produced using a new double band press machine. Exel has also added capacity for further processing for example in CNC machining.

In 2017 active development work was done to expand new applications. Growth through new mid-segment applications during the financial year had a positive impact on financial results. Despite lower margin structure, the mid-segment products contribute positively to the operating profit through higher volumes and broaden the customer base. Exel Composites launched a development project for solutions in 5G telecommunication infrastructure in collaboration with other companies including Nokia. Exel also continued active development for long-length carbon fiber products.

In line with Exel Composites' aim to provide superior customer experience, in 2017 the company continued its work to increase operational efficiency and optimize internal processes in accordance to advanced quality systems. This has resulted in improved customer response and delivery accuracy. The implementation of the Group-wide ERP system continued during 2017 and rollout is expected to be completed in all units during 2018.

Research and development

Research and development costs for the financial year totaled EUR 1.9 million (1.7), representing 2.2% (2.4) of revenue.

Risk management

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

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

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

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

Strategic risks

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

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

Operational risks

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

Financial risks

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

Hazard and environmental risks

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

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

Major near-term risks and uncertainties

Exel Composites' most significant near-term business risk relates to the fact that a significant portion of revenue is generated from certain key clients and market segments, the negative development of which would deteriorate the company's profitability. Furthermore, a rapid increase of raw material prices could on the short term negatively impact the company's profitability, even if in the longer term it would improve the competitiveness of composite materials.

The company further continues the screening process of potential acquisition targets. The acquisition prices may be based on such benefits and synergies that will not materialize as planned.

Sustainability and corporate responsibility

In compliance with the Finnish Accounting Act and EU directive 2014/95/EU, Exel Composites discloses a statement on non-financial information as part of this Annual Financial Report and Board of Directors' Report herein. The Nasdaq ESG (Environment, Social and Governance) Guide was used as reference when compiling this report.

Sustainability is an important part of Exel Composites' business, both in relation with its own operations as well as through the products and solutions it produces. Exel is committed to responsible and sustainable operations through its core business values: customer focus, integrity, One Exel, caring people and innovation.

Exel Composites is a leading composite technology company that designs, manufactures and markets composite products and solutions for demanding applications. Exel's main stakeholders include customers, employees, business partners and suppliers, shareholders, the financial market, authorities, industrial associations and general community. The company's business model is described in further detail on page 8 under the heading "Business model".

Exel Composites' material sustainability topics, the related policies, main activities and outcomes in 2017 as well as key non-financial indicators are described below. The main risks related to the company, including risks related to sustainability, are evaluated by Exel's Board of Directors on a quarterly basis as part of its risk assessment process. The risk management process is described on page 10 under the heading "Risk management".

Environmental responsibility

Environmental aspects are a priority for Exel Composites and the company is committed to minimizing the environmental impact of its own operations as well as to making products that contribute to decreasing its customers' environmental footprint. Sustainability is a global megatrend that brings new business opportunities in the long-term in all Exel's customer segments and market areas.

Exel Composites' Quality, Environmental, Health and Safety (QEHS) Policy [1], Chemical Policy as well as the group Code of Conduct guide the company's measures related to quality and environmental impact. The company's operations are governed by national environmental permits and complies with the requirements of the standards ISO 9001 and ISO 14001. The group management as well as the group's Austrian, Belgian, British, Chinese (excluding Nanjing Jianhui, which was most recently acquired in April 2017), German and Finnish units have an ISO 14001 environmental certificate. The company's long-term target is to have all Group units certified. Exel Composites plays a leading role in industry associations such as EuCIA, European Composites Industry Association. This ensures the company is updated on the latest developments in environmental matters including advances in environmental technology and new regulatory measures.

Exel Composites' environmental risks are assessed as part of an overall group-wide quality management system. Environmental risks are also assessed on factory level during inspections and controls conducted by national authorities and certification audits. According to Exel Composites' risk assessment, fires, emissions or chemical leakages into the water or ground present the biggest environmental risks. These risks are mitigated through pre-emptive safety measures, such as regular employee trainings, safety equipment and gear, sprinkler systems as well as safe storing of risky chemicals.

Responsible products

Customers are at the center of all Exel Composites' business decisions. Designing, producing and selling a product that does not meet the agreed requirements could have negative impact on the company reputation. Exel is committed to providing them with safe and reliable products that contribute to sustainable development and help improve the environmental footprint of the end product. Ensuring the safety of all chemicals used in its products is a priority for Exel Composites. Many of the company's key customers also require Exel to comply with their Supplier Code of Conducts and audit Exel against their quality and safety requirements.

Exel Composites' products are mostly tailored according to customer requirements and developed "on-demand" in close cooperation and constant dialogue with customers. Optimized requirements translate into optimized use of materials. Typically Exel's products are composites reinforced with either glass or carbon fibers, however, an increasing

Reference to metrics in Nasdaq ESG Reporting Guide:
[1] Nasdaq E9 – Environmental policy

amount of natural fibers are also used. The decision concerning technology as well as on the materials used can significantly improve the environmental footprint of the end product, not only in the manufacturing phase, but also across the rest of its lifecycle.

Composites can replace traditional building materials such as steel, aluminum and concrete or add to their value when combined in a hybrid solution. Composites are much lighter than metals and therefore, in comparison to alternative materials, can result in lower installation and maintenance costs, easier handling, lower fuel and energy consumption over their lifecycle. Furthermore, composites are durable and non-corrosive with a long life span, which reduces the amount of energy intensive maintenance and the need for replacement. Exel's products are also used in sustainability enhancing technologies and solutions, such as wind energy and electric cars, among other.

Developing a reliable lifecycle assessment (LCA) method for composite products covering the whole lifecycle of a product is challenging as composites are often part of an end product. In 2017 Exel Composites actively participated in a EuCIA project that aims to develop a tool to help calculating the environmental impact of 'cradle to gate', i.e. the production phase of composite products' lifecycle. The first version the "EcoCalculator" was launched in 2017 and development continues in 2018.

Responsible operations

The company actively measures its energy use and takes measures to reduce consumption through improvements in operational efficiency and using heat recovering air exchange equipment, heat pumps, LED lighting and inverter controlled drives, where applicable. Exel Composites has also invested in a bio-fuel (pellet) operated district heating unit at the Joensuu site in Finland, which is the company's biggest production site. In 2017 the total use of energy decreased by 3.1% and was 18.7 mWh (19.3). The company's energy use in proportion to production decreased by 15.0% [2]. The company's largest production sites are situated in Northern locations, which is why heating has a major impact in the company's total energy use. Exel's long term target is to reduce its total use of energy.

Carbon dioxide formed in own use of fuels, transportation of materials and external power production represents most of Exel's greenhouse gas emissions. Being a fiber-reinforced plastics (FRP) manufacturer also entails emitting volatile organic compounds (VOC). Exel monitors and conducts tests on its VOC emissions, such as styrene, and invests in reducing them. The company has installed a bio-filter in Voerde, Germany, and in 2016 invested also in pilot bio-trickling filtration in Oudenaarde, Belgium.

As part of the regular production process, a certain amount of composite waste is inevitably generated. As Exel Composites produces products directly to customer needs, the amount of loss is highly dependent on the product mix and is therefore highly volatile. Exel has a waste management plan and continuously monitors the amounts of waste produced. The company is committed to re-using composite waste and where logistically possible, composite waste goes to recycling. In 2017 64.2% of all waste was recycled or re-used for energy. Exel is an active participant in programs to develop composite recycling where it is currently not possible, as well as an end-user of existing composite recycling solutions like CompoCycle. In 2017 the total amount of composites waste used in proportion to our production decreased 26.8% from last year [3].

Links to publicly available material at www.exelcomposites.com

- QEHS Policy: *Home > About Exel > Sustainability*
- Code of Conduct: *Home > About Exel > Code of Conduct*

Production KPI's*

	2017
Energy usage, change from 2016, %	-3.1
Composite waste per ton produced, change from 2016, %	-26.8
Reused waste, % of total	64.2

* Figures include production sites that have been operational as part of Exel Composites Group during all of 2017, i.e. excluding Nanjing Jianhui, which was acquired in April 2017, and the Australian unit, where operations were significantly downsized and ceased by the end of 2017.

Social responsibility

Responsible employer

General human resources management

A high level of technology and material knowhow is crucial for Exel Composites' business. It is therefore critical to ensure recruitment of skilled employees, relevant competence development, knowledge retention and knowledge transfer. Human resources (HR) are managed through the company's corporate values, Code of Conduct, the HR policy and HR strategy. For the ongoing strategy cycle, human resources focuses globally on four topics: individual and team performance, increased personal engagement and employee development, increased retention in a competitive talent market and improved attractiveness as an employer.

At the end of December 2017, Exel Composites employed 568 (455) people, of whom 230 (206) in Finland and 338 (249) in other countries. The average number of employees during the financial year was 532 (479). The number of employees of the Group grew during the financial year with about 90 employees due to the acquisition of Nanjing Jianhui Composite Material. In 2017 the employee turnover ratio was 14.9% [4].

In 2017 the annual Performance Development Reviews were carried out across the Group, covering 97% of all employees. The process allows employees together with their manager to evaluate individual performance, set targets, give feedback and identify career aspirations and potential. In 2017 trainings were carried out according to the identified needs and a "high potential" program was initiated as part of

Reference to metrics in Nasdaq ESG Reporting Guide:
[2] Nasdaq E3 – Direct & Indirect Energy Consumption
[3] Nasdaq E8 – Waste Management
[4] Nasdaq S3 – Employee Turnover Ratio

Exel-wide career planning. The program starts in 2018 and involves the focused development of six to seven selected employees through a two to three year period. In 2017 work was also done to develop the succession planning process to ensure a smooth transition from leaving employees to their successors. Currently the process covers senior management, but is also an important project group-wide to improve knowledge retention.

In 2017 Exel launched an initiative to implement a new, global HR management system. The target is to have it in use in first business units during 2018. The system will eventually cover all main HR processes and in its first phase includes employee core data collection that is further used to develop processes around performance management as well as training and development.

In 2018 Exel's target is to measure employee engagement with a survey. The previous survey was conducted in 2015.

Employee related KPI's

	2017	2016
Total, on average	532	479
Employees with permanent contract, %	95.1	96.0
Employees with temporary contract, % [5]	4.9	4.0
In Finland, %	40.5	45.3
In other countries, %	59.5	54.7

Safety KPI's

	2017	2016
Lost time injuries, LTI	20.07	31.34
Unsafe conditions	890	1,063

Occupational health and safety
A safe environment for our employees and neighbors at all locations is a priority for Exel Composites. The occupational health and safety issues are an integral part of responsible management and all the sites of the Group have a safety organization with defined responsibilities. The management of health and safety issues is based on identified risks and guided through the global Quality, Environmental, Health and Safety (QEHS) Policy [6], the company's Chemical Policy and the OHSAS 18001 standard. Accident prevention has a very important role in all units. Every lost time injury (LTI) is inspected and reported to top management. LTI is one of the main key performance indicators used for monitoring the operations of Exel [7]. All LTI's are also reported to other units to ensure the lessons learned are used to in order to prevent accidents elsewhere. Near-miss and unsafe condition reporting is used for accident prevention in all factories. All these are monitored and reviewed in monthly reports for top management.

The Group is continuously vigilant about updates in listings of chemical Substances of Very High Concern, such as in the REACH and RoHS declarations, in order to ensure it stays ahead of regulations. As about 50% of the employees are in daily contact with dangerous or flammable chemicals in their work, the main occupational health and safety risks relate to the possibility of fire or health problems due to allergies or long-term exposure.

The core of Exel Composites' health and safety efforts lies on preventive measures and reporting based on active risk assessments as well as internal and external evaluations. In 2017 the company continued to monitor the quality of breathing air in all sites. Exel has defined a limit that is among the strictest in the world amongst pultrusion companies for allowed styrene concentration in the air. Low concentration is maintained by efficient ventilation in all factory sites. Employees' styrene exposure is monitored by regular mandelic acid tests (urine samples) and taking the necessary measures if any high or increased levels are found.

In 2017 Exel continued with regular safety training for all employees. These include fire extinguishing, first aid as well as working with dangerous chemicals. All employees and visitors alike are provided with appropriate safety gear whenever in factory premises. In compliance with local regulations, all sites have Health & Safety Committees that during 2017 continued their work with local safety topics. These included preventive wellness and employee wellbeing, for example, through the implementation of an early intervention model and efforts to create a more enjoyable workplace through improvements of the working environment.

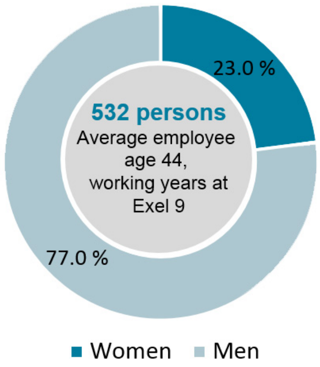
Diversity and non-discrimination
Exel Composites' corporate values and Code of Conduct [8] state that everybody shall be treated with fairness, respect and dignity in the workplace and beyond by management and fellow employees. The company follows a zero tolerance policy for discrimination. All employees are expected to report any discriminant behavior or other Code of Conduct violations using for example an anonymous "Report misconduct"-form, which is available at the company's website.

Reference to metrics in Nasdaq ESG Reporting Guide:
[5] Nasdaq S5 – Temporary Worker Ratio
[6] Nasdaq S8 – Global Health Policy
[7] Nasdaq S7 – Injury Rate
[8] Nasdaq S6 – Non-Discrimination Policy

Diversity is encouraged and respected in the work place, all recruiting decisions [9] as well as in the composition of the company's Board of Directors. The shareholders' Nomination Board shall follow Exel's principles of diversity in making their proposal to the Annual General Meeting regarding members to Exel's Board of Directors [10].

During 2017 no incidents related to harassment or discrimination were reported. While the "Report misconduct"-channel is already available for all employees, an intensified communications process shall be initiated in 2018. The purpose is to ensure that all current and new employees are aware of the existence of this tool and the related process.

Employee diversity



Human rights in own operations and supply

Exel Composites' corporate values and Code of Conduct state that the company supports and respects the protection of human rights in all its operations, including its supply chain, and follows global human and labor rights conventions. No form of forced or child labor is tolerated in the Group nor from any of its business partners or third parties associated with the Group.

The Group sources components and materials for its manufacturing processes from multiple sources and multiple countries. A majority of the company's supply chain is composed of large, international manufacturers or their distributors, that often have established processes and high sustainability standards and therefore are considered low risk in relation to human rights violations. The majority of Exel's own production units are located in countries where risk for human rights violations is generally considered low. The slightly increased risk that is presented in China, where the company has two production units, is mitigated through a dedicated local supply chain organization. All suppliers are chosen with care and on the basis of objective factors such as quality, reliability, delivery and price, in addition to ethical standards and sustainability. Exel Composites has currently no Supplier Code of Conduct, but expects its suppliers and contractors to demonstrate similar high ethical standards, compliance with Exel's Code of Conduct and with appropriate legislation and regulation. The company conducts audits of existing suppliers primarily through factory visits. Audited suppliers are selected based on purchase volume, the criticality of the supplier as well as its location. In case of violations action is taken either to allow time for corrective action or to terminate the relationship.

In 2017 there were no reported human rights violations in Exel's own operations nor within the company's supply chain [11].

In 2018 a process shall be initiated to confirm the suppliers comply with Exel's requirements regarding human rights and other Code of Conduct topics, including chemical safety regulations. In addition, the supplier auditing process will be further developed.

Links to publicly available material at www.exelcomposites.com

- Code of Conduct: *Home > About Exel > Code of Conduct*
- QEHS Policy: *Home > About Exel > Sustainability*
- Corporate values: *Home > About Exel > Vision, strategy and values*
- Principles of diversity for the Board of Directors: *Home > Investors > Governance > Board of Directors > Principles of diversity*

Corporate Governance

Corporate responsibility governance and compliance

Based on the principle of separation of powers [12] the Board of Directors is Exel Composites' highest governance body in relation to sustainability issues and is responsible for the management of the company and governs the risk management of the company through a risk management policy.

The Board of Directors makes quarterly risk assessments as part of the review and approval process of each set of half year financial reports, business reviews and annual financial statements. Risk factors are also considered in connection with any future guidance disclosed by the company. The material sustainability topics are validated by the Board of Directors and the related reporting of Exel Composites is annually reviewed alongside the publication of the company's Annual Financial Report and signed by the Board of Directors.

Exel Composites is committed to exercising high standards of integrity and following ethical business principles through its corporate values, Anti-corruption Policy and Code of Conduct [13]. A process to update the Code of Conduct was initiated at the end of 2017 and the revised version is to be adopted in spring 2018. At that time an initiative will also be launched to ensure a more systematic familiarization of all current and new employees with the Code of Conduct, the Anti-corruption Policy and the "Report misconduct" channel.

Corporate Governance Statement

Exel Composites issues a Corporate Governance Statement for the financial year 2017 prepared in accordance to the Finnish Corporate Governance Code issued by the Securities Market Association, effective as of 1 January 2016. The Corporate Governance Statement is issued separately from the Board of Directors' Report. Further information concerning corporate governance matters is available at Exel Composites' website at www.exelcomposites.com.

Anti-corruption and bribery

Exel Composites does not tolerate bribery or corruption in any form as stated in its Code of Conduct and Anti-Corruption Policy [14]. Any violations could constitute serious damage to Exel's business and reputational loss. Out of Exel's operations mainly China is assessed for risks related to corruption.

Reference to metrics in Nasdaq ESG Reporting Guide:
[9] Nasdaq S4 – Gender Diversity
[10] Nasdaq S12 – Board Diversity
[11] Nasdaq S11 – Human Rights Violations
[12] Nasdaq G1 – Board-Separation of Powers
[13] Nasdaq G6 – Ethics-Code of Conduct
[14] Nasdaq G7 – Anti-Bribery/Anti-Corruption

In 2017 one confirmed incident of misconduct to achieve personal gain was reported in relation to Exel's business unit in China. The case resulted in the dismissal of the person concerned. There were no pending legal cases regarding corruption brought against the company or its employees. In 2016 no incidents of corruption were reported.

Links to publicly available material at www.exelcomposites.com

- Articles of Association: *Home > About Exel > Articles of Association*
- Duties of the President and CEO: *Home > Investors > Governance > President and CEO and management team > Duties*
- Code of Conduct: *Home > About Exel > Code of Conduct*
- Report misconduct: *Home > Contact us > Report misconduct*

Incentive programs

Exel Composites' performance-based incentive program covers all employees. Office employees receive a monthly salary and an annual bonus tied to the achievement of annually established goals emphasizing growth and profitability. Production employees are also eligible for incentive compensation. Their annual bonus is mainly based on factory profitability and production related performance indicators.

The Group has long-term incentive programs for the President and CEO and the Group Management Team and selected key employees of the Company. The aim of the programs is to combine the objectives of the shareholders and the executives in order to increase the value of the company, to commit the executives to the company and to offer the executives a competitive reward program. The Board of Directors makes the decision on the program annually.

Exel Composites announced in May 2017 the establishment of a new share-based long-term incentive program for the top management of the company. The performance targets applied to the program commencing as of the beginning of the year 2017 are operating profit (EBIT) and the absolute total shareholder return of the company's share (TSR).

The Board of Directors decided in their meeting on 12 June 2017 to implement a share acquisition and administration arrangement of Exel Composites Oyj (Exel) shares with Evli Awards Management Oy (EAM) according to the stipulations of the Companies Act for financing the purchase of own shares (the Finnish Companies Act, Chapter 13, Section 10, Subsection 2) relating to incentive plans. As a part of this arrangement EAM founded EAM EXL1V Holding Oy (Holding company) which acquires the shares with Exel's funding and according to the agreement. These shares will be delivered to the employees according to the Exel's share plan terms and conditions. The Holding company is owned by the EAM in legal terms, but according to the agreement Exel has control over the company and acts as the principal, whereas EAM is an agent through the Holding company. This control arising from contractual terms means, that the Holding company is consolidated in to the group's IFRS financial statements as a structured entity.

The cost of all programs will be accounted for as operating expenses during the duration of the programs.

Share and share performance

Exel Composites' share is listed on Nasdaq Helsinki Ltd in the Industrials sector.

At the end of December 2017, Exel Composites' share capital was EUR 2,141,431.74 and the number of shares was 11,896,843 each having the counter-book value of EUR 0.18. There were no changes in the share capital during the financial year.

In 2017 Exel Composites held a total of 77,000 of its own shares, which were purchased in July 2017 for an average price of EUR 6.80. The purchase of own shares was part of the 2017 share-based long-term incentive program for the top management. The share purchase was made through EAM EXL1V Holding Oy, (Holding company), which is owned by the Evli Awards Management Oy (EAM) in legal terms, but according to the agreement Exel has control over the company and acts as the principal, whereas EAM is an agent through the Holding company.

At the end of December 2017 the share price closed at EUR 6.57. During the financial year, the average share price was EUR 6.00, the highest share price EUR 7.85 and the lowest share price EUR 4.84.

A total of 4,244,520 shares were traded at Nasdaq Helsinki Ltd., which represents 35.8% of the average number of shares. On 31 December 2017 Exel Composites' market capitalization was EUR 77.7 million (59.7). Total shareholder return (TSR) in 2017 was 33.5% (-22.2).

Shareholders and disclosures

Exel Composites had a total of 3,164 shareholders on 31 December 2017.

On 31 December 2017, 0.44% of the shares and votes of the Company were owned or controlled, directly or indirectly by the President and CEO and the members of the Board of Directors.

According to the Company's shareholder register held by Euroclear Finland Oy, at the end of 2017 Exel Composites' two largest shareholders were nominee registers managed by Nordea Bank Ab (Publ), Finnish Branch (20.3%) and Skandinaviska Enskilda Banken AB (15.9%).

During the financial year Exel Composites received six flagging notification in accordance with the Finnish Securities Market Act Chapter 9 Section 5 regarding changes in shareholdings.

- According to the notification received on 10 February 2017, the indirect holding of Försäkrings Ab Alandia fell under the 5% threshold and amounted to 537,987 shares representing 4,5% of the shares and voting rights of Exel Composites Plc.
- According to the notification received on 4 May 2017 the holding of Taaleri Oyj's investment fund "Erikoissijoitusrahasto Taaleri Mikro Markka" exceeded the 5% threshold and amounted to 600,000 shares representing 5,04% of the shares and voting rights of Exel Composites Plc.
- According to the notification received on 8 May 2017 the holding of Nordea Funds Ltd fell below the 5% threshold and amounted to 573,138 shares representing 4,82% of the shares and voting rights of Exel Composites Plc.
- According to the notification received on 12 May 2017 the holding of SEB Investment Management AB fell below the 5% threshold and amounted to 392,000 shares representing 3,29% of the shares and voting rights of Exel Composites Plc.
- According to the notification received on 19 May 2017 the total holding of Handelsbanken Fonder AB exceeded the 5% threshold and amounted to 667,000 shares representing 5.61% of the shares and voting rights of Exel Composites Plc.
- According to the notification received on 7 June 2017 the holding of Danske Bank A/S exceeded the 5% threshold and amounted to 603,658 shares representing 5.07% of the shares and voting rights of Exel Composites Plc.

Information on the company's shareholders is available on the corporate website at www.exelcomposites.com.

Significant related-party transactions

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

Decisions of the AGM 2017

The Annual General Meeting of Exel Composites Plc held on 4 April 2017 approved the Board's proposal to distribute a dividend of EUR 0.10 per share for the financial year 2016. The dividend was paid on 13 April 2017.

The Annual General Meeting authorized the Board of Directors to repurchase the Company's own shares by using unrestricted equity. The maximum amount to be acquired is 600,000 shares. The authorization is valid until 30 June 2018.

Additional information on the AGM 2017 is available on the company's website at www.exelcomposites.com.

Board of Directors and Auditors

On 4 April 2017 the Annual General Meeting re-elected Petri Helsky, Reima Kerttula and Jouko Peussa as members of the Board of Directors. Kai Kauto and Helena Nordman-Knutson were elected as new members of the Board of Directors. The Annual General Meeting re-elected Reima Kerttula as Chairman of the Board of Directors.

The Annual General Meeting of Exel Composites has elected a Shareholders' Nomination Board, 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 Board comprised persons nominated by the four largest shareholders as of 30 September 2017 as well as the Chairman of the Board of Directors acting as expert member. In 2017, the Shareholders' Nomination Board comprised of Magnus Skåninger (Swedbank Robur Fonder), Claes Murander (Lannebo Fonder), Kalle Saariaho (OP Fund Management Company), Malin Björkmo (Handelsbanken), and Reima Kerttula, Chairman of the Board of Directors, as expert member.

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

The fees paid in 2017 to the external auditor for auditing Exel Group companies totaled EUR 168 thousand (149) thousand, while the fees paid for non-audit services totaled EUR 64 thousand (71).

Group Management Team

At the end of the financial year the Group Management Team of Exel Composites consisted of the following persons: President and CEO Riku Kytömäki, CFO Mikko Kettunen, SVP Operations Callum Gough, SVP Human Resources Tiina Bies (previously Hiltunen), SVP Sales and Marketing Kari Loukola, and SVP R&D and Technology Kim Sjödahl. There were no changes to group management during the financial year.

Outlook for 2018

Exel Composites expects revenue as well as adjusted operating profit to increase in 2018 compared to 2017.

Board proposal for dividend distribution

According to Exel Composites' financial targets, the company's ambition is to distribute a minimum of 40% of net income in dividends, when permitted by the financial structure and growth opportunities.

On 31 December 2017 Exel Composites Plc's distributable funds totaled EUR 11.1 million, of which profit for the financial period accounted for EUR 2.2 million.

The Board has decided to propose to the Annual General Meeting that a dividend of EUR 0.30 (0.10) per share.

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 Board of Directors has decided to propose the record date for dividends to be 26 March 2018. If the Annual General Meeting approves the Board's proposal, it is estimated that the dividend will be paid on 4 April 2018.

KEY INDICATORS

Key indicators illustrating financial trends

	2017 IFRS 2)	2016 IFRS 2)	2015 IFRS 2)	2014 IFRS 2)	2013 IFRS 2)
Revenue	86,255	73,079	80,196	79,253	69,290
Operating profit	6,081	649	4,414	8,887	4,843
% of revenue	7.1	0.9	5.5	11.2	7.0
Adjusted operating profit	6,319	2,621	4,770	9,361	5,543
% of revenue	7.3	3.6	5.9	11.8	8.0
Profit before extraordinary items	5,335	678	4,257	8,457	4,557
% of revenue	6.2	0.9	5.3	10.7	6.6
Profit before provisions and income taxes	5,335	678	4,257	8,457	4,557
% of revenue	6.2	0.9	5.3	10.7	6.6
Total assets	64,380	53,075	53,968	52,411	48,468
Return on equity %	15.1	0.7	9.4	21.7	11.3
Return on capital employed, %	14.8	1.7	12.0	25.2	13.0
Equity ratio, %	44.8	51.3	57.1	56.9	47.2
Net gearing, %	30.3	12.2	2.0	-8.7	15.0
Capital expenditure	9,974	3,129	4,295	4,354	2,767
% of revenue	11.6	4.3	5.4	5.5	4.0
Research and development costs	1,876	1,747	1,850	1,837	1,511
% of revenue	2.2	2.4	2.3	2.3	2.2
Average personnel	532	479	498	433	427
Personnel at year end	568	455	494	456	408

Share data

	2017 IFRS 2)	2016 IFRS 2)	2015 IFRS 2)	2014 IFRS 2)	2013 IFRS 2)
Earnings per share (EPS), EUR	0.36	0.02	0.24	0.48	0.26
Adjusted earnings per share (EPS), EUR 1)	0.36	0.02	0.24	0.48	0.26
Equity per share, EUR	2.43	2.27	2.58	2.50	1.92
Dividend per share, EUR 3)	0.30	0.10	0.22	0.20	0.00
Payout ratio, %	84.5	600.3	92.0	41.7	0.0
Effective yield of shares, %	4.57	1.99	3.37	3.58	0.00
Price/earnings (P/E)	18.40	301.35	27.32	17.50	22.21
Price to book ratio, (P/B)	2.69	2.21	2.53	3.36	2.99

1) Adjusted for the dilution of option rights
2) From continuing operations
3) Board proposal for 2018 AGM

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

For the year ended 31 December 2017

EUR thousands	Notes	1.1. -31.12.2017	1.1. -31.12.2016
Revenue	**6**	**86,255**	**73,079**
Other operating income	9	510	376
Increase (+) / Decrease (-) in inventories of finished goods and work in progress		112	-256
Materials and services		-34,295	-28,742
Employee benefit expenses	11	-24,918	-22,952
Depreciation	13	-3,217	-3,015
Amortization	13	-8	-228
Other operating expenses	10,12	-18,358	-17,613
Operating profit		**6,081**	**649**
Financial income	14	382	423
Financial expenses	15	-1,128	-394
Profit before tax		**5,335**	**678**
Income taxes	16	-1,123	-480
Profit/loss for the period		**4,212**	**198**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations	16	-850	-1,244
Income tax relating to components of other comprehensive income		0	0
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax:		**0**	**-1,244**
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial gains (+) / losses (-), net of tax	16	-3	-40
Total comprehensive income		**3,358**	**-1,086**
Profit/loss attributable to:			
Equity holders of the parent company		4,212	198
Comprehensive income attributable to:			
Equity holders of the parent company		3,358	-1,086
Total earnings per share, basic and diluted, EUR	**18**	**0.36**	**0.02**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

EUR thousands	Notes	31.12.2017	31.12.2016
ASSETS			
Non-current assets			
Goodwill	20	13,447	9,793
Other intangible assets	20	1,482	516
Tangible assets	21	14,788	13,834
Other non-current assets	22	85	83
Deferred tax assets	17	473	362
Total non-current assets		**30,276**	**24,589**
Current assets			
Inventories	23	11,689	9,861
Trade and other receivables	24	14,785	11,681
Cash at bank and in hand	25	7,629	6,944
Total current assets		**34,104**	**28,486**
Total assets		**64,380**	**53,075**
EQUITY AND LIABILITIES	33		
Share capital		2,141	2,141
Other reserves		129	126
Invested unrestricted equity fund		2,539	2,539
Translation differences		1,931	2,781
Retained earnings		22,075	19,424
Equity attributable to the equity holders of parent company		**28,815**	**27,013**
Total equity		**28,815**	**27,013**
Non-current liabilities			
Interest-bearing loans and borrowings	27, 31	4,615	2,594
Non-current interest-free liabilities	26	478	571
Deferred tax liabilities	17	240	393
Total non-current liabilities		**5,333**	**3,558**
Current liabilities			
Interest-bearing loans and borrowings	27	11,742	7,633
Trade and other current liabilities	26	17,729	14,792
Income tax payable	26	761	80
Total current liabilities		**30,232**	**22,504**
Total equity and liabilities		**64,380**	**53,075**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

EUR thousands	Notes	1.1.-31.12.2017	1.1.-31.12.2016
Cash flow from operating activities			
Profit for the period		4,212	198
Non-cash adjustments to reconcile profit to net cash flow	36	5,302	2,539
Change in working capital		-3,493	998
Cash flow generated by operations		6,021	3,735
Interest paid		-121	-97
Interest received		13	10
Other financial items		-319	-131
Income taxes paid		-738	-388
Net cash flow from operating activities		**4,856**	**3,129**
Cash flow from investing activities			
Acquisitions of subsidiaries		-5,102	
Purchase of non-current assets		-3,456	-3,129
Proceeds from sale of non-current assets		49	0
Net cash flow from investing activities		**-8,509**	**-3,129**
Cash flow before financing activities		**-3,653**	**0**
Cash flow from financing activities			
Proceeds from long-term borrowings		3,000	0
Repayments of long-term borrowings		-1,000	-1,000
Change in short-term loans		4,173	2,687
Repayments of finance lease liabilities		0	0
Purchases of treasury shares		-525	0
Dividends paid		-1,190	-2,617
Net cash flow from financing activities		**4,458**	**-930**
Change in liquid funds		**805**	**-930**
Liquid funds at the beginning of period		6,944	7,874
Exchange rate fluctuations on liquid funds		-131	
Liquid funds through business acquisitions		11	
Liquid funds at the end of period		7,629	6,944

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

As at 31 December 2017

EUR thousands	Share capital	Invested unrestricted equity fund	Translation differences	Retained earnings	Total
Balance at 1 January 2016	**2,141**	**2,645**	**4,025**	**21,904**	**30,716**
Comprehensive result			-1,244	198	-1,046
Defined benefit plan actuarial gains (+) / loss (-), net of tax				-40	-40
Other items		20		-20	0
Dividend				-2,617	-2,617
Balance at 31 December 2016	**2,141**	**2,666**	**2,781**	**19,424**	**27,013**
Balance at 1 January 2017	**2,141**	**2,666**	**2,781**	**19,424**	**27,013**
Comprehensive result			-850	4,212	3,362
Defined benefit plan actuarial gains (+) / loss (-), net of tax				-3	-3
Other items		3		-60	-57
Dividend				-1,190	-1,190
Treasury shares				-525	-525
Share-based payments reserve				33	33
Correction to previously issued financial statements 1)				182	182
Balance at 31 December 2017	**2,141**	**2,669**	**1,931**	**22,075**	**28,816**

1) Corrections in Exel Composites Plc related to taxations of previous years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All figures in EUR thousands unless otherwise stated)

The consolidated financial statements of Exel Composites Plc for the year ended 31 December 2017 were authorized for issue in accordance with a resolution of the Board of Directors on 15 February 2018. Final decision to adopt or reject the financial statements is made by shareholders in Annual General Meeting on 22 March 2018.

NOTE 1 CORPORATE INFORMATION

Exel Composites is a leading composite technology company that designs, manufactures and markets composite products and solutions for demanding applications. Exel Composites provides superior customer experience through continuous innovation, world-class operations and long-term partnerships.

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 employees' expertise and high level of technology play a major role in Exel Composites' operations.

The Group's factories are located in Australia, Austria, Belgium, China, Finland, Germany and the United Kingdom. Exel Composites share is listed in the Small Cap segment of the Nasdaq Helsinki Ltd. in the Industrials 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 Plc 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 2017. 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. The Group has control over an entity when it has a participation in the entity and is exposed to or has right to its variable revenues and can influence the revenues by using its control over 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.

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 share of losses attributable to the holders of non-controlling interest was debited to non-controlling interest in the consolidated balance sheet up to the full value of the non-controlling interest prior to 1 January 2010. The Group had no non-controlling interests in 2016 and 2015.

NOTE 3 CHANGES IN ACCOUNTING POLICIES ANS DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year.

The standards and standard amendments that are issued, but not effective, up to the date of issuance of the Group's financial statements are listed below. The Group intends to adopt these standards and amendments, if applicable, when they become effective. Based on preliminary analysis, the standards are not expected to materially impact on the Group's financial statements.

New standards

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- IFRS 17 Insurance Contracts

Amendments to standards

- IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRS 2 Classification and Measurement of Share-based Payment Transactions
- IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IAS 40 Transfers of Investment Property
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
- IFRS 1 First-time Adoption of International Financial Reporting Standards
- IAS 28 Investments in Associaties and Joint Ventures

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers will be effective for the reporting periods beginning on 1 January 2018 or later. The new standard defines a five-step model to recognize revenue based on contracts with customers. IFRS 15 will replace the current standards IAS 18 and IAS 11 as well as their interpretations.

The Group has made an assessment on its revenue streams by using the five-step model introduced in the standard. Based on the assessment made the new standard will not have an impact on the Group's current revenue recognition.

The Group revenue is generated mainly by the sale of composite products. Customer can benefit from each composite product sold by the Group on its own or together with other resources readily available to the customer. Sold goods and their prices have been identified in customer contracts. Deliveries are based on the customer's purchase orders and each supplied quantity is invoiced separately. There is no significant financing component included in the transaction prices. Some of the customer contracts include a variable consideration in the form of volume based rebate. The effect of the variable consideration on the transaction price is taken into account in revenue recognition.

The performance obligation is satisfied when the goods have been delivered to the customer according to the agreed delivery terms. In most cases this happens when the goods leave the factory. In case according to agreed delivery terms risks and rewards as well as control over the goods are transferred to the customer only when the goods have been delivered to the customer, then revenue is recognized only when the customer has received the goods. This does not change the Group's current revenue recognition principles.

IFRS 16 Leases

IFRS 16 Leases will be effective for the reporting periods beginning on 1 January 2019 or later, if approved by the European Union. According to the new standard, the lessee will recognize assets and liabilities for the rights and obligations created by leases.

When adapting IFRS 16, the portion of the lease payments currently included in other operating expenses in the consolidated income statement will be transferred to depreciations and amortizations and the portion of interest to the financial expenses. Also balance sheet totals will be affected, leading to some changes in key financial indicators. The Group has launched a separate project to assess the impact of IFRS 16.

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements may require the use of judgments, 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.

Judgments

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 calculations of impairment of non-financial assets 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 28.

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 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.

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 arising from projects lasting over 12 months and having a material impact on the Group's financial position and performance is recognized in accordance with IAS standard 11.

Revenue comprises 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 2017 and 2016.

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 years ending 31 December 2017 and 2016, 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 2017and 2016.

"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 Group's 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, excluding derivative 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. Derivative financial instruments are presented in Section 31 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 2017 or 2016.

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 assets under construction.

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

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 borrowing costs. 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 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 depreciation 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. 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 government or corporate bonds with maturities corresponding to the maturity of the pension liability. Pension costs are recorded in the income statement as an expense with costs periodized over the employees' time of service based on actuarial calculations carried out annually. Actuarial gains and losses are recognized in full as a component of other comprehensive income.

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.

Long-term compensation

The Group has long-term incentive programs for the President and CEO and the Group Management Team and selected key employees of the Company. The aim of the programs is to combine the objectives of the shareholders and the executives in order to increase the value of the Company, to commit the executives to the Company and to offer the executives a competitive reward program based on holding the Company's shares. The Board of Directors makes the decision on the program annually.

The cost of the programs will be accounted for as operating expenses during the duration of the programs.

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.

The Group recognizes a provision for significant projects covering the repair or replacement costs during the guarantee period.

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.

Geographical information

The Group's geographical information is given for Europe, APAC (Asia Pacific) and Rest of world. Revenue of geographical distribution are presented according to the customers, while assets are presented according to the location of the assets.

Revenue outside the Group according to location of customers

	2017	2016
Europe	63,828	59,636
APAC	17,824	11,274
Rest of world	4,603	2,170
Total	**86,255**	**79,079**

Revenue from the biggest customer amounted to EUR 12,518 (11,940) thousand.

Total assets according to geographic location

	2017	2016
Europe	35,627	31,335
APAC	21,000	14,719
Rest of world	0	0
Total	**56,627**	**46,054**

Capital expenditure according to geographic location

	2017	2016
Europe	2,859	2,452
APAC	7,115	676
Rest of world	0	0
Total	**9,974**	**3,129**

NOTE 7 BUSINESS COMBINATIONS

The acquisition of the Chinese composites production company Nanjing Jianhui (JHFRP), which was announced with a separate stock exchange release at the end of October 2016, was completed in April 2017. The business unit is consolidated into Group accounts as of 1 May 2017.

The acquired business includes one manufacturing unit, which uses mainly pultrusion technology to produce composite products that are largely complementary to Exel Composites' existing offering. Nanjing Jianhui has a balanced portfolio of local Chinese customers and exports outside China. The business has been steadily and profitably growing over the past years and it is known for its good quality and reliability. In 2015 the Business had about 90 employees and generated revenue of about EUR 6 million with a normalized EBIT margin of approximately 20%.

The total estimated net debt free purchase price for 100% of the Business was EUR 7.6 million, calculated with the exchange rate at the end of December 2017. 70% of the purchase price was paid after the closing of the transaction according to the payment schedule and was EUR 5.1 million. The remaining 30% will be paid earliest three years after the closing. The remaining purchase price includes a variable component depending, among other things, on the profit development of the Business. The acquisition was financed with a new long term loan.

During the period 1.1.-31.12.2017 EUR 7.6 million of Capital Expenditure and consulting costs of EUR 0.3 million were related to the Nanjing Jianhui Composite Material acquisition.

Business combinations

	Acquisition date	Share acquired	Personnel
Nanjing Jingheng Composite Materials Co. Ltd., China (Nanjing Jianhui Composite Material Co. Ltd.'s business, China)	26 April 2017	100%	93
Jianhui FRP Trading Co. Limited, Hong Kong	26 April 2017	100%	0

Assets and liabilities acquired

ASSETS	
Intangible assets	1,114
Tangible assets	1,165
Inventories	1,006
Trade and other receivables	876
Cash at bank and in hand	12
Total assets	**4,172**
LIABILITIES	
Trade and other current liabilities	992
Total liabilities	**992**
Net assets	**3,180**
Goodwill	4,444
Purchase price	7,624
Expenses of acquisitions (comprehensive P&L: fixed costs)	299

The Group did no acquisitions in 2016.

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 Composites Group applied in the accounts are:

Country	Currency	2017 Average rate	2016 Average rate	2017 Balance sheet rate	2016 Balance sheet rate
Australia	AUD	1.47294	1.48862	1.53460	1.45960
UK	GBP	0.87615	0.81888	0.88723	0.85618
China	RMB	7.62644	7.34947	7.80440	7.32020
Sweden	SEK	9.63688	9.46745	9.84380	9.55250
USA	USD	1.12929	1.10658	1.19930	1.05410
Hong Kong	HKD	8.80122	8.59008	9.37200	8.17510

NOTE 9 OTHER OPERATING INCOME

	2017	2016
Rental incomes	19	19
Other operating incomes	492	357
Total	**510**	**376**

Other operating income includes Exel Sports licensing income of EUR 308 (300) thousand and government grants of EUR 22 (3) thousand.

NOTE 10 OTHER OPERATING EXPENSES

	2017	2016
Rental expenses	1,028	2,026
Other operating expenses	17,330	15,587
Total	**18,358**	**17,613**

The fees paid in 2017 to the external auditor for auditing Exel Group companies totaled EUR 168 (149) thousand, while the fees paid for non-audit services totaled EUR 64 (71) thousand.

NOTE 11 EMPLOYEE BENEFIT EXPENSES

	2017	2016
Wages and salaries	20,567	18,816
Pension costs – defined contribution schemes	2,212	2,101
Pension costs – defined benefit schemes	18	2
Other employee benefits	2,121	2,033
Total	**24,918**	**22,952**

	2017	2016
Average number of personnel	532	479

NOTE 12 RESEARCH AND DEVELOPMENT EXPENDITURE

The income statement includes research and development costs entered as costs amounting to EUR 1,876 (1,747) thousand in 2017. 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

	2017	2016
Intangible assets	269	199
Tangible assets		
Buildings	200	255
Machinery and equipment	2,748	2,561
Total	**3,217**	**3,015**

Impairment and write-down of assets

	2017	2016
Intangible assets	0	0
Goodwill	0	0
Tangible assets		
Land	8	9
Buildings	0	119
Machinery and equipment	0	101
Total	**8**	**228**

NOTE 14 FINANCIAL INCOME

	2017	2016
Interest income on loans and receivables	13	10
Dividend income	2	2
Foreign exchange gains	366	400
Change in fair value of financial assets recognized at fair value through profit or loss (from derivatives)	0	10
Other finance income	2	2
Total finance income	**382**	**423**

NOTE 15 FINANCIAL EXPENSES

	2017	2016
Interest expenses on debts and borrowings	209	99
Foreign exchange losses	763	237
Change in fair value of financial assets recognized at fair value through profit or loss (from derivatives)	-14	0
Other finance expenses	169	58
Total finance expenses	**1,128**	**394**

Exchange differences for sales (exchange rate loss EUR 21 thousand) and purchases (exchange rate loss EUR 1 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 2017 and 2016:

	2017	2016
Income tax based on taxable income for the financial year	1,393	663
Income taxes from previous financial periods	2	-20
Deferred taxes	-271	-163
Total income taxes reported in the income statement	**1,123**	**480**

Income tax recognized in other comprehensive income 2017

	Before tax	Tax effect	After tax
Exchange differences on translating foreign operations	-850	0	-850
Defined benefit plan actuarial gains (+) / losses (-)	-5	2	-3
Total	**855**	**2**	**-853**

Income tax recognized in other comprehensive income 2016

	Before tax	Tax effect	After tax
Exchange differences on translating foreign operations	-1,244	0	-1,244
Defined benefit plan actuarial gains (+) / losses (-)	-61	21	-40
Total	**-1,305**	**21**	**-1,284**

A reconciliation between tax expense and the product of accounting profit multiplied by Finland's domestic tax rate for the years ended 31 December 2017 and 2016 is as follows:

Income tax reconciliation

	2017	2016
Accounting profit before tax	5,335	678
Tax calculated at domestic tax rate 20.0% in 2017 and in 2016	1,067	136
Difference between the domestic and foreign tax rates	23	-47
Expenses not deductible for tax purposes	240	483
Other	-207	-92
Tax charge	1,123	480
Effective tax rate	21.0	70.8

NOTE 17 DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Deferred tax assets

	1 January 2017	Recognized in income statement	Recognized in shareholders' equity	Exchange rate differences	31 December 2017
Intercompany profit in inventory	16	-11			5
Intercompany profit in fixed assets	0	103			103
Losses	304	211			515
Other temporary differences	560	-34	2	-18	510
Offset with deferred tax liabilities	-518	-141			-659
Net deferred tax assets	**362**	**128**	**2**	**-18**	**473**

Deferred tax liabilities

	1 January 2017	Recognized in income statement	Recognized in shareholders' equity	Exchange rate differences	31 December 2017
Accumulated depreciation	6	-2			4
Other temporary differences	905			-11	894
Offset with deferred tax assets	-518	-141			-659
Net deferred tax liabilities	**393**	**-143**	0	**-11**	**240**

Deferred tax assets

	1 January 2016	Recognized in income statement	Recognized in shareholders' equity	Exchange rate differences	31 December 2016
Intercompany profit in inventory	4	12			16
Losses	73	230		1	304
Other temporary differences	656	-116	21	-1	560
Offset with deferred tax liabilities	-350	-168			-518
Net deferred tax assets	**383**	**-42**	**21**	**0**	**362**

Deferred tax liabilities

	1 January 2016	Recognized in income statement	Recognized in shareholders' equity	Exchange rate differences	31 December 2016
Accumulated depreciation	-3	9			6
Other temporary differences	982	-72		-5	905
Offset with deferred tax assets	-350	-168			-518
Net deferred tax liabilities	**629**	**-231**	0	**-5**	**393**

Some deferred tax items related to the earlier accounting periods have been recorded directly to the equity. The Group had taxable net losses on 31 December 2017 of EUR 8,450 (8,382) thousand, of which the Company has recorded deferred tax assets of EUR 516 (305) thousand that are available for offset against future taxable profits of the companies in which the losses arose.

NOTE 18 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.

	2017	2016
Profit for the financial year attributable to ordinary equity holders of the parent company, EUR thousands	4,212	198
Weighted average number of outstanding shares during the financial year, 1,000 shares	11,862	11,897
Basic and diluted earnings per share, EUR/share	0.36	0.02

NOTE 19 DIVIDENDS PER SHARE

The Annual General Meeting held on 4 April 2017 approved the Board's proposal to distribute a dividend of EUR 0.10 per share for the financial year 2016.

The Annual General Meeting held on 17 March 2016 approved the Board's proposal to distribute a dividend of EUR 0.22 per share for the financial year 2015.

Following the balance sheet date the Board of Directors has proposed for approval at the Annual General Meeting that a dividend of EUR 0.30 per share be paid for the financial year 2017.

NOTE 20 INTANGIBLE ASSETS

The Group has no internally created intangible assets.

Goodwill

	2017	2016
Acquisition cost at 1 January	14,691	14,471
Additions	4,279	0
Exchange rate differences	-670	220
Acquisition cost at 31 December	18,300	14,691
Accumulated amortization at 1 January	-4,896	-4,872
Impairment charge	0	0
Exchange rate differences	44	-24
Accumulated amortization at 31 December	-4,852	-4,896
Book value at 1 January	9,793	9,597
Book value at 31 December	13,447	9,793

Other intangible assets

	2017	2016
Acquisition cost at 1 January	5,302	5,190
Additions	1,104	2
Decreases	-195	0
Transfers between asset groups	0	21
Exchange rate differences	0	89
Acquisition cost at 31 December	6,211	5,302
Accumulated amortization at 1 January	-5,225	-5,074
Amortization for the period	-119	-62
Impairment charge and write-downs	0	0
Decreases	0	0
Exchange rate differences	171	-89
Accumulated amortization at 31 December	-5,173	-5,225
Book value at 1 January	77	116
Book value at 31 December	1,038	77

Other long-term expenses

	2017	2016
Acquisition cost at 1 January	3,960	3,757
Additions	79	19
Decreases	0	0
Transfers between asset groups	75	184
Translation differences	0	0
Acquisition cost at 31 December	4,114	3,960
Accumulated amortization at 1 January	-3,520	-3,383
Amortization for the period	-150	-137
Decreases	0	0
Translation differences	0	0
Accumulated amortization at 31 December	-3,670	-3,520
Book value at 1 January	440	374
Book value at 31 December	443	440

NOTE 21 PROPERTY, PLANT AND EQUIPMENT

Land and water areas

	2017	2016
Acquisition cost at 1 January	903	978
Additions	0	0
Decreases	0	0
Transfer between asset groups	0	0
Exchange rate differences	-40	-75
Acquisition cost at 31 December	863	903
Impairment charge and write-downs	-258	-278
Exchange rate differences	12	27
Book value at 1 January	653	708
Book value at 31 December	616	653

Buildings and structures

	2017	2016
Acquisition cost at 1 January	7,706	7,775
Additions	109	69
Decreases	0	0
Transfer between asset group	2	8
Exchange rate differences	-120	-146
Acquisition cost at 31 December	7,697	7,706
Accumulated amortization at 1 January	-5,521	-5,336
Amortization for the period	-200	-255
Decreases	0	0
Amortization for the period	0	0
Exchange rate differences	55	70
Accumulated amortization at 31 December	-5,666	-5,521
Book value at 1 January	2,187	2,440
Book value at 31 December	2,033	2,187

Machinery and equipment

	2017	2016
Acquisition cost at 1 January	50,252	48,292
Additions	3,109	1,798
Decreases	-3,047	0
Transfers between asset groups	705	706
Exchange rate differences	-514	-544
Acquisition cost at 31 December	50,505	50,252
Accumulated amortization at 1 January	-41,344	-38,971
Amortization for the period	-2,752	-2,561
Impairment charge and write-downs	0	-101
Decreases	2,969	0
Translation differences	333	289
Accumulated amortization at 31 December	-40,794	-41,344
Book value at 1 January	8,907	9,321
Book value at 31 December	9,710	8,907

Advance payments and construction in progress

	2017	2016
Acquisition cost at 1 January	2,087	1,889
Additions	1,294	1,241
Transfers between asset groups	-782	-920
Decreases	-168	-119
Exchange rate differences	-3	-4
Accumulated amortization at 31 December	2,428	2,087
Book value at 1 January	2,087	1,889
Book value at 31 December	2,428	2,087

The Group had no assets for sale.

NOTE 22 OTHER NON-CURRENT ASSETS

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

	2017	2016
Book value at 1 January	83	87
Decreases	0	0
Change in fair value	2	-4
Book value at 31 December	85	83

NOTE 23 INVENTORIES

	2017	2016
Raw materials	6,588	5,536
Work in progress	1,262	1,139
Finished products and goods	3,839	3,186
Total inventories	11,689	9,861

During the 2017 financial year an expense of EUR 506 thousand was recognized to reduce the book value of inventories to their net realizable value (EUR 1,136 thousand in 2016).

NOTE 24 TRADE AND OTHER RECEIVABLES

	2017	2016
Trade receivables	13,577	10,433
Deferred income	372	483
Other receivables	836	765
Total receivables	14,785	11,681

During the 2017 financial year credit losses of EUR 414 thousand were recorded (EUR 134 thousand in 2016), consisting of actual credit losses amounting to EUR 58 thousand (EUR 19 thousand in 2016) and change in the bad debt provision amounting to EUR 356 thousand (EUR 115 thousand in 2016) covering all overdue trade receivables which are over 90 days overdue.

As at 31 December, the ageing analysis of trade receivables is as follows:

			Past due but not impaired		
	Total	Neither past due nor impaired	<30 days	30-60 days	61-90 days
2017	13,577	10,139	2,227	928	283
2016	10,433	7,732	2,309	265	126

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

NOTE 25 CASH AND CASH EQUIVALENTS

Cash assets and short-term deposits consist of cash-in-hand and bank accounts amounting to EUR 7,629 (6,944) thousand.

NOTE 26 TRADE AND OTHER NON-INTEREST BEARING LIABILITIES

	2017	2016
Trade payables	9,109	8,953
Accrued expenses	8,064	4,441
Advance payments	71	381
Other current interest-free liabilities	1,247	1,096
Non-current interest-free liabilities	478	571
Total	**18,968**	**15,443**

NOTE 27 INTEREST BEARING LOANS AND BORROWINGS

Non-current interest-bearing loans and borrowings

	2017 Book values	2017 Book values
Loans from financial institutions	4,000	2,000
Pension loans	615	594
Total	**4,615**	**2,594**

Current interest-bearing loans and borrowings

	2017	2016
Short-term loans from financial institutions	10,742	6,633
Current portion of long-term debt (repayments)	1,000	1,000
Total	**11,742**	**7,633**

Maturity of non-current interest-bearing liabilities

	2017	2016
2017	0	1,000
2018	1,000	1,000
2019	1,000	1,000
2020	3,000	0
2021	0	0
2022	0	0
Later	0	0
Total	**5,000**	**3,000**

Among interest-bearing loans EUR 1,200 (1,800) thousand has been converted to fixed interest rates through interest rate swap agreements in 2017.

NOTE 28 IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES

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

	2017	2016
Finland	135	135
Germany	1,305	1,305
Belgium	209	209
Austria	688	688
China	4,019	0
Exel Composites Group	7,092	7,457
Total	**13,447**	**9,793**

Distribution of goodwill

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:
▪ Sales margin -%
▪ Discount rates
▪ Growth rate used to extrapolate cash flows beyond the budget period.

The Group makes a so-called two-step Goodwill impairment where CGU level goodwill is tested first and thereafter Group level goodwill. The Group has allocated goodwill to group and smaller 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 coming years. Forecasts for periods further ahead in the future have been calculated on the assumption of annual growth of 1% to 5% on the industry in the long term. Gross margin levels used in the forecasts are expected to remain on average at the current level.

Discount rate is defined 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 after taxes used in the calculations was on average 7,6%.

On the basis of the impairment test, the amount of money that can be accrued by all cash-generating units exceeded the corresponding balance sheet values.

The sensitivity analysis of goodwill impairment tests indicate that no reasonable change in key assumptions would result in recognition of impairment loss against Group level goodwill. In German business unit the recovarable amount is most sensitive to future growth rate and gross margin assumptions. Testing assumptions used for German business unit were 5% growth rate in 2018-2021 and for terminal growth 1,5%. A decrease of future growth rate by 1 percentage point or a decrease of more than 3 percentage points in gross margin would result in goodwill write-down need in German business unit.

NOTE 29 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), the Chinese renminbi (RMB) and the Hong Kong dollar (HKD). 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 protected as needed by forward agreements and currency options.

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

Net investment

	31.12.2017	31.12.2016
AUD	3,054	2,900
GBP	6,841	7,010
RMB	6,998	5,232
HKD	59	0

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

31 December 2017	AUD	GBP	RMB	HKD
Increase in currency rate vs. EUR, %	5%	5%	5%	5%
Effect on profit before tax, EUR				
Effect on equity, EUR	153	342	350	3

31 December 2016	AUD	GBP	RMB	HKD
Increase in currency rate vs. EUR, %	5%	5%	5%	5%
Effect on profit before tax, EUR				
Effect on equity, EUR	145	351	262	0

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 2017 were divided to the currencies as follows:

Currency	Amount EUR thousands	%
EUR	13,000	83%
RMB	2,742	17%

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 with notional value of EUR 1,200 thousand, where the Group pays 0.63 % 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 2017 was EUR 164 thousand (EUR 102 thousand in 2016).

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 2017 amounting to EUR 13,854 thousand of which EUR 13,854 thousand 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 thousands.

31 December 2017	On demand	Less than 3 months	3-12 months	1-5 years	> 5 years	Total
Interest-bearing liabilities		8,000	2,742	5,000		15,742
Trade and other current payables		18,490				18,490

31 December 2016	On demand	Less than 3 months	3-12 months	1-5 years	> 5 years	Total
Interest-bearing liabilities	133	7,000	500	2,000		9,633
Trade and other current payables		14,872				14,872

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 2017 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 24.

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.

	2017	2016
Interest-bearing liabilities	16,356	10,227
Cash and cash equivalents	7,629	6,944
Net interest-bearing liabilities	8,727	3,283
Shareholders' equity	28,815	27,013
Net gearing, %	30.3	12.2

NOTE 30 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.

Amounts recognized in the income statement

	2017	2016
Service cost for the financial year	2,212	2,101
Differences in benefit schemes	18	2
Total included in personnel expenses	**2,230**	**2,103**

Amounts recognized in the balance sheet

	2017	2016
At the beginning of financial period	594	531
Pension expenses in the income statement	18	2
Defined benefit plan actuarial gains (+) / losses (-)	3	62
At the end of financial period	**615**	**594**

NOTE 31 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.

Principles regarding classification of financial instruments' fair values:

The fair value of financial instruments has been determined by the Group using appropriate valuation methods for which sufficient information is available. This is done by maximizing the usage of market observable inputs and minimizing the usage of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
The Group's financial assets and liabilities are included in Level 2 valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable
The Group categorizes financial assets and liabilities valued at fair value to appropriate net fair value hierarchy level at the end of each reporting period.

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

	Net fair value hierarchy	2017 Net fair value	2017 Nominal value	2016 Net fair value	2016 Nominal value
Trade and other receivables	Level 2	14,785	14,785	11,681	11,681
Cash and cash equivalents	Level 2	7,629	7,629	6,944	6,944
Interest rate swap agreements	Level 2	-11	1,200	-24	1,800
Bank loans	Level 2	15,884	15,742	9,534	9,500
Non-current loan facilities	Level 2	0	0	133	133
Trade and other payables	Level 2	18,490	18,490	14,872	14,872

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

NOTE 32 CONTINGENT LIABILITIES

	2017	2016
Commitments on own behalf		
Mortgages	2,783	2,783
Floating charges	12,500	12,500
Operating leases		
Not later than one year	750	774
1-5 years	831	456
Other liabilities	**312**	**312**

NOTE 33 SHARE CAPITAL

	Number of shares (1,000)	Share capital	Invested unrestricted equity fund	Total
1 January 2016	11,897	2,141	2,539	4,681
31 December 2016	11,897	2,141	2,539	4,681
31 December 2017	11,897	2,141	2,539	4,681

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 4 April 2017 the Annual General Meeting authorized the Board of Directors to acquire the Company's own shares on the followings terms:

The maximum number of shares to be repurchased

By virtue of the authorization the Board of Directors is entitled to decide on the repurchase of a maximum of 600,000 Company's own shares. The authorization shall also contain an entitlement for the Company to accept its own shares as pledge. The number of shares that can be acquired or held as pledges by the Company on the basis of this authorization shall not exceed one tenth (1/10) of all outstanding shares of the Company.

Directed repurchase and consideration for a share

Own shares may be repurchased in deviation from the proportion to the holdings of the shareholders with unrestricted equity through trading of the securities on regulated market organized by Nasdaq Helsinki Ltd at the market price of the time of the repurchase provided that the Company has a weighty financial reason thereto.

The shares shall be acquired and paid in accordance with the Rules of Nasdaq Helsinki Ltd and Euroclear Finland Ltd.

Retaining, cancelling and conveyance of the shares

Shares may be repurchased to be used as consideration in possible acquisitions or in other arrangements that are part of the Company's business, to finance investments, as part of the Company's incentive program or to be retained, otherwise conveyed or cancelled by the Company.

Other terms and period of validity

The Board of Directors shall decide on other terms of the share repurchase.

During the financial year the authorization was exercised when purchasing 77,000 shares in conjunction with the hedging arrangement related to the 2017 share-based long-term incentive program for the top management. In 2016 the authorization was not used.

NOTE 34 LONG-TERM COMPENSATION

The Group has long-term incentive programs for the President and CEO and the Group Management Team and selected key employees of the Company. The objectives of the programs are to align the interests of the management with those of the company's shareholders and, thus, to promote shareholder value creation in the long term, to commit the management to achieving the strategic targets of the company and to retain the company's valuable key individuals. The Board of Directors makes the decision on the program annually.

The 2014 program, the earning period of which ended in 2016, was based on a long-term monetary incentive program and is targeted at approximately 20 executives for the earning period 2014 – 2016. The President and CEO and the members of the Group Management Team were included in the target group of the 2014 program. The potential long-term monetary performance reward was based on the Group's cumulative Economic Profit and on the Group's Total Shareholder Return (TSR). The potential maximum reward to be paid on the earning period 2014-2016 was EUR 1 million. The final monetary reward paid in 2017 based on the program was EUR 174 thousand excluding social security costs.

On 31 December 2017 the Group had two monetary and one share-based long-term incentive programs:

The 2015 program is based on a long-term monetary incentive program and is targeted at approximately 25 executives for the earning period 2015 – 2017. The President and CEO and the members of the Group Management Team are included in the target group of the 2015 incentive program. The potential long-term monetary performance reward is based on the Group's cumulative Economic Profit and on the Group's Total Shareholder Return (TSR). The potential reward will be paid in 2018. The maximum reward to be paid will be EUR 1.5 million. In 2017 no related costs were recorded.

The 2016 program is based on a long-term monetary incentive program and is targeted at approximately 20 executives for the earning period 2016 – 2018. The President and CEO and the members of the Group Management Team are included in the target group of the 2016 incentive program. The potential long-term monetary performance reward is based on the Group's cumulative Economic Profit and on the Group's Total Shareholder Return (TSR). The potential reward will be paid in 2019. The maximum reward to be paid will be EUR 1 million. In 2017 no related costs were recorded.

The 2017 plan is part of a share-based long-term incentive program for the earning period 2017-2020 and is targeted at approximately 14 executives. The President and CEO and the members of the Group Management Team are included in the target group of the 2017 incentive program. The potential share-based performance reward is based on the operating profit (EBIT) and the absolute total shareholder return of the company's share (TSR). The potential share reward is payable in 2020. The maximum number of shares to be paid under this individual plan is 153,700 shares. EUR 79 thousand of related costs were accrued in 2017.

The Board of Directors decided in their meeting on 12 July 2017 to implement a share acquisition and administration arrangement of Exel Composites Oyj (Exel) shares with Evli Awards Management Oy (EAM) according to the stipulations of the Companies Act for financing the purchase of own shares (the Finnish Companies Act, Chapter 13, Section 10, Subsection 2) relating to incentive plans. As a part of this arrangement EAM founded EAM EXL1V Holding Oy (Holding company) which acquires the shares with Exel's funding and according to the agreement. These shares will be delivered to the employees according to the Exel's share plan terms and conditions. The Holding company is owned by the EAM in legal terms, but according to the agreement Exel has control over the company and acts as the principal, whereas EAM is an agent through the Holding company. This control arising from contractual terms means, that the Holding company is consolidated in to the group's IFRS financial statements as a structured entity.

No reward will be paid to an executive based on the 2015, 2016 and 2017 programs described above, if his or her employment or service with the Company ends before the reward payment unless the executive is leaving the Company due to retirement or unless the Board decides otherwise. The 2017 program also includes a lock-up period ending 20.2.2021 (if the financial statements release for 2020 is after this date then the lock-up will end on the date of the release) and the restriction on leaving the Company is extended to that date.

The cost of all programs will be accounted for as operating expenses during the duration of the programs.

NOTE 35 DISTRIBUTABLE FUNDS ON 31 DECEMBER 2017

The parent company's distributable funds on 31 December 2017 were EUR 11,092 thousand.

NOTE 36 CASH FLOW FROM BUSINESS OPERATIONS

Non-cash adjustments to the result for the financial year

	2017	2016
Depreciation, impairment charges and write-offs	3,225	3,244
Taxes	1,123	480
Financial expenses	1,127	394
Financial income	-383	-423
Other adjustments	210	-1,156
Total	**5,302**	**2,539**

NOTE 37 RELATED-PARTY TRANSACTIONS

Exel Composites' related parties comprise the Board of Directors, the President and CEO, the Group Management Team, as well as the associated companies and joint ventures. The company evaluates and monitors transactions concluded between the company and its related parties to ensure that any conflicts of interest are appropriately taken into account in the decision-making process.

No significant related-party transactions were conducted by the Group, the permanent insiders or the company's managers in 2017.

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

Name of subsidiary	Domicile	Group share of holding	Group control
EAM EXL1V Holding	Finland	0%	100%
Exel GmbH	Germany	100%	100%
Exel Composites N.V.	Belgium	100%	100%
Exel Composites GmbH	Austria	100%	100%
Exel USA, Inc.	USA	100%	100%
Exel Composites (Nanjing) Co. Ltd.	China	100%	100%
Exel Composites (Australia) Pty. Ltd.	Australia	100%	100%
Pacific Composites Ltd.	Australia	100%	100%
Pacific Composites (Europe) Ltd.	UK	100%	100%
Fibreforce Composites Ltd.	UK	100%	100%
Pacific Composites Ltd.	New Zealand	100%	100%
Exel Composites Store Ltd.	Finland	100%	100%
Exel Composites (HK) Holding Limited	Hong Kong	100%	100%
Nanjing Jingheng Composite Material Co. Ltd.	China	100%	100%
Jianhui FRP Trading Co. Limited	Hong Kong	100%	100%

The ultimate parent company is Exel Composites Plc.

Management remuneration

Senior management accrued salaries, fees and bonuses

	2017	2016
President and CEO	363	453
Members of the Board of Directors	170	164
Total	**533**	**617**

Salaries and fees per person

President and CEO and Board of Directors	2017	2016
Riku Kytömäki, President and CEO	363	453
Peter Hofvenstam, Chairman of the Board (until 17 March 2016)	0	2
Reima Kerttula, Chairman of the Board (as of 17 March 2016, member until 17 March 2016)	67	49
Matti Hyytiäinen, Vice Chairman of the Board (as of 17 March 2016 and until 4 April 2017, member until 17 March 2016)	1	37
Petri Helsky, Member (as of 17 March 2016)	27	25
Heikki Hiltunen, Member (until 4 April 2017)	0	25
Kai Kauto, Member (as of 4 April 2017)	26	0
Kerstin Lindell, Member (until 17 March 2016)	0	1
Helena Nordman-Knutson, Member (as of 4 April 2017)	23	0
Jouko Peussa, Member (as of 17 March 2016)	25	25
Total	**532**	**617**

The accrued pension costs of President and CEO amounted to EUR 91 (109) thousand. The President and CEO's pension plan is pursuant to the employment pension legislation.

The holdings of the senior management on 31 December 2017

Number of shares and votes	2017	2016
Riku Kytömäki	35,100	30,000
Reima Kerttula	9,252	5,970
Matti Hyytiäinen (until 4 April 2017)	0	2,487
Petri Helsky	2,663	1,142
Heikki Hiltunen (until 4 April 2017)	0	4,827
Kai Kauto (as of 4 April 2017)	1,521	0
Helena Nordman- Knutson (as of 4 April 2017)	1,521	0
Jouko Peussa	2,663	1,142
Number of shares and votes total	**52,720**	**45,568**

PARENT COMPANY INCOME STATEMENT

EUR	Notes	1.1. -31.12.2017	1.1. -31.12.2016
Revenue	1	**38,508,619.38**	**34,392,412.27**
Increase (+) / Decrease (-) in inventories of finished goods and work in progress		244,557.62	196,618.33
Other operating income		372,837.75	336,446.76
Materials and services			
Materials and supplies			
Purchases during financial period		13,057,864.89	11,944,650.08
Increase (-) or decrease (+) in inventories		-492,448.59	-357,420.38
		-12,565,416.30	-11,587,229.70
External services		-815,425.95	-594,786.21
Personnel expenses	2		
Wages and salaries		10,399,638.05	9,067,848.26
Pension costs		1,812,851.43	1,596,868.09
Other personnel expenses		499,724.82	570,935.10
		-12,712,214.30	-11,235,651.45
Depreciation and write-down	3		
Planned depreciation		-1,521,208.15	-1,598,592.24
Other operating expenses	4	-7,491,300.18	-7,388,232.85
Operating profit		**4,020,449.87**	**2,520,984.91**
Financial income and expenses	5		
Other interest and financial income		321,603.38	341,555.79
Interest paid and other financial expenses		-1,270,978.31	-3,198,340.39
		-949,374.93	-2,856,784.60
Profit (-loss) before appropriations		**3,071,074.94**	**-335,799.69**
Appropriations	6	-30,647.62	-40,510.39
Profit (-loss) before taxes		**3,040,427.32**	**-376,310.08**
Direct taxes	7	-828,883.94	-388,670.25
Profit (-loss) for the period		**2,211,543.38**	**-764,980.33**

PARENT COMPANY BALANCE SHEET

EUR	Notes	1.1. -31.12.2017	1.1. -31.12.2016
ASSETS			
Non-current assets	8		
Intangible assets			
Intangible assets		28,523.24	68,372.49
Other capitalized expenditure		443,465.99	439,795.77
		471,989.23	508,168.26
Tangible assets			
Land and water		90,313.28	90,313.28
Buildings		904,495.05	1,022,217.84
Machinery and equipment		3,412,682.88	3,083,668.59
Construction in progress		2,292,220.19	2,055,249.58
		6,699,711.40	6,251,449.29
Investments			
Holdings in Group companies	9	20,731,882.74	16,285,609.82
Other shares and holdings		53,069.36	53,069.36
		20,784,952.10	16,338,679.18
Total non-current assets		**27,956,652.73**	**23,098,296.73**
Current assets			
Inventories			
Raw materials and consumables		3,611,189.84	3,118,741.25
Work in progress		1,037,801.44	1,139,333.24
Finished goods		1,199,620.25	853,530.83
		5,848,611.53	5,111,605.32
Current receivables	10		
Trade receivables		3,973,552.61	3,235,313.65
Receivables from Group companies		2,709,248.11	812,201.15
Other receivables		587,283.26	333,548.18
Prepaid expenses and accrued income		80,573.57	276,395.57
		7,350,657.55	4,657,458.55
Cash in hand and at bank		331,158.99	1,335,200.19
Total current assets		**13,530,428.07**	**11,104,264.06**
Total assets		**41,487,080.80**	**34,202,560.79**

EUR	Notes	1.1. -31.12.2017	1.1. -31.12.2016
LIABILITIES AND SHAREHOLDERS' EQUITY			
Equity	11		
Share capital		2,141,431.74	2,141,431.74
Invested unrestricted equity fund		2,539,278.34	2,539,278.34
Retained earnings		6,340,763.94	8,638,366.82
Prorit/loss for the period		2,211,543.38	-764,980.33
Total equity		**13,233,017.40**	**12,554,096.57**
Appropriation			
Cumulative accelerated depreciation		19,169.78	30,922.16
Liabilities			
Non-current liabilities	12		
Loans from financial institutions		4,000,000.00	2,000,000.00
Current liabilities	13		
Loans from financial institutions		9,000,000.00	7,500,000.00
Accounts payable		64,745.13	380,087.13
Trade payables		2,786,458.10	2,694,682.34
Liabilities to Group companies		5,778,783.18	6,495,779.61
Other liabilities		243,528.28	252,240.73
Accrued liabilities and deferred income		6,361,378.93	2,294,752.25
Total current liabilities		**24,234,893.62**	**19,617,542.06**
Total liabilities		**28,234,893.62**	**21,617,542.06**
Total liabilities and shareholders' equity		**41,487,080.80**	**34,202,560.79**

PARENT COMPANY CASH FLOW STATEMENT

EUR thousands	2017	2016
Cash flow from operating activities		
Profit for the year	2,211	-765
Profit for the year adjustments	2,548	2,994
Change in net working capital	-345	220
Interest paid and other financial expenses	-260	-298
Dividend received	2	2
Interest received	76	14
Income taxes paid	-466	-366
Net cash flow from operating activities	**3,766**	**1,801**
Cash flow from investing activities		
Capital expenditure	-2,141	-1,623
Installments in subsidiaries' shares	-4,446	0
Proceeds from sale of fixed assets	57	0
Net cash flow from investing activities	**-6,530**	**-1,623**
Cash flow before financing activities	**-2,764**	**178**
Cash flow from financing activities		
Proceeds from long-term borrowings	3,000	0
Repayments of long-term borrowings	-1,000	-1,000
Change of current loans	1,500	2,555
Group subsidies	-25	-10
Purchases of treasury shares	-525	0
Dividend paid	-1,190	-2,617
Net cash flow from financing activities	**1,760**	**-1,072**
Change in liquid funds	**-1,004**	**-894**
Liquid funds at the beginning of period	**1,335**	**2,229**
Liquid funds at the end of period	**331**	**1,335**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

(All figures in EUR thousands unless otherwise stated)

NOTE 1 REVENUE BY MARKET AREA

	2017	2016
Europe	32,894	30,755
APAC	1,920	1,801
Rest of world	3,695	1,836
Total	**38,509**	**34,392**

NOTE 2 PERSONNEL EXPENSES

Paid

	2017	2016
President and CEO	363	453
Members of the Board	170	164
Total	**533**	**617**

Average personnel employed

	2017	2016
Office employees	79	82
Production employees	137	128
Total	**216**	**210**

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

- Buildings 5-20 years
- Machinery and equipment 3-8 years
- Other capitalized expenditure 3-8 years
- Goodwill 10 years
- Intangible rights 3-5 years

Planned depreciation, amortization and impairment

	2017	2016
Intangible rights	40	39
Other capitalized expenditure	150	137
Buildings	140	193
Machinery and equipment	1,191	1,230
Write-downs of non-current assets	0	0
Total	**1,521**	**1,599**

NOTE 4 OTHER OPERATING EXPENSES

	2017	2016
Rents	147	179
Marketing expenses	244	211
Other expenses	7,101	6,998
Total	**7,491**	**7,388**

	2017	2016
Auditor's fee	43	52
Tax consulting	3	23
Other fees	27	0
Total	**73**	**75**

NOTE 5 FINANCE INCOME AND EXPENSES

Other interest and financial income

	2017	2016
From Group companies	15	52
From others	307	289
Total	**322**	**342**

Interest and other financial expenses

	2017	2016
To Group companies	-116	-126
Reduction in value of investments held as non-current assets	0	-689
To others	-1,155	-2,383
Total	**-1,271**	**-3,198**
Total finance income and expenses	**-949**	**-2,857**

NOTE 6 APPROPRIATIONS

	2017	2016
Group subsidy	-42	-25
Accelerated depreciation	12	-16
Total	**-30**	**-41**

NOTE 7 DIRECT TAXES

	2017	2016
Taxes	-829	-389

NOTE 8 INTANGIBLE AND TANGIBLE ASSETS

Intangible assets

	2017	2016
Acquisition cost 1 January	1,220	1,197
Increase	0	2
Decrease	0	0
Reclassification between items	0	21
Acquisition cost 31 December	1,220	1,220
Accumulated planned depreciation 1 January	-1,151	-1,112
Planned depreciation	-40	-39
Planned depreciation of decrease	0	0
Accumulated planned depreciation 31 December	-1,191	-1,151
Book value at 1 January	68	84
Book value at 31 December	29	68

Other long-term expenses

	2017	2016
Acquisition cost 1 January	3,855	3,652
Increase	79	19
Decrease	0	0
Reclassification between items	75	184
Acquisition cost 31 December	4,009	3,855
Accumulated planned depreciation 1 January	-3,415	-3,278
Planned depreciation	-150	-137
Planned depreciation of decrease	0	0
Accumulated planned depreciation 31 December	-3,565	-3,415
Book value at 1 January	440	374
Book value at 31 December	443	440

Land and water

	2017	2016
Acquisition cost 1 January	90	90
Increase	0	0
Decrease	0	0
Acquisition cost 31 December	90	90
Book value at 1 January	90	90
Book value at 31 December	90	90

Buildings

	2017	2016
Acquisition cost 1 January	5,357	5,323
Increase	20	26
Decrease	0	0
Reclassification between items	2	8
Acquisition cost 31 December	5,379	5,357
Accumulated planned depreciation 1 January	-4,334	-4,141
Planned depreciation	-140	-193
Planned depreciation of decrease	0	0
Accumulated planned depreciation 31 December	-4,474	-4,334
Book value at 1 January	1,022	1,181
Book value at 31 December	904	1,022

Machinery and equipment

	2017	2016
Acquisition cost 1 January	25,883	24,805
Increase	887	371
Decrease	-69	0
Reclassification between items	673	706
Acquisition cost 31 December	27,374	25,883
Accumulated planned depreciation 1 January	-22,800	-21,570
Planned depreciation	-1,191	-1,230
Planned depreciation of decrease	28	0
Accumulated planned depreciation 31 December	-23,963	-22,800
Book value at 1 January	3,084	3,236
Book value at 31 December	3,413	3,084
Undepreciated acquisition cost of production machinery and equipment	2,484	2,286

Advance payment and construction in progress

	2017	2016
Acquisition cost 1 January	2,055	1,770
Increase	1,155	1,205
Reclassification between items	-750	-920
Decrease	-168	0
Acquisition cost 31 December	2,292	2,055
Book value at 1 January	2,055	1,770
Book value at 31 December	2,292	2,055

Shares, Group companies

	2017	2016
Acquisition cost 1 January	16,286	16,975
Increase	4,446	0
Decrease	0	-689
Acquisition cost 31 December	20,732	16,286

Other shares and holdings

	2017	2016
Acquisition cost 1 January	53	53
Increase	0	0
Decrease	0	0
Acquisition cost 31 December	53	53

NOTE 9 COMPANIES OWNED BY PARENT COMPANY

Shares in subsidiaries

Name of company	Registration country	Owned by the parent company %	Parent company control
EAM EXL1V Holding	Finland	0%	100%
Exel GmbH	Germany	100%	100%
Exel Composites N.V.	Belgium	100%	100%
Exel Composites GmbH	Austria	100%	100%
Exel USA, Inc.	USA	100%	100%
Exel Composites (Nanjing) Co. Ltd.	China	100%	100%
Exel Composites (Australia) Pty. Ltd.	Australia	100%	100%
Pacific Composites (Europe) Ltd.	Great-Britain	100%	100%
Exel Composites Store Ltd.	Finland	100%	100%
Exel Composites (HK) Holding Limited	Hong Kong	100%	100%
Nanjing Jingheng Composite Material Co. Ltd.	China	100%	100%
Jianhui FRP Trading Co. Limited	Hong Kong	100%	100%

NOTE 10 RECEIVABLES

Current receivables

Receivables from Group companies

	2017	2016
Trade receivables	1,319	782
Loan receivables	1,391	30
Total	**2,709**	**812**

Receivables from others

	2017	2016
Trade receivables	3,974	3,235
Other receivables	587	334
Prepaid expenses and accrued income	81	276
Total	**4,642**	**3,845**
Total current receivables	**7,351**	**4,657**

Deferred tax assets amounting to EUR 114 (EUR107) thousand have not been booked from cumulative depreciation exceeding the maximum tax depreciations by EUR 568 (536) thousand.

NOTE 11 EQUITY

	2017	2016
Share capital 1 January	2,141	2,141
Share capital 31 December	**2,141**	**2,141**
Invested unrestricted equity fund 1 January	2,539	2,539
Invested unrestricted equity fund 31 December	**2,539**	**2,539**
Retained earnings	7,873	11,256
Dividend paid	-1,190	-2,617
Treasury shares	-525	0
Correction to previously issued financial statements	182	0
Retained earnings	6,341	8,638
Operating profit for the financial year	2,212	-765
Total equity	**13,233**	**12,554**

Calculation of funds distributable as profit 31 December

	2017	2016
Non-restricted equity fund	2,539	2,539
Retained earnings	6,341	8,638
Operating profit/loss for the financial year	2,212	-765
Total	**11,092**	**10,413**

NOTE 12 NON-CURRENT LIABILITIES

Liabilities to others

	2017	2016
Loans from financial institutions	4,000	2,000
Total non-current liabilities	4,000	2,000
Liabilities falling due in a period longer than five years	0	0

NOTE 13 CURRENT LIABILITIES

Liabilities to Group companies

	2017	2016
Trade payables	109	53
Accrued liabilities and deferred income	5,670	6,443
Total liabilities to Group companies	**5,779**	**6,496**

Liabilities to others

	2017	2016
Loans from financial institutions	9,000	7,500
Advance payments	65	380
Trade payables	2,786	2,695
Other liabilities	244	252
Accrued liabilities and deferred income	6,361	2,295
Total liabilities to others	**18,456**	**13,122**

Total current liabilities	**24,235**	**19,618**

Specification of accrued liabilities and deferred income

	2017	2016
Salaries, wages and holiday pay, including social security expenses	2,702	1,808
Other accrued liabilities and deferred income	3,660	487
Total accrued liabilities and deferred income	**6,362**	**2,295**

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 2014 – 2019.

	Face value	Fair market value
Interest swaps	1,200	11

Liabilities for which a corporate mortgage and real estate mortgages have been provided as collateral

	2017	2016
Financial institution loans	13,000	9,500
Mortgages given on land and buildings	2,783	2,783
Corporate mortgage given	12,500	12,500

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

NOTE 15 LEASING, RENTAL AND OTHER LIABILITIES

	2017	2016
Leasing liabilities		
Falling due not later than one year	12	45
Falling due later	4	15
Other liabilities	**312**	**312**

NOTE 16 SHARE OWNERSHIP

Distribution of share ownership on 31 December 2017

	%
Private companies	13.9
Financial and insurance institutions	59.9
Public sector entities	5.2
Non-profit organizations	1.1
Households	19.5
Foreign	0.5
Of which, nominee registration	36.5

Distribution of share ownership on 31 December 2017

Number of shares	Number of shareholders	Percentage of shareholders	Total number of shares	Percentage of total number of shares
1 - 1,000	2,716	85.84	752,846	6.33
1,001 – 10,000	386	12.20	1,119,091	9.41
10,001 – 50,000	37	1.17	833,067	7.00
over 50,000	25	0.79	9,191,839	77.26

NOTE 17 SHAREHOLDERS

Information on shareholders on 31 December 2017

Shareholder	Number of shares	Percentage of shares and votes
Nordea Bank Ab (Publ), Suomen Sivuliike (nominee registered)	2,410,095	20.3
Skandinaviska Enskilda Banken AB (nominee registered)	1,896,982	15.9
Sijoitusrahasto Taaleritehdas Mikro Markka	600,000	5.0
OP-Finland Value Fund	552,435	4.6
OP-Finland Small Firms Fund	498,259	4.2
Ilmarinen Mutual Pension Insurance Company	342,733	2.9
Danske Invest Finnish Small Cap Fund	324,219	2.7
Nordea Pro Finland Fund	273,395	2.3
Danske Invest Finnish Institutional Equity Fund	265,000	2.2
Matti Suutarinen	231,821	1.9
Other nominee registered	33,311	0.3
Others	4,468,593	37.6
Total	**11,896,843**	**100.0**

NOTE 18 MANAGEMENT INTERESTS

The aggregate holding of the members of Board of Directors and the President was 52,720 shares on 31 December 2017. This accounts for 0.44% of corporate shares and 0.44% 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 4 April 2017 the Annual General Meeting authorized the Board of Directors to acquire the Company's own shares on the followings terms:

Maximum number of shares to be repurchased

By virtue of the authorization the Board of Directors is entitled to decide on the repurchase of a maximum of 600,000 Company's own shares. The authorization shall also contain an entitlement for the Company to accept its own shares as pledge. The number of shares that can be acquired or held as pledges by the Company on the basis of this authorization shall not exceed one tenth (1/10) of all outstanding shares of the Company.

Directed repurchase and consideration for a share

Own shares may be repurchased in deviation from the proportion to the holdings of the shareholders with unrestricted equity through trading of the securities on regulated market organized by Nasdaq Helsinki Ltd at the market price of the time of the repurchase provided that the Company has a weighty financial reason thereto.

The shares shall be acquired and paid in accordance with the Rules of Nasdaq Helsinki Ltd and Euroclear Finland Ltd.

Retaining, cancelling and conveyance of the shares

Shares may be repurchased to be used as consideration in possible acquisitions or in other arrangements that are part of the Company's business, to finance investments, as part of the Company's incentive program or to be retained, otherwise conveyed or cancelled by the Company.

Other terms and period of validity

The Board of Directors shall decide on other terms of the share repurchase.

During the financial year the authorization was exercised when purchasing 77,000 shares in conjunction with the hedging arrangement related to the 2017 share-based long-term incentive program for the top management. In 2016 the authorization was not used.

NOTE 20 SHARE PRICE AND TRADING

Share price

EUR	2017	2016	2015	2014	2013
Average price	6.00	5.05	8.65	6.42	6.18
Lowest price	4.84	4.71	6.32	5.56	5.10
Highest price	7.85	6.85	9.85	8.80	6.70
Share price at the end of financial year	6.57	5.02	6.53	8.39	5.75
Market capitalization, EUR million	77.7	59.7	77.7	99.8	68.4

Share trading

	2017	2016	2015	2014	2013
Number of shares traded	4,244,520	3,080,024	2,445,252	5,836,969	2,022,018
% of the average number of shares	35.8	25.9	20.6	49.1	17.0

Number of shares

	2017	2016	2015	2014	2013
Average number	11,862,199	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 Composites 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 Composites Plc's share has been quoted on Helsinki Exchange Main List. Exel Composites Plc's share was split on 21 April 2005. Exel Composites Plc's share is quoted on Nasdaq Helsinki Ltd's Nordic List.

COMPUTATION FORMULAE

Return on equity, %

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

Return on capital employed, %

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

Equity ratio, %

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

Net gearing, %

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

Earnings per share (EPS), EUR

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

Equity per share, EUR

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

Dividend per share, EUR

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

Payout ratio, %

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

Effective yield of shares, %

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

Price/earnings (P/E), %

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

PROPOSAL FOR DISTRIBUTION OF PROFIT

Exel Composites Plc's distributable funds are EUR 11,091,585.66 of which profit for the financial period accounts for EUR 2,211,543.38.

The Board proposes that the profit funds be distributed as follows:	
- a dividend of EUR 0,30 per share	3,569,052.90
- carried over as equity, EUR	7,522,532.76
	11,091,585.66

Vantaa, 15 February 2018

Reima Kerttula
Chairman

Petri Helsky

Kai Kauto

Helena Nordman-Knutson

Jouko Peussa

Riku Kytömäki
President and CEO

Our auditor's report has been issued today.

Vantaa, 15 February 2018

Ernst & Young
Authorized Public Accountants

Antti Suominen
Authorized Public Accountant

AUDITOR'S REPORT

(Translation of the Finnish original)

To the Annual General Meeting of Exel Composites Oyj

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Exel Composites Oyj (business identity code 1067292-7) for the year ended 31 December, 2017. The financial statements comprise the consolidated balance sheet, [income statement], statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Board of Directors.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 10 to the consolidated financial statements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of Goodwill *We refer to the notes 4, 5 and 28* Goodwill amounted to 13,4 million euro as of 31 December 2017 comprising 20,9 % of total assets and 46,7 % of the equity. The annual impairment testing was a key audit matter because ▪ the assessment process is judgmental and the process itself is complex; ▪ the process contains significant estimates and assumptions relating to market or economic conditions extending to the future; and ▪ of the significance of the goodwill to the financial statements. There are a number of assumptions used to determine the value-in-use, including the revenue growth, the sales margin and the discount rate applied on cash-flows. Estimated values-in-use may vary significantly when the underlying assumptions are changed and the changes in above-mentioned individual assumptions may result in an impairment of goodwill.	Our audit procedures in connection with the valuation of goodwill included involving valuation specialists to assist us in evaluating the assumptions and methodologies by the management. Audit procedures comprised comparing the management's assumptions to externally derived data and to our own expectations. In particular those relating to the weighted average cost of capital used to discount the cash-flows. In addition we tested the accuracy of the impairment calculations prepared by the management, compared the sum of discounted cash flows to the market capitalization of Exel Composites and evaluated the sufficiency of the disclosures such as information given with regards to the sensitivity analysis as well as whether a reasonably probable change in key assumptions could result in an impairment.
Revenue Recognition *We refer to the notes 5 and 6* Revenue is recognized when the risks and rewards of the underlying products have been transferred to the customer. The Group focuses on revenue as a key performance measure which could create an incentive for revenue to be recognized before the risks and rewards have been transferred. Revenue recognition was determined to be a key audit matter and a significant risk of material misstatement referred to in EU Regulation No 537/241, point (c) of Article 10(2).	Our audit procedures to address the risk of material misstatement relating to timing of revenue recognition included among others: ▪ Analysis of the accounting principles applied as well as comparing them to the IFRS standards; ▪ Testing of internal controls addressing the timing of the revenue recognition, including general IT controls over the most significant IT applications; ▪ Substantive analytical procedures, and ▪ Evaluation of the notes information given
Business acquisition *We refer to the notes 4, 5 and 7* In 2017 the group completed the acquisition of Nanjing Jianhui Composite Materials Co. Ltd. Purchase price comprised cash consideration and a variable component which is depend, among other things, on the profit development. Business acquisition was a key audit matter because of the complexity of the acquisition accounting and the judgment involved in estimating the revenues, profitability as well as economic life of the intangible and tangible assets acquired. As a result of the acquisition the goodwill increased by 4,4 million euro.	Our audit procedures included the review of the share sale and purchase agreement as well as analysis of the purchase price allocation prepared by the management. We analyzed the variable component of the purchase price in order to understand the key assumptions used. We evaluated the allocation methods applied on the purchase prices and compared them to the management's plans at the time of the closing of the acquisition. In addition we evaluated the notes information given.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

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, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on April 6, 2007, and our appointment represents a total period of uninterrupted engagement of 11 years.

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions based on assignment of the Board of Directors

We support that the financial statements and the consolidated 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 and the President and CEO of the parent company should be discharged from liability for the financial period audited by us.

Helsinki, February 15, 2018

Ernst & Young Oy
Authorized Public Accountant Firm

Antti Suominen
Authorized Public Accountant

Exel Composites in brief

Exel Composites is a leading composite technology company that designs, manufactures and markets composite products and solutions for demanding applications. Exel Composites provides superior customer experience through continuous innovation, world-class operations and long-term partnerships.

The core of the operations is based on own, internally developed composite technology, product range based on it and 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 employees' expertise and high level of technology play a major role in Exel Composites' operations. Exel Composites Plc share is listed in Nasdaq Helsinki Ltd.

www.exelcomposites.com