ANNUAL FINANCIAL REPORT 2018

EXEL COMPOSITES IN BRIEF

Exel Composites is the world's leading composite technology company that engineers and manufactures composite products and solutions to an extensive range of demanding industrial applications.

The core of the business is based on our employees' high level of expertise and our own, internally developed composite technologies, which have been perfected over decades with a steady focus on innovation. With nine manufacturing plants across Europe, Asia, and North America, and a global sales network, we are firmly driven by superior customer experience and world-class operations.

Headquartered in Finland, Exel Composites employs approximately 650 people globally. The company's shares are listed on the Nasdaq Helsinki exchange.

INFORMATION TO SHAREHOLDERS

Annual General Meeting 2019

The Annual General Meeting will be held on Thursday 21 March 2019 at 10:00 EET at Scandic Marina Congress Center at the address of Katajanokanlaituri 6, Helsinki, Finland.

Dividend

The Board of Directors proposes that a dividend of EUR 0.18 (0.30) per share be paid for the financial year 2018.

The dividends' record date is Monday 25 March 2019 and payment date Monday 1 April 2019.

Financial calendar 2019

Exel Composites publishes the following financial reports in 2019:

- Financial Statements Release 2018: 15 February 2019
- Business Review January - March: 3 May 2019
- Half Year Financial Report January - June: 23 July 2019
- Business Review January - September: 30 October 2019

The Annual Financial Report, Corporate Governance Statement and Remuneration Statement for 2018 are available in electronic format at the company's website www.exelcomposites.com.

www.exelcomposites.com

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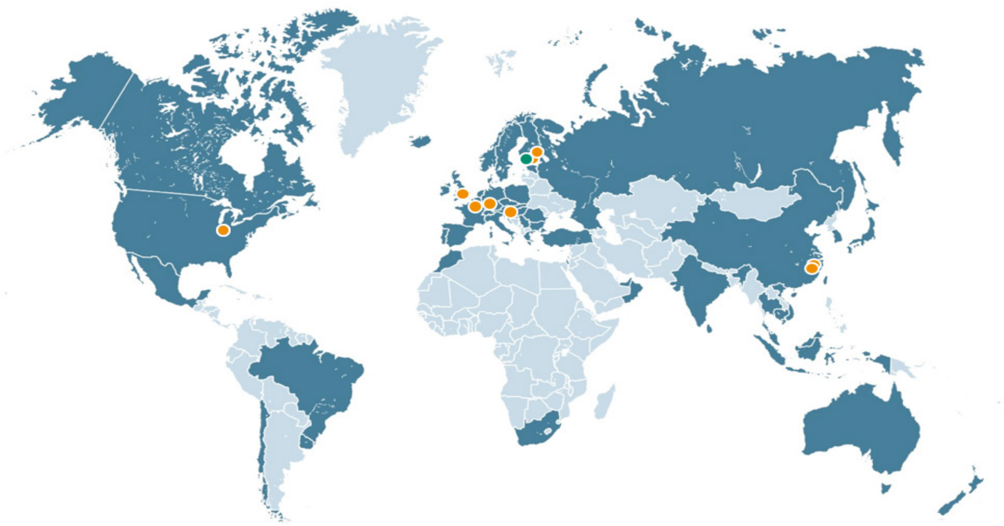


CEO REVIEW

The year 2018 was an eventful year for Exel Composites, which ended on a strong note. We took important steps progressing our strategy, improving profitability and creating a platform for long-term profitable growth.

We significantly improved our global market position in 2018 and I am very happy about our steps in implementing our growth strategy. Through the acquisition of Diversified Structural Composites, DSC, in North America in April 2018 we now have an significant foothold in all of the important composites markets globally. With the contribution of DSC, the wind energy industry now represents Exel's largest client, a position which has been held by a client from the telecommunications industry for the past ten years.

"Through the DSC acquisition we now have an important foothold in all of the most important composites markets globally."

From a segment point of view, revenue growth in 2018 was driven by the Construction & Infrastructure and predominantly supported by the wind energy industry. Wind energy is a high growth industry, where increasing demand is driven by regulations that aim to reduce the impact of climate change and favoring sustainable energy sources. Also the Other Applications customer segment grew, driven by DSC. DSC's contribution as well as increased export from other Exel units were reflected also in the revenue of the region Rest of the World. Revenue in this region almost quadrupled. At the same time, the challenging market situation of the telecommunications industry and hence lower volumes impacted revenue in Europe and in the Asia-Pacific regions as well as in the Industrial Applications customer segment.

Despite increased Group revenue, our performance in terms of profitability did not reach the previous year's level. Two main factors impaired our adjusted operating profit in 2018. First of all, volume growth in wind energy was not enough to compensate for the impaired profitability mainly related to sales mix in some of the Group's manufacturing units. This related largely to the decreased telecommunications volumes and the competitive situation of the industry. The situation has changed significantly, especially in China, driven by geopolitical factors such as trade barriers and export tariffs. Chinese competitors have also gained market share in Europe and have made the competition tougher. As a second main factor, the operational loss of DSC impacted Group profitability negatively in 2018. The turnaround of DSC continues according to plan and by the end of the year DSC's operating profit showed clear improvement.

"The implementation of a Group-wide cost reduction program continues in order to improve Group profitability."

In order to improve Group profitability we initiated a cost reduction program during 2018, the implementation of which continues as planned into 2019. The program consists of initiatives to optimize Exel Composites' manufacturing footprint in Europe, to improve the profitability and cost efficiency in the DSC business and to drive further synergy savings between the company's two manufacturing units in China, among other things. Early 2019 we announced the closing of Exel's manufacturing unit in Voerde, Germany, and conducted co-determination negotiations in Finland, in addition to other cost savings measures. The annual savings target of the Group-wide cost savings program is EUR 3 million, expected to be fully effective in 2020.

"Global megatrends continue to bring new business opportunities in the long-term."

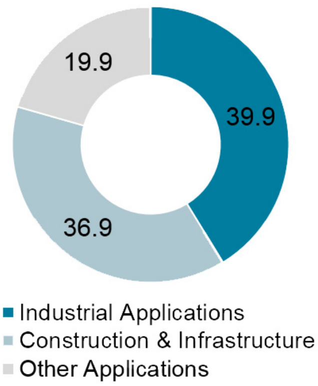
In the fragmented composites market, Exel Composites is a large global player with a leading and established market position. Today even more so than before. Our strategy is to focus on high growth industries such as the construction, transportation and energy industries. We continue to see attractive business opportunities in the long-term for composites in general as well as in all Exel's customer segments and market areas. Global megatrends such as urbanization, demographic change, sustainability and total life cycle cost management continue to drive an increasing demand. Our ambition is to leverage on these trends by offering our knowledge on composites and attractive products that fit the demand.

A heartfelt thank you to all Exel Composites employees for their excellent contribution and commitment. Thank you also to our customers, business partners and shareholders for the good cooperation during the past year. I look forward to 2019 with confidence.

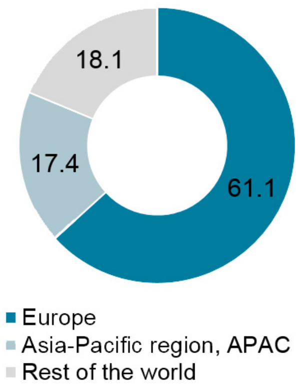
Riku Kytömäki
President and CEO

KEY FIGURES 2018

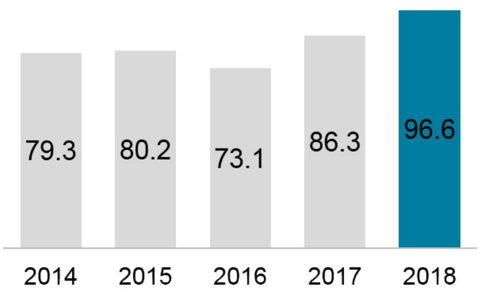
Revenue by customer segment, EUR million



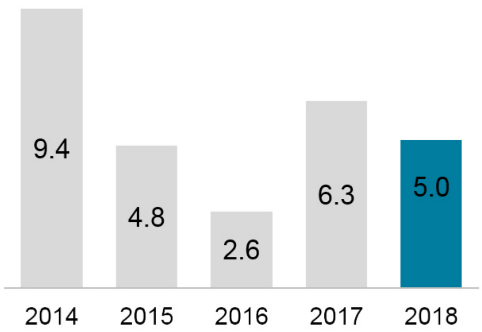
Revenue by region, EUR million



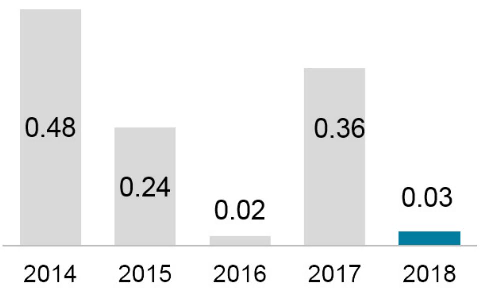
Revenue, EUR million



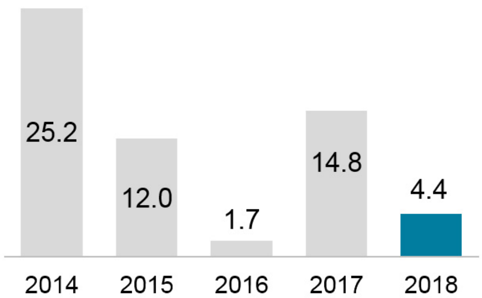
Adjusted operating profit, EUR million



Earnings per share, EUR



Return on capital employed, %



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 fundamental focus on innovation. Composites – which by definition are a combination of materials – are fiber reinforced plastics. These materials provide broad product design possibilities and their qualities, including low weight, strength and durability, depend on determined mechanical and chemical conditions. The high level of technology and employee expertise play a major role in the company's operations. Sustainability and the environmental aspects are also an important part of the products and solutions manufactured by Exel, because composite technology and materials often improve the environmental footprint of the end product due to, among others, their energy efficiency and long life span.

Exel Composites has global operations, serving customers in diverse industries, such as construction, energy, transportation and telecommunication industries, among others. The product portfolio is composed of both customer tailored and standardized products. These can be for example profiles, tubes and laminates. Often these composite products are components that form part of a complete end product of a customer. In addition, Exel also produces a number of complete end products and systems. The main manufacturing technology utilized by Exel is pultrusion, where fibers impregnated with thermo-set resins are pulled through die and hardened with heat. Other methods include pullwinding, which is a combination of pultrusion and filament winding, co-winding or conical winding, as well as continuous lamination. The company's strategy includes expanding into new and growing technologies for producing composites. The company also wants to expand into applications where composite materials can be used and where their unique characteristics are beneficial.

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 and matrix systems. Fiber reinforcements typically are glass and carbon fibers. Matrix systems include for example polyester, epoxy and vinyl ester resins.

Market environment

Exel Composites is a global player in the composites market, serving customers from diverse industries. The company has grouped these into three customer segments. Industrial Applications includes telecommunication, paper, electrical, machine and transportation industries. Industrial Applications and Construction & Infrastructure customers segments are more or less equal in terms of revenue. Construction & Infrastructure customer segment comprises building and construction industry, infrastructure and energy industries. Other Applications represents approximately a fifth of Exel's revenue. This customer segment comprises industries such as cleaning and maintenance, sports and leisure as well as other industries, such as agriculture and forestry.

Exel Composites' customer base is geographically widespread with customers worldwide. Europe is Exel's largest and main market area, followed by Asia and North America. Asia is the largest and the fastest-growing market globally and particularly in China global megatrends, are strongly driving growth and present new business opportunities in the long-term. Through the acquisition of Diversified Structural Composites, DSC, in April 2018, Exel created an important foothold in the strategically significant American market. The American market is the second largest composites market globally in terms of value and growth.

In the very fragmented composites market, Exel Composites is a large, global player with a leading and established market position. The acquisition of DSC made Exel Composites the only pultrusion company with significant presence on all three major continents. All in all, Exel's global market position improved significantly during the year 2018.

Annual growth rates for the global composites market vary, according to industrial segment, market definition and source, between approximately 2%-5% for 2015-2018. The competitive situation of the telecommunications industry has recently undergone a comprehensive change where factors such as trade barriers and export tariffs have affected particularly in China. Chinese competitors have also gained market share in Europe and making the competition tougher. Exel Composites' strategy is to focus on high growth industries in the short-term, which include especially construction, transportation and wind energy industries. Transportation, including aerospace, is the largest market in terms of value, while energy industry shows the strongest growth when considering composites in general.

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 are expected to increase demand. Exel's ambition is to leverage on these trends by offering the Group's knowledge on composites and attractive products that fit the demand.

Order intake and order backlog

Order intake for the full year 2018 was EUR 100.8 million (86.5), which is an increase of 16.4% compared to 2017. The Group's order backlog on 31 December 2018 increased to EUR 23.7 million (17.1).

Revenue

Group revenue for the financial year amounted to EUR 96.6 million (86.3) and increased by 12.0% compared to previous year. Growth was driven by the acquisitions of both DSC in April 2018 and Nanjing Jianhui in April 2017. The revenue of the acquired businesses increased Group revenue by 13.7%. In addition, revenue was impacted by effects of the sales mix by 4.0%, delivery volumes by -5.2% and exchange rates by -0.5%.

Revenue in the Construction & Infrastructure customer segment increased by 73.3% to EUR 36.9 million (21.3), predominantly supported by the wind energy industry. Other Applications customer segment grew by 18.7% to EUR 19.9 million (16.7) driven by the contribution of the acquired DSC. Revenue in the Industrial Applications customer segment was impaired by lower volumes in telecommunications and decreased to EUR 39.9 million (48.2).

In the region Rest of the World, revenue increased during 2018 significantly by 293.4% to EUR 18.1 million (4.6) supported by DSC and by increased export from other Exel units to the American market. Revenue in the APAC region decreased by 2.2% to EUR 17.4 million (17.8). The regional decrease in revenue was mainly due to the decrease in telecommunications volumes as well as lower sales in the Australian market due to the closure of production. Also in the region Europe, the revenue decrease by 4.3% to EUR 61.1 million (63.8) reflected lower volumes in telecommunications.

Revenue by customer segment

EUR thousand	1.10.-31.12. 2018	1.10.-31.12. 2017	Change, %	1.1.-31.12. 2018	1.1.-31.12. 2017	Change, %
Industrial Applications	8,629	11,883	-27.4	39,885	48,249	-17.3
Construction & Infrastructure	12,850	6,662	92.9	36,855	21,266	73.3
Other Applications	5,231	3,869	35.2	19,868	16,740	18.7
Total	**26,711**	**22,414**	**19.2**	**96,608**	**86,255**	**12.0**

Revenue by region

EUR thousand	1.10.-31.12. 2018	1.10.-31.12. 2017	Change, %	1.1.-31.12. 2018	1.1.-31.12. 2017	Change, %
Europe	14,649	16,743	-12.5	61,073	63,828	-4.3
APAC	4,720	4,059	16.3	17,430	17,824	-2.2
Rest of world	7,342	1,612	355.5	18,106	4,603	293.4
Total	**26,711**	**22,414**	**19.2**	**96,608**	**86,255**	**12.0**

Operating profit

In 2018 and compared to previous year, operating profit declined to EUR 2.2 million (6.1), 2.3% (7.1) 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 5.0 million (6.3), 5.2% (7.3) of revenue. Adjusted operating profit decreased as volume growth in wind energy was not enough to compensate for the impaired profitability mainly related to sales mix in some of the Group's manufacturing units. Operating profit was also negatively impacted by operating losses in DSC of EUR -1.2 million during May-December 2018. Excluding the impact of DSC, Group adjusted operating profit amounted to EUR 6.2 million for the financial year.

In 2018, EUR 1.2 million of one-off expenses were booked related to the acquisition of DSC. Furthermore, related to the annual impairment testing, an EUR 1.3 million write-off to goodwill and another EUR 0.3 million write-off to other balance sheet items was recorded concerning the Voerde manufacturing unit in Germany.

The Group's net financial expenses in 2018 were EUR -0.5 million (-0.7). The Group's profit before taxes was EUR 1.7 million (5.3) and profit after taxes EUR 0.4 million (4.2).

Adjusted operating profit

EUR thousand	1.1. -31.12.2018	1.1. -31.12.2017
Operating profit	**2,217**	**6,081**
Restructuring costs	10	-149
Impairment losses and reversals	1,584	0
Costs related to planned or realized business acquisitions and disposals	1,206	387
Sale of intangible and tangible assets	0	0
Expenses related to changes in legislation or legal proceedings	0	0
Adjusted operating profit	**5,018**	**6,319**

Financial position

Net cash flow from operating activities for 2018 was EUR 0.9 million (4.9). The capital expenditure on fixed assets amounted to EUR 9.6 million (10.0). Subsidiaries (DSC) were acquired for EUR 7.9 million. Investments were financed mainly with interest bearing loans. Net cash flow from investing activities amounted to EUR -12.8 million (-8.5) and net cash flow before financing activities amounted to EUR -11.9 million (-3.7). At the end of the financial year, the Group's liquid assets stood at EUR 4.8 million (7.6). Total depreciation, amortization and impairment of non-current assets during the financial year amounted to EUR 5.5 million (3.2).

The Group's consolidated total assets at the end of the financial year were EUR 74.6 million (64.4). Interest bearing liabilities amounted to EUR 29.6 million (16.4). Net interest bearing liabilities were EUR 24.8 million (8.7).

Equity at the end of 2018 was EUR 25.8 million (28.8) and equity ratio 34.7% (44.8). The net gearing ratio was 96.3% (30.3). Fully diluted total earnings per share were EUR 0.03 (0.36). Return on capital employed in 2018 was 4.4% (14.8). Return on equity was 1.4% (15.1).

The company paid total dividends EUR 3.5 million (1.2) in 2018 for the financial year of 2017 calculated for the outstanding number of shares. Dividend per share for the financial year 2017 was EUR 0.30 (0.10).

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. The company's strategy until year 2020 is based on five pillars: 1) protect and grow our stronghold customers providing competitive edge and best customer service, 2) build leadership in China, 3) create true global footprint, 4) penetrate growing/ new applications and 5) grow in new technologies. In 2018 a significant step was taken especially with respect to creating true global footprint, when Exel acquired DSC in North America. Through this acquisition Exel now has foothold in all of the most important composites markets.

In the short-term Exel Composites has decided to focus especially on high growth industries, including construction, transportation and wind energy industries. To further accelerate business in these areas, focused growth initiatives were established in 2018. The energy customer industry, and wind energy specifically, grew the most during the financial year and this industry now also represents Exel's largest client. This position has been held by a client from the telecommunications industry for the past ten years. The construction and transportation industries have also developed positively.

The integration process of DSC, which was acquired in April 2018, progressed according to plan during the year. The unit was consolidated into group accounts as of May 2018. Acquiring an established business, with an existing customer network, a competent team, an operational production facility and interesting technologies gave Exel Composites a good starting position and a platform for cross-selling opportunities to existing and new customers. The expanded geographic presence together with DSC's complementary technological strengths and market focus has opened up new growth opportunities for the Exel Group.

Global M&A screening activities continued in 2018 in line with the company's strategy.

Operational efficiency improvements continued to be an important focus area for Exel Composites during the financial year. In the fall of 2018 Exel initiated a Group-wide cost reduction program to be implemented during 2018 and 2019 in order to further improve Group profitability. The annual savings target of the program is EUR 3 million, expected to be fully effective in 2020. The program consists, among other things, of the optimization of the company's manufacturing footprint in Europe, improving the profitability and cost efficiency of DSC as well as further synergy savings between the company's two manufacturing units in China.

Continuous innovation and technological expertise in composites are one of Exel Composites' key strengths and strategic priorities. In 2018, the acquired DSC brought high-level know-how on carbon fibers and technological skills such as high-speed production that in combination with Exel's expertise have improved competitiveness as well as manufacturing efficiency and quality. Initiatives to extend capabilities in product design and composite production, including the development of advanced laminate products produced using a double band press machine, also continued during 2018. Active development for new composites applications also continued, for example with applications for the automotive and wind energy industry as well as in relation to the use of long-length carbon fiber products and mid-segment composite profiles in the construction industry.

In 2018 the implementation of the Group-wide ERP system was completed in all Exel's European units. The rollout in the units follows in China and USA.

Research and development

Research and development costs for the financial year totaled EUR 2.8 million (1.9), representing 2.9% (2.2) of revenue.

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 in the short term negatively impact the company's profitability, even if in the longer term it would improve the competitiveness of composite materials.

In 2018 the acquired DSC business was unprofitable before the acquisition and also had a negative impact on Exel Composites' group profitability after the acquisition. If the losses continue, it will impair the financial results of the Group.

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.

The risk management and risks related to the operation of Exel Composites are described in more detail at the company's website www.exelcomposites.com.

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 March 2018 the continuation of a share-based long-term incentive program for the top management of Exel Composites. The 2018 performance-based plan is part of the share-based long-term incentive program published in May 2017. The performance targets applied to the plan that commenced at the beginning of 2018 were adjusted operating profit (EBIT) and the absolute total shareholder return of the company's share (TSR).

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 2018, Exel Composites' share capital was EUR 2,141,431.74 and the number of shares was 11,896,843. There were no changes in the share capital during the financial year.

In 2018 Exel Composites held a total of 77,000 of its own shares which are part of the share-based long-term incentive program for the top management.

At the end of December 2018 the share price closed at EUR 4.00. During the financial year, the average share price was EUR 5.40, the highest share price EUR 7.28 and the lowest share price EUR 3.98.

A total of 2,513,383 shares were traded at Nasdaq Helsinki Ltd., which represents 21.1% of the average number of shares. On 31 December 2018 Exel Composites' market capitalization was EUR 47.3 million (77.7). Total shareholder return (TSR) in 2018 was -36.1% (33.5).

Shareholders and disclosures

Exel Composites had a total of 3,723 shareholders on 31 December 2018.

On 31 December 2018, 0.64% 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 2018 Exel Composites' two largest shareholders were nominee registers managed by Nordea Bank Ab (Publ), Finnish Branch (18.9%) and Skandinaviska Enskilda Banken AB (13.7%).

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

According to the notification received on 19 February 2018, the holding of Danske Bank A/S fell under the 5% threshold and amounted to 580,145 shares representing 4.88% 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 2018.

Decisions of the AGM 2018

The Annual General Meeting, AGM, of Exel Composites Plc held on 22 March 2018 approved the Board's proposal to distribute a dividend of EUR 0.30 per share for the financial year 2017. The dividend was paid on 4 April 2018.

The AGM 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 2019.

The AGM resolved to appoint a permanent Shareholders' Nomination Board to prepare in the future proposals concerning the Board members and their remuneration for the General Meeting. In addition, the Annual General Meeting adopted the Charter of the Shareholders' Nomination Board, which regulates the nomination and composition of the Nomination Board and defines its tasks.

Additional information on the AGM 2018 is available on the company's website at www.exelcomposites.com.

Board of Directors and Auditors

On 22 March 2018 the AGM re-elected Petri Helsky, Kai Kauto, Reima Kerttula, Helena Nordman-Knutson and Jouko Peussa as members of the Board of Directors. The AGM re-elected Reima Kerttula as Chairman of the Board of Directors.

The AGM of Exel Composites has elected a permanent Shareholders' Nomination Board, which purpose is to prepare proposals concerning the Board members and their remuneration for the General Meeting. In 2018 the Nomination Board comprised persons nominated by the four largest shareholders as of 30 September 2018 as well as the Chairman of the Board of Directors acting as expert member: 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 2018. During the year the principal auditor changed and Johanna Winqvist-Ilkka, APA, was appointed to the role by Ernst & Young.

The fees paid in 2018 to the external auditor for auditing Exel Group companies totaled EUR 219 (168) thousand, while the fees paid for tax services totaled EUR 29 (34) thousand and for non-audit services totaled EUR 174 (30) thousand.

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, SVP Exel Composites Americas Kari Loukola, SVP R&D and Technology Kim Sjödahl and SVP Sales and Marketing Olli Tevä. Prior to Olli Tevä, who started in his role in August 2018, Kari Loukola held the position of SVP Sales and Marketing.

Events after the review period

Exel Composites closes its production facility in Germany and conducted co-determination negotiations in Finland

In February 2019, Exel Composites announced that it will close its production facility in Voerde, Germany, by 30 April 2019. The closing leads to the termination of employment of 23 permanent employees. The closure will result in annual cost savings of approximately EUR 1.0 million from 2020 onwards. According to preliminary estimations, the closure will result in a one-time cash cost of EUR 1.2 million that will be recorded in the first quarter of 2019.

In January-February 2019, Exel Composites conducted co-determination negotiations in the company's manufacturing units in Finland with the purpose of improving profitability and adjusting the resources to the need. As a result, the employment of nine employees were terminated.

The closing of the Voerde manufacturing unit in Germany and the co-determination negotiations in Finland fall under the Group-wide cost reduction program initiated in 2018.

Exel Composites continues the long-term incentive program for top management

In February 2019, the Board of Directors of Exel Composites decided on the continuation of the share-based long-term incentive program for the top management of Exel Composites. The 2019 performance-based plan is part of the share-based long-term incentive program published on 4 May 2017. The performance targets applied to the plan commencing at the beginning of 2019 are adjusted operating profit (EBIT) and the absolute total shareholder return of the company's share (TSR).

Outlook for 2019

Exel Composites expects revenue and adjusted operating profit to increase in 2019 compared to 2018.

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 2018, Exel Composites Plc's distributable funds totaled EUR 11.4 million, of which profit for the financial period accounted for EUR 3.9 million.

The Board has decided to propose to the Annual General Meeting that a dividend of EUR 0.18 (0.30) per share be paid for the financial year 2018.

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 25 March 2019. If the Annual General Meeting approves the Board's proposal, it is estimated that the dividend will be paid on 1 April 2019.

Sustainability and corporate responsibility

Value creation and financial impact for Exel Composites' stakeholders, EUR million

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 focused, integrity, One Exel, caring and innovative.

The company's material sustainability topics were defined in 2017 based on an internal materiality analysis and they were confirmed in 2018. The material topics were determined based on a prioritization of topics after workshops and discussions with the management and representatives of different functions. The results were validated by the Group Management Team as well as the Board of Directors of the company. Exel's material sustainability topics are reviewed annually and revalidated as part of the regular process for reporting on financial and non-financial information. Exel Composites uses the Nasdaq ESG (Environment, Social and Governance) Guide as reference for reporting non-financial information.

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 7 under the heading "Business model".

Exel Composites' material sustainability topics, the related policies, main activities and outcomes in 2018 as well as key non-financial indicators are described in the following. 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. A description of the company's risk management process and main risks is available at the company's website and as part of the Corporate Governance Statement 2018, which is also available at the company's website at www.exelecomposites.com.

Environmental responsibility

Exel Composites 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 also 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, 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, ISO 14001 and OHSAS 18001. In 2018 the Group's Austrian, Belgian, British, Chinese, German and Finnish units were recertified according to the environmental standard version ISO 14001/2015. The Erlanger unit in the USA, which was acquired in 2018, is ISO 9001/2015 certified and preparing for ISO 14001 certification. Exel Composites' target is that all Group units are certified.

Exel Composites actively participates in the work of industry associations to ensure being up-to-date on the latest developments in environmental matters, advances in environmental technology and new regulatory measures. Exel is, for example, a full member in EPTA, European Pultrusion Technology Association, and plays a leading role in EuCIA, European Composites Industry Association, which is one of the important sustainability influencers in the industry. Recently Exel has joined the activities of American Composites Manufacturers Association, ACMA. Through its participation in these and other industry associations, Exel is also involved in promoting standards related to composites, building and structural design.

Exel Composites' environmental risks and sustainability issues are assessed as part of an overall group-wide quality management system, the development and implementation of which is the responsibility of the Group Management Team. Environmental impact, energy consumption, the use of raw materials and the amount of waste are monitored monthly on a Group level. 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's aim is to offer a superior customer experience and customer satisfaction is regularly evaluated through customer surveys. The company is committed to providing them with safe and reliable products that contribute to sustainable development. 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. The decision concerning technology as well as the materials used can significantly improve the environmental footprint of the end product, not only in the manufacturing phase, but also during the rest of the product's lifecycle. Due to the fact that composites are often part of an end product, developing a reliable lifecycle assessment method for composite products only covering the whole lifecycle of a product is challenging.

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, as well as lower fuel and energy consumption over their lifecycle, which is also a result of the inherently thermally insulating nature of composites for example when used in the construction market. 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.

Wind energy industry grew most in 2018

Wind energy is a high growth industry, where increasing demand is driven by regulations that aim to reduce the impact of climate change and favoring sustainable energy sources. Also the average size of new wind turbines is growing, yielding to requirements of longer and stiffer wind turbine blades. Exel has for many years supplied composite solutions to wind turbine manufacturers that enable the design of lighter and bigger rotor blades as well as improved energy efficiency even with low winds. In 2018 the wind energy industry, which is part of Exel's Construction & Infrastructure customer segment, outgrew in revenue telecommunications, which has been the largest client industry in the past few years.

First experiences with bio-based composites

Exel Composites has been active in experimenting and testing bio materials in its production for many years. In 2018 the world's first bio-based viaduct was inaugurated in the city of Bergen op Zoom, the Netherlands. The bridge's side screens were constructed using Exel Composites' composite profiles, manufactured of flax fibers reinforced with a bio-based resin. Interest for bio-based composites is expected to gradually grow as experience and environmental awareness increase and as supportive regulative framework is introduced more widely.

Responsible operations

Exel Composites' primary energy source is electrical energy. In addition to production load, heating has a major impact on the total energy usage as the company's largest production sites are situated in Northern locations. 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 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. Also the Mäntyharju site in Finland uses bio-fuel operated district heating. Exel's long term target is to reduce its total use of energy proportional to production.

Carbon dioxide formed in own use of fuels, transportation of materials and external power production represents most of Exel's greenhouse gas emissions. The manufacturing of fiber-reinforced plastics with

Production KPI's *

	2018	2017
Energy usage, GWh	19.9	18.7
Energy usage, change from previous year, %	6.3	-3.4
Energy usage in proportion to production, change from previous year, %	-15.0	-15.0
Energy usage is impacted mainly by the number of manufacturing units and their geographical location (i.e. heating need) as well as production load.		
Composite waste per ton produced, change from previous year, %	26.6	-26.8
The amount of composite waste is highly dependent on the product mix.		
Reused waste, %	43.3	64.2
Possibilities to re-use composite waste vary from country to country.		

* Figures include production sites that have been operational as part of Exel Composites Group during all of the financial year (i.e. 2017 excludes Nanjing Jianhui, which was acquired in April 2017, and the Australian unit, where operations ceased by the end of 2017, and 2018 excludes DSC, which was acquired in April 2018).

generally available raw materials also entails emitting volatile organic compounds (VOC). Exel monitors and conducts tests on its VOC emissions, such as styrene, and invests in reducing them in order to always be within the permitted levels as required by local legislation and regulations. In 2018 a larger emissions evaluation was conducted at the Joensuu production facility in Finland and in the Voerde production unit in Germany the bio-pulp in the bio-filter was renewed, among other things.

In potential accident situations immediate corrective and protective actions are always done in cooperation with local authorities to minimize harm or danger to the environment or people. Incidents and near-miss situations are always investigated in order to improve the processes and train the employees to recognize and prevent risk situations. A report on the incident and the corrective actions taken are also shared with the other Group production facilities to prevent similar from happening elsewhere.

As part of the regular production process, a certain amount of composite waste is inevitably generated. As Exel Composites produces products according to each customer's 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 and aims to reduce the amount of waste produced. The company is committed to re-using composite waste and where logistically, technologically or economically possible, composite waste goes to recycling. The recyclability of composites, however, remains a relatively complex topic with challenges that also vary from country to country. Exel is an active participant in programs to develop composite recycling where it is currently not possible. The company is also an end-user of existing composite recycling solutions like CompoCycle.

Social responsibility

Responsible employer

General human resources management

Human resources (HR) are managed through the company's corporate values, Code of Conduct, the HR policy and the people 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.

As most of Exel Composites' manufacturing units are located in small towns, the company has an important social role as a local employer and supporter of regional vitality. In 2018 Exel continued its cooperation with universities and research institutes in Finland, Belgium, China, Germany and Austria. The purpose is to increase awareness of Exel as a company and attractive employer as well as of the composites industry in general. Employees' technological knowhow is crucial for Exel Composites' business and consequently employee engagement as well as recruitment of skilled employees are critical for the company.

At the end of December 2018, Exel Composites employed 675 (568) people, of whom 238 (230) in Finland and 437 (338) in other countries. The average number of employees during the financial year was 647 (532). The number of employees of the Group grew during the financial year with about 90 employees due to the acquisition of DSC.

Employee training and knowledge sharing

As part of the annual Performance Development Review process, employees together with their manager identify areas of their professional development. In 2018 a new Group-wide training about composite technology was launched to develop the know-how especially of the R&D organization. The aim of the training was to share already existing experience and knowledge within the Group. The 3-day training was very well received and it is repeated in 2019 for the sales and marketing organization. Knowledge sharing within the Group is strengthened also through internal job rotations, where employees are encouraged to apply to open positions in other units. To ensure knowledge retention and a smooth transition from leaving employees to their successors, the Group-wide succession planning process was further developed in 2018. The process now covers all Group employees, in addition to senior management.

Implementation of global HR management system

The planning to implement a new, global HR management system was initiated in 2018. The business unit in Finland will be the first to roll out the system in 2019. The system will cover all main HR processes and in its first phase includes employee core data collection that shall be further used to develop processes around performance management as well as training and development.

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, 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. All LTI's are also reported to other units to ensure the lessons learned are used 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.

Employee related KPI's

	2018	2017
Number of employees, on average	647	532
Number of employees, end of period	675	568
Employees' age, average	44	44
Employees with permanent contract, %	97.1	95.1
Employees with temporary contract, %	2.9	4.9
Number of years at Exel, average	8.8	9.4
Employee turnover, %	20.4	14.9
Male/ female, %	78.0 / 22.0	77.0 / 23.0
Top management positions (Board of Directors and Group Management Team), male/ female, %	83.3 / 16.7	63.3 / 36.7

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. More than half 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.

Monitoring breathing air quality

In 2018 the company continued to monitor the quality of breathing air in all sites. Low concentration is maintained by efficient ventilation and exposure is reduced by the use of appropriate safety gear such as breathing masks. Employees' health is also monitored through regular medical checks. Styrene exposure is monitored for example by regular mandelic acid tests (urine samples) and necessary measures are taken if any high or increased levels are found. During 2018 no increased levels were found that would have required actions.

Occupational safety: a way of caring

Preventive action and communication about safety play an important role in minimizing the risk of accidents at Exel Composites. For example, in Joensuu, Finland, a new safety leaflet "Think for a moment" was published and distributed to all employees in 2018 and in the Erlanger unit in the USA a so called "Stop to fix"-approach was introduced. In 2018 Exel continued with regular safety training for all employees across all units. These included fire extinguishing, first aid, evacuation as well as working with dangerous chemicals. Fire drills are also an important part of safety training. In 2018 fire drills were organized for example in Finland and in China together with the local fire fighter departments. All employees and visitors alike are provided with safety instructions and appropriate safety gear whenever in factory premises. Also suppliers are given safety information as needed. The employees' safety gear, including safety shoes, uniform including chemical resistant gloves, ear and eye protection, as well as respiratory protection as necessary, is regularly inspected and replaced.

In 2018 multiple safety audits as well as internal and external safety inspections at the facilities were carried out across the Group's production units. Internal safety patrols are conducted on a regular monthly or even weekly basis to resolve and minimize risk areas and address any safety observations. As a result, in 2018 altogether hundreds of different improvements were made, including investments in equipment that improve safety, better cleanliness and order in production areas, improved lighting, more safety instructions, etc. Also all local Health & Safety Committees continued during 2018 their work with safety topics, preventive wellness and employee wellbeing.

Exel Composites also cooperates with authorities and experts to improve safety issues in general. In 2018 "A guide for better work" was published by the Finnish Centre for Occupational Safety, which is the result of a project aiming to promote employees' wellbeing in the chemical industry. Exel participated in this program in 2015-2016, when a group of companies in the chemical industry where referenced to collect information about best practices and experiences concerning development projects to improve employee satisfaction and motivation.

Safety KPI's

	2018	2017
Lost time injuries, LTI *	16.9	20.1
Reports on unsafe conditions	996	890

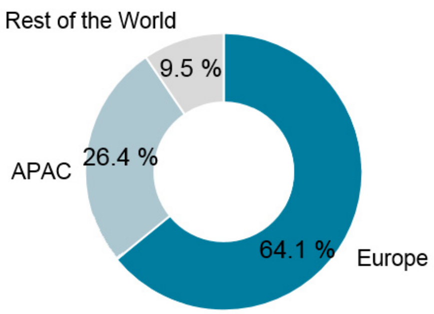
* Number of accidents per million hours worked.

Diversity and non-discrimination

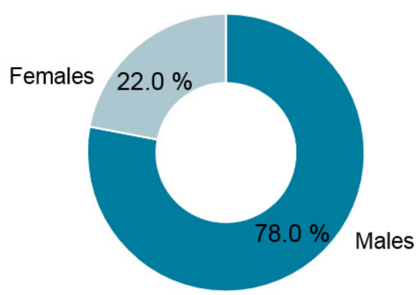
Exel Composites' corporate values and Code of Conduct state that everybody shall be treated with fairness, respect and dignity in the workplace and beyond by management and fellow employees. The company follows a zero tolerance policy for discrimination. All employees are expected to report any discriminant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

Diversity is encouraged and respected in the work place, all recruiting decisions as well as in the composition of the company's Board of Directors. The shareholders' Nomination Board follows the company's principles of diversity in making their proposal to the Annual General Meeting regarding members to Exel Composites' Board of Directors, paying attention to the members' expertise, know-how and viewpoint as well as age and gender. The target is to have both genders represented in the Board of Directors of the company. The tasks of the Nomination Board include to annually review and suggest changes, if necessary, to the principles of diversity of the Board of Directors.

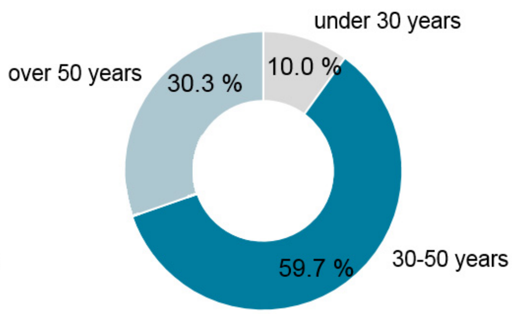
Employees per region



Gender diversity



Age distribution



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 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.

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. 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. 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 2018 there were no reported human rights violations in Exel's own operations nor within the company's supply chain.

Supplier Code of Conduct
In 2018 Exel Composites introduced a Supplier Code of Conduct based on the company's existing Code of Conduct. This was part of a process initiated during the year to confirm that suppliers comply with Exel's requirements regarding human rights and other Code of Conduct topics, appropriate legislation and regulations, including chemical safety. The Supplier Code of Conduct was shared with current suppliers and service providers and was also included as attachment to contracts with new suppliers and service providers. The Supplier Code of Conduct is available at the company's website www.exelcomposites.com.

Corporate Governance

Corporate responsibility governance and compliance
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. Based on the principle of separation of powers 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 risk management 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.

Internal communication on corporate values
In 2018 focus was put on discussing the meaning of Exel Composites' corporate values in different internal forums and through a communications campaign across the Group. The corporate values as they are today – customer focused, integrity, One Exel, caring and innovative – were originally defined through workshops and internal discussions conducted across Group locations in 2015.

Internal Code of Conduct initiative to increase awareness
A revised version of the Code of Conduct was adopted in spring 2018. In connection to this update and the value of "Integrity" in particular, an information initiative was carried out to increase awareness and understanding by all Exel's employees of the Code of Conduct and the Anti-Corruption Policy, and the process to report misconduct. During the initiative internal information sessions, among other, were organized in all Exel locations. All in all 96% of all Exel employees were covered by this initiative. The Code of Conduct and Anti-Corruption Policy were also translated to selected key languages and integrated as part of the recruitment process across the Group. This aims to ensure that all new employees are also aware of the company's ethical principles as they start in their role.

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. 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.

In 2018 the company was not informed of any incidents of corruption nor Code of Conduct violations. There were also no pending legal cases regarding corruption brought against the company or its employees. In 2018 there was one contact via the "Report misconduct"-form regarding a former employee in China. The report was investigated and resulted in no actions necessary.

Corporate Governance Statement
Exel Composites issues a Corporate Governance Statement for the financial year 2018 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.

Related material available at www.exelcomposites.com:

- Corporate values
- Code of Conduct and Supplier Code of Conduct
- The "Report misconduct"- channel
- Quality, Environmental, Health and Safety (QEHS) Policy
- Principles of diversity for the Board of Directors
- Articles of Association
- Duties of the President and CEO
- Corporate Governance Statements
- Remuneration Statements

KEY INDICATORS 2014-2018

Key indicators illustrating financial trends

	2018 IFRS 2)	2017 IFRS 2)	2016 IFRS 2)	2015 IFRS 2)	2014 IFRS 2)
Revenue	96,608	86,255	73,079	80,196	79,253
Operating profit	2,217	6,081	649	4,414	8,887
% of revenue	2.3	7.1	0.9	5.5	11.2
Adjusted operating profit	5,018	6,319	2,621	4,770	9,361
% of revenue	5.2	7.3	3.6	5.9	11.8
Profit before extraordinary items	1,705	5,335	678	4,257	8,457
% of revenue	1.8	6.2	0.9	5.3	10.7
Profit before provisions and income taxes	1,705	5,335	678	4,257	8,457
% of revenue	1.8	6.2	0.9	5.3	10.7
Total assets	74,558	64,380	53,075	53,968	52,411
Return on equity %	1.4	15.1	0.7	9.4	21.7
Return on capital employed, %	4.4	14.8	1.7	12.0	25.2
Equity ratio, %	34.7	44.8	51.3	57.1	56.9
Net gearing, %	96.3	30.3	12.2	2.0	-8.7
Capital expenditure	9,598	9,974	3,129	4,295	4,354
% of revenue	9.9	11.6	4.3	5.4	5.5
Research and development costs	2,835	1,876	1,747	1,850	1,837
% of revenue	2.9	2.2	2.4	2.3	2.3
Average personnel	647	532	479	498	433
Personnel at year end	675	568	455	494	456

Share data

	2018 IFRS 2)	2017 IFRS 2)	2016 IFRS 2)	2015 IFRS 2)	2014 IFRS 2)
Earnings per share (EPS), EUR	0.03	0.36	0.02	0.24	0.48
Adjusted earnings per share (EPS), EUR 1)	0.03	0.36	0.02	0.24	0.48
Equity per share, EUR	2.18	2.43	2.27	2.58	2.50
Dividend per share, EUR 3)	0.18	0.30	0.10	0.22	0.20
Payout ratio, %	550.6	84.5	600.3	92.0	41.7
Effective yield of shares, %	4.50	4.57	1.99	3.37	3.58
Price/earnings (P/E)	122.40	18.40	301.35	27.32	17.50
Price to book ratio, (P/B)	1.83	2.69	2.21	2.53	3.36

1) Adjusted for the dilution of option rights
2) From continuing operations
3) Board proposal for AGM 2019

COMPUTATION FORMULAE

Return on equity, %

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

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), %

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

Price to book ratio, (P/B)

$$\frac{\text{total number of shares on closing date excluding treasury shares x share price at year end}}{\text{equity without non-controlling interests}}$$

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

For the year ended 31 December 2018

EUR thousands	Notes	1.1. -31.12.2018	1.1. -31.12.2017
Revenue	**6**	**96,608**	**86,255**
Other operating income	9	373	510
Increase (+) / Decrease (-) in inventories of finished goods and work in progress		1,117	112
Materials and services		-39,874	-34,295
Employee benefit expenses	11	-29,332	-24,918
Depreciation	13	-3,871	-3,217
Amortization	13	-1,606	-8
Other operating expenses	10,12	-21,198	-18,358
Operating profit		**2,217**	**6,081**
Financial income	14	849	382
Financial expenses	15	-1,361	-1,128
Profit before tax		**1,705**	**5,335**
Income taxes	16	-1,319	-1,123
Profit/loss for the period		**386**	**4,212**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations	16	56	-850
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**	**0**
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial gains (+) / losses (-), net of tax	16	0	-3
Total comprehensive income		**442**	**3,358**
Profit/loss attributable to:			
Equity holders of the parent company		386	4,212
Comprehensive income attributable to:			
Equity holders of the parent company		442	3,358
Total earnings per share, basic and diluted, EUR	**18**	**0.03**	**0.36**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

EUR thousands	Notes	31.12.2018	31.12.2017
ASSETS			
Non-current assets			
Goodwill	20	12,756	13,447
Other intangible assets	20	4,209	1,482
Tangible assets	21	16,631	14,788
Other non-current assets	22	89	85
Deferred tax assets	17	747	473
Total non-current assets		**34,432**	**30,276**
Current assets			
Inventories	23	15,214	11,689
Trade and other receivables	24	20,111	14,785
Cash at bank and in hand	25	4,801	7,629
Total current assets		**40,126**	**34,104**
Total assets		**74,558**	**64,380**
EQUITY AND LIABILITIES	33		
Share capital		2,141	2,141
Other reserves		129	129
Invested unrestricted equity fund		2,539	2,539
Translation differences		1,987	1,931
Retained earnings		18,986	22,075
Equity attributable to the equity holders of parent company		**25,782**	**28,815**
Total equity		**25,782**	**28,815**
Non-current liabilities			
Interest-bearing loans and borrowings	27, 31	11,393	4,615
Non-current interest-free liabilities	26	487	478
Deferred tax liabilities	17	162	240
Total non-current liabilities		**12,042**	**5,333**
Current liabilities			
Interest-bearing loans and borrowings	27	18,234	11,742
Trade and other current liabilities	26	18,121	17,729
Income tax payable	26	378	761
Total current liabilities		**36,733**	**30,232**
Total equity and liabilities		**74,558**	**64,380**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

EUR thousands	Notes	1.1.-31.12.2018	1.1.-31.12.2017
Cash flow from operating activities			
Profit for the period		386	4,212
Non-cash adjustments to reconcile profit to net cash flow	36	7,535	5,302
Change in working capital		-4,085	-3,493
Cash flow generated by operations		3,837	6,021
Interest paid		-402	-121
Interest received		13	13
Other financial items		-146	-319
Income taxes paid		-2,435	-738
Net cash flow from operating activities		**868**	**4,856**
Cash flow from investing activities			
Acquisitions of subsidiaries		-8,073	-5,102
Purchase of non-current assets		-4,787	-3,456
Proceeds from sale of non-current assets		82	49
Net cash flow from investing activities		**-12,779**	**-8,509**
Cash flow before financing activities		**-11,911**	**-3,653**
Cash flow from financing activities			
Proceeds from long-term borrowings		5,670	3,000
Repayments of long-term borrowings		-1,000	-1,000
Change in short-term loans		8,300	4,173
Repayments of finance lease liabilities		0	0
Purchases of treasury shares		0	-525
Dividends paid		-3,546	-1,190
Net cash flow from financing activities		**9,426**	**4,458**
Change in liquid funds		**-2,484**	**805**
Liquid funds at the beginning of period		7,629	6,944
Exchange rate fluctuations on liquid funds		-357	-131
Liquid funds through business acquisitions		13	11
Liquid funds at the end of period		4,801	7,629

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

As at 31 December 2018

EUR thousands	Share capital	Invested unrestricted equity fund	Translation differences	Retained earnings	Total
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.

EUR thousands	Share capital	Invested unrestricted equity fund	Translation differences	Retained earnings	Total
Balance at 1 January 2018	**2,141**	**2,669**	**1,931**	**22,075**	**28,816**
Comprehensive result			56	386	442
Defined benefit plan actuarial gains (+) / loss (-), net of tax				0	0
Other items				-17	-17
Dividend				-3,546	-3,546
Treasury shares				0	0
Share-based payments reserve				0	0
Correction to previously issued financial statements 1)				88	88
Balance at 31 December 2018	**2,141**	**2,669**	**1,989**	**18,986**	**25,782**

1) Clearing a non-registered dormant subsidiary from consolidated books.

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 2018 were authorized for issue in accordance with a resolution of the Board of Directors on 14 February 2019. Final decision to adopt or reject the financial statements is made by shareholders in Annual General Meeting on 21 March 2019.

NOTE 1 CORPORATE INFORMATION

Exel Composites is the world's leading composite technology company that engineers and manufactures composite products and solutions to an extensive range of demanding industrial applications.

The core of the business is based on our employees' high level of expertise and our own, internally developed composite technologies, which have been perfected over decades with a steady focus on innovation. With nine manufacturing plants across Europe, Asia, and North America, and a global sales network, we are firmly driven by superior customer experience and world-class operations.

The Group's factories are located in Austria, Belgium, China, Finland, Germany, the United Kingdom and USA. 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 2018. 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 2018 and 2017.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers has been applied for the reporting period beginning on 1 January 2018. The new standard defines a five-step model to recognize revenue based on contracts with customers. IFRS 15 replaced the old standards IAS 18 and IAS 11 as well as their interpretations. The new standard had no material effect on the Group's 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 did not change the Group's earlier revenue recognition principles.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments has been applied for the reporting period beginning on 1 January 2018. IFRS 9 replaced the standard IAS 39 Financial Instruments: recognition and measurement. The adoption of IFRS 9 did not have any material effect on the Group's annual accounts.

The main impact of the IFRS 9 application for th Group is coming from the new expected credit loss model applied to assess impairment loss of the doubtful accounts receivable. The Group applies the simplified approach allowed by IFRS 9 as the accounts receivable does not contain significant financing component. To measure the lifetime expected credit losses trade receivables have been grouped based on credit risk characteristics and aging category. Expected credit losses have been measured based on historical loss rates adjusted by forward looking estimates and individual assessment. The adaption of IFRS 9 did not have material effect on impairment losses made. Part of the Group's trade receivables are covered by a trade credit insurance.

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 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
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
- IFRS 9 Prepayment features with negative compensation
- IAS 28 Long-term interests in Associates and Joint Ventures
- IAS 19 Plan Amendment, Curtailment or Settlement

IFRS 16 Leases

IFRS 16 Leases will be effective for the reporting periods beginning on 1 January 2019 or later and it replaces the current IAS 17 standards. 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 estimates that the carrying amounts of lease liabilities and right-of-use assets arising from application of IFRS 16 will be approximately EUR 6 - 7 million. The Group will apply the modified retrospective approach in application of IFRS 16. With this approach the comparative information is not restated and the cumulative effect of applying the standard will be recognized to the opening balance of retained earnings.

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 in accordance with IFRS 15 when the performance obligation is satisfied. 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. 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 IFRS 15.

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 2018 and 2017.

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 2018 and 2017, the Group had no assets where the borrowing costs would have been capitalized.

Financial assets

Financial assets are classified within the scope of IFRS 9 as financial assets at amortized cost, at fair value through profit or loss, at fair value through other comprehensive income 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.

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

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 2018 and 2017.

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 IFRS 9 are classified as financial liabilities at amortized cost, at fair value through profit or loss, at fair value through other comprehensive income or as derivatives designated as hedging instruments in an effective hedge. The Group determines the classification of its financial liabilities at initial recognition. 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 IFRS 9. 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 2018 or 2017.

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 in accordance with IFRS 9. The Group applies the simplified approach allowed by IFRS 9 as the accounts receivable does not contain significant financing component. To measure the lifetime expected credit losses trade receivables have been grouped based on credit risk characteristics and aging category. Expected credit losses have been measured based on historical loss rates adjusted by forward looking estimates and individual assessment.

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

	2018	2017
Europe	61,073	63,828
APAC	17,430	17,824
Rest of world	18,106	4,603
Total	**96,608**	**86,255**

Revenue from the biggest customer amounted to EUR 12,352 (12,518) thousand.

Total assets according to geographic location

	2018	2017
Europe	32,785	35,627
APAC	26,020	21,000
Rest of world	10,548	0
Total	**69,353**	**56,627**

Capital expenditure according to geographic location

	2018	2017
Europe	3,752	2,859
APAC	695	7,115
Rest of world	5,151	0
Total	**9,598**	**9,974**

NOTE 7 BUSINESS COMBINATIONS

The acquisition of Diversified Structural Composites, DSC

The acquisition of Diversified Structural Composites, Inc. (DSC), which was announced in a stock exchange release on 23 April 2018, was completed in April 2018. The unit is consolidated into Group accounts as of 1 May 2018.

DSC has one manufacturing facility using mainly pultrusion technology located in Erlanger, Kentucky. DSC has a high level of technological know-how in pultrusion related technologies, which complements well Exel Composites' existing expertise and growth strategy. DSC's product portfolio consists of carbon fiber and glass fiber reinforced composites that are produced particularly for the wind energy industry. At the time of the acquisition, DSC had about 90 employees and for the fiscal year 2017, ended in March 2018, revenue amounted to USD 19 million and operating loss of USD 0.6.

The total estimated net debt free purchase price was approximately USD 9.5 million (EUR 7.9 million), out of which USD 5.7 million corresponded to DSC's business and USD 3.8 million to working capital. The acquisition was financed with a new long term loan.

During May-December 2018, DSC's revenue was EUR 8.7 million and operating profit EUR -1.2 million. For 2018 DSC's revenue was EUR 14.5 million and operating profit EUR -1.7 million. Exel Group's revenue would have been EUR 102.4 million and operating profit EUR 2.0 million for 2018, if the business combination of DSC had happened in the beginning of the financial year.

Business combinations

	Acquisition date	Share acquired	Personnel
Diversified Structural Composites Inc, USA	30 April 2018	100%	90

Assets and liabilities acquired

EUR thousand	
ASSETS	
Intangible assets	1,586
Tangible assets	2,480
Inventories	3,650
Trade and other receivables	2,713
Cash at bank and in hand	13
Total assets	**10,442**
LIABILITIES	
Trade and other current liabilities	3,161
Total liabilities	**3,161**
Net assets	**7,281**
Goodwill	792
Purchase price	8,073
Expenses of acquisitions (comprehensive P&L: fixed costs)	989
of which during the review period	945

The acquisition of Nanjing Jianhui Composite Materials

The acquisition of Nanjing Jianhui Composite Materials (JHFRP) by Exel Composites was completed in April 2017 and the business unit is consolidated in the Group accounts as of 1 May 2017.

During the financial year, Exel Composites updated its estimate on the total purchase price of Nanjing Jianhui Composite Materials. The updated purchase price estimate is EUR 8.9 million, which includes a deferred variable component of approximately EUR 1.3 million linked to key employee retention. The estimated variable component will be booked as a cost in group accounting during the retention period.

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

EUR thousand	
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

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	2018 Average rate	2017 Average rate	2018 Balance sheet rate	2017 Balance sheet rate
Australia	AUD	1.57992	1.47294	1.62200	1.53460
UK	GBP	0.88475	0.87615	0.89453	0.88723
China	RMB	7.80736	7.62644	7.87510	7.80440
USA	USD	1.18149	1.12929	1.14500	1.19930
Hong Kong	HKD	9.25987	8.80122	8.96750	9.37200

NOTE 9 OTHER OPERATING INCOME

	2018	2017
Rental incomes	18	19
Other operating incomes	355	492
Total	**373**	**510**

Other operating income includes Exel Sports licensing income of EUR 99 (308) thousand and government grants of EUR 98 (22) thousand.

NOTE 10 OTHER OPERATING EXPENSES

	2018	2017
Rental expenses	1,443	1,028
Other operating expenses	19,756	17,330
Total	**21,198**	**18,358**

The fees paid in 2018 to the external auditor for auditing Exel Group companies totaled EUR 219 (168) thousand, while the fees paid for tax services totaled EUR 29 (34) thousand and for non-audit services totaled EUR 174 (30) thousand.

NOTE 11 EMPLOYEE BENEFIT EXPENSES

	2018	2017
Wages and salaries	24,233	20,567
Pension costs – defined contribution schemes	2,434	2,212
Pension costs – defined benefit schemes	-2	18
Other employee benefits	2,667	2,121
Total	**29,332**	**24,918**

	2018	2017
Average number of personnel	647	532

NOTE 12 RESEARCH AND DEVELOPMENT EXPENDITURE

The income statement includes research and development costs entered as costs amounting to EUR 2,835 (1,876) thousand in 2018. 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

	2018	2017
Intangible assets	522	269
Tangible assets		
Buildings	205	200
Machinery and equipment	3,144	2,748
Total	**3,871**	**3,217**

Impairment and write-down of assets

	2018	2017
Intangible assets	0	0
Goodwill	1,305	0
Tangible assets		
Land	8	8
Buildings	0	0
Machinery and equipment	294	0
Total	**1,606**	**8**

NOTE 14 FINANCIAL INCOME

	2018	2017
Interest income on loans and receivables	11	13
Dividend income	2	2
Foreign exchange gains	833	366
Change in fair value of financial assets recognized at fair value through profit or loss	4	0
Other finance income	0	2
Total finance income	**849**	**382**

NOTE 15 FINANCIAL EXPENSES

	2018	2017
Interest expenses on debts and borrowings	479	209
Foreign exchange losses	693	763
Change in fair value of financial assets recognized at fair value through profit or loss (from derivatives)	38	-14
Other finance expenses	150	169
Total finance expenses	**1,361**	**1,128**

Exchange differences for sales (exchange rate loss EUR 5 thousand) and purchases (exchange rate loss EUR 2 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 2018 and 2017:

	2018	2017
Income tax based on taxable income for the financial year	1,666	1,393
Income taxes from previous financial periods	18	2
Deferred taxes	-365	-271
Total income taxes reported in the income statement	**1,319**	**1,123**

Income tax recognized in other comprehensive income 2018

	Before tax	Tax effect	After tax
Exchange differences on translating foreign operations	56	0	56
Defined benefit plan actuarial gains (+) / losses (-)	0	0	0
Total	**56**	**0**	**56**

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**

A reconciliation between tax expense and the product of accounting profit multiplied by Finland's domestic tax rate for the years ended 31 December 2018 and 2017 is as follows:

Income tax reconciliation

	2018	2017
Accounting profit before tax	1,705	5,335
Tax calculated at domestic tax rate 20.0% in 2018 and in 2017	341	1,067
Difference between the domestic and foreign tax rates	-22	23
Expenses not deductible for tax purposes	-660	240
Other	1,660	-207
Tax charge	1,319	1,123
Effective tax rate	77.3	21.0

NOTE 17 DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Deferred tax assets

	1 January 2018	Recognized in income statement	Recognized in shareholders' equity	Exchange rate differences	31 December 2018
Intercompany profit in inventory	5	0			5
Intercompany profit in fixed assets	103	-10			93
Losses	515	104			619
Other temporary differences	510	21	-9	-8	514
Offset with deferred tax liabilities	-659	175			-484
Net deferred tax assets	**473**	**290**	**-9**	**-8**	**747**

Deferred tax liabilities

	1 January 2018	Recognized in income statement	Recognized in shareholders' equity	Exchange rate differences	31 December 2018
Accumulated depreciation	4	62			66
Other temporary differences	894	-313		0	581
Offset with deferred tax assets	-659	175			-484
Net deferred tax liabilities	**240**	**-76**	**0**	**0**	**162**

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**

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 2018 of EUR 12,077 (8,450) thousand, of which the Company has recorded deferred tax assets of EUR 618 (516) 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.

	2018	2017
Profit for the financial year attributable to ordinary equity holders of the parent company, EUR thousands	3,877	4,212
Weighted average number of outstanding shares during the financial year, 1,000 shares	11,820	11,862
Basic and diluted earnings per share, EUR/share	0.33	0.36

NOTE 19 DIVIDENDS PER SHARE

The Annual General Meeting held on 22 March 2018 approved the Board's proposal to distribute a dividend of EUR 0.30 per share for the financial year 2017.

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.

Following the balance sheet date the Board of Directors has proposed for approval at the Annual General Meeting that a dividend of EUR 0.18 per share be paid for the financial year 2018.

NOTE 20 INTANGIBLE ASSETS

The Group has no internally created intangible assets.

Goodwill

	2018	2017
Acquisition cost at 1 January	18,300	14,691
Additions	789	4,279
Exchange rate differences	-223	-670
Acquisition cost at 31 December	18,866	18,300
Accumulated amortization at 1 January	-4,852	-4,896
Impairment charge	-1,305	0
Exchange rate differences	47	44
Accumulated amortization at 31 December	-6,110	-4,852
Book value at 1 January	13,447	9,793
Book value at 31 December	12,756	13,447

Other intangible assets

	2018	2017
Acquisition cost at 1 January	6,211	5,302
Additions	98	1,104
Decreases	0	-195
Transfers between asset groups	0	0
Exchange rate differences	-185	0
Acquisition cost at 31 December	6,124	6,211
Accumulated amortization at 1 January	-5,173	-5,225
Amortization for the period	-135	-119
Impairment charge and write-downs	0	0
Decreases	0	0
Exchange rate differences	179	171
Accumulated amortization at 31 December	-5,129	-5,173
Book value at 1 January	1,038	77
Book value at 31 December	996	1,038

Other long-term expenses

	2018	2017
Acquisition cost at 1 January	4,114	3,960
Additions	2,092	79
Decreases	0	0
Transfers between asset groups	1,015	75
Translation differences	56	0
Acquisition cost at 31 December	7,277	4,114
Accumulated amortization at 1 January	-3,670	-3,520
Amortization for the period	-387	-150
Decreases	0	0
Translation differences	-6	0
Accumulated amortization at 31 December	-4,063	-3,670
Book value at 1 January	443	440
Book value at 31 December	3,213	443

NOTE 21 PROPERTY, PLANT AND EQUIPMENT

Land and water areas

	2018	2017
Acquisition cost at 1 January	863	903
Additions	0	0
Decreases	0	0
Transfer between asset groups	0	0
Exchange rate differences	-7	-40
Acquisition cost at 31 December	856	863
Impairment charge and write-downs	-255	-258
Exchange rate differences	2	12
Book value at 1 January	616	653
Book value at 31 December	603	616

Buildings and structures

	2018	2017
Acquisition cost at 1 January	7,697	7,706
Additions	476	109
Decreases	0	0
Transfer between asset group	139	2
Exchange rate differences	-37	-120
Acquisition cost at 31 December	8,275	7,697
Accumulated amortization at 1 January	-5,666	-5,521
Amortization for the period	-205	-200
Decreases	0	0
Amortization for the period	0	0
Exchange rate differences	26	55
Accumulated amortization at 31 December	-5,845	-5,666
Book value at 1 January	2,033	2,187
Book value at 31 December	2,432	2,033

Machinery and equipment

	2018	2017
Acquisition cost at 1 January	50,505	50,252
Additions	4,738	3,109
Decreases	-127	-3,047
Transfers between asset groups	860	705
Exchange rate differences	-59	-514
Acquisition cost at 31 December	55,917	50,505
Accumulated amortization at 1 January	-40,794	-41,344
Amortization for the period	-3,179	-2,752
Impairment charge and write-downs	-70	0
Decreases	53	2,969
Translation differences	95	333
Accumulated amortization at 31 December	-43,895	-40,794
Book value at 1 January	9,710	8,907
Book value at 31 December	12,021	9,710

Advance payments and construction in progress

	2018	2017
Acquisition cost at 1 January	2,428	2,087
Additions	1,404	1,294
Transfers between asset groups	-2,014	-782
Decreases	-253	-168
Exchange rate differences	8	-3
Accumulated amortization at 31 December	1,574	2,428
Book value at 1 January	2,428	2,087
Book value at 31 December	1,574	2,428

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.

	2018	2017
Book value at 1 January	85	83
Decreases	0	0
Change in fair value	4	2
Book value at 31 December	89	85

NOTE 23 INVENTORIES

	2018	2017
Raw materials	7,504	6,588
Work in progress	2,484	1,262
Finished products and goods	5,226	3,839
Total inventories	15,214	11,689

During the 2018 financial year an expense of EUR 220 (506) thousand was recognized to reduce the book value of inventories to their net realizable value.

NOTE 24 TRADE AND OTHER RECEIVABLES

	2018	2017
Trade receivables	18,566	13,577
Deferred income	903	372
Other receivables	642	836
Total receivables	20,111	14,785

During the 2018 financial year credit losses of EUR 142 (414) thousand were recorded, consisting of actual credit losses amounting to EUR 116 (58) thousand and change in the bad debt provision amounting to EUR 26 (356) thousand 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
2018	18,566	11,445	5,152	1,117	852
2017	13,577	10,139	2,227	928	283

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 4,801 (7,629) thousand.

NOTE 26 TRADE AND OTHER NON-INTEREST BEARING LIABILITIES

	2018	2017
Trade payables	9,263	9,109
Accrued expenses	7,907	8,064
Advance payments	172	71
Other current interest-free liabilities	1,156	1,247
Non-current interest-free liabilities	487	478
Total	**18,986**	**18,968**

NOTE 27 INTEREST BEARING LOANS AND BORROWINGS

Non-current interest-bearing loans and borrowings

	2018 Book values	2017 Book values
Loans from financial institutions	10,781	4,000
Pension loans	613	615
Total	**11,393**	**4,615**

Current interest-bearing loans and borrowings

	2018	2017
Short-term loans from financial institutions	5,362	10,742
Current portion of long-term debt (repayments)	12,872	1,000
Total	**18,234**	**11,742**

Maturity of non-current interest-bearing liabilities

	2018	2017
2018	0	1,000
2019	12,872	1,000
2020	3,833	3,000
2021	6,947	0
2022	0	0
2023	0	0
Later	0	0
Total	**23,652**	**5,000**

Among interest-bearing loans EUR 6,714 (1,200) thousand has been converted to fixed interest rates through interest rate swap agreements in 2018.

NOTE 28 IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES

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

Distribution of goodwill

	2018	2017
Finland	135	135
Germany	0	1,305
Belgium	209	209
Austria	688	688
China	4,197	4,019
USA	818	0
Exel Composites Group	6,710	7,092
Total	**12,756**	**13,447**

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 3% 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 6,9% (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, apart from German business unit where an impairment of totally EUR 1,585 thousands was recognized in the remaining goodwill value and in other balance sheet items. The impairment was due to business unit's weakened long-term earnings expectations.

The sensitivity analysis of goodwill impairment tests indicate that if the group turnover drops over 1% (5%) there would be a situation where the recoverable value would not exceed the carrying amount. Alternatively the sales margin must decline over 2 (4) per cent units or average discount rate to increase to over 8,4% (14,4%).

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

	31.12.2018	31.12.2017
AUD	2,854	3,054
GBP	6,805	6,841
RMB	8,282	6,998
HKD	251	59
USD	-2,385	0

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

31 December 2018	AUD	GBP	RMB	HKD	USD
Increase in currency rate vs. EUR, %	5%	5%	5%	5%	5%
Effect on profit before tax, EUR					
Effect on equity, EUR	143	340	414	13	-119

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

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 2018 were divided to the currencies as follows:

Currency	Amount EUR thousands	%
EUR	22,475	76%
USD	6,114	21%
RMB	1,039	4%

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 6,714 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 2018 was EUR 296 (164) thousand.

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 2018 amounting to EUR 7,009 thousand of which EUR 7,009 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 2018	On demand	Less than 3 months	3-12 months	1-5 years	> 5 years	Total
Interest-bearing liabilities		6,901	11,333	10,781		29,015
Trade and other current payables		18,499				18,499

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

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 2018 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.

	2018	2017
Interest-bearing liabilities	29,627	16,356
Cash and cash equivalents	4,801	7,629
Net interest-bearing liabilities	24,827	8,727
Shareholders' equity	25,782	28,815
Net gearing, %	96.3	30.3

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

	2018	2017
Service cost for the financial year	2,434	2,212
Differences in benefit schemes	-2	18
Total included in personnel expenses	**2,432**	**2,230**

Amounts recognized in the balance sheet

	2018	2017
At the beginning of financial period	615	594
Pension expenses in the income statement	-2	18
Defined benefit plan actuarial gains (+) / losses (-)	0	3
At the end of financial period	**613**	**615**

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	2018 Net fair value	2018 Nominal value	2017 Net fair value	2017 Nominal value
Trade and other receivables	Level 2	20,111	20,111	14,785	14,785
Cash and cash equivalents	Level 2	4,801	4,801	7,629	7,629
Interest rate swap agreements	Level 2	-50	6,714	-11	1,200
Bank loans	Level 2	23,703	23,652	15,884	15,742
Non-current loan facilities	Level 2	5,362	5,362	0	0
Trade and other payables	Level 2	18,499	18,499	18,490	18,490

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

NOTE 32 CONTINGENT LIABILITIES

	2018	2017
Commitments on own behalf		
Mortgages	2,783	2,783
Floating charges	12,500	12,500
Operating leases		
Not later than one year	1,304	750
1-5 years	738	831
Other liabilities	**6**	**312**

NOTE 33 SHARE CAPITAL

	Number of shares (1,000)	Share capital	Invested unrestricted equity fund	Total
1 January 2017	11,897	2,141	2,539	4,681
31 December 2017	11,897	2,141	2,539	4,681
31 December 2018	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 22 March 2018 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 also contained an entitlement for the Company to accept its own shares as pledge. The number of shares that could 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. The share repurchase authorization is valid until 30 June 2019.

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.

The authorization was not used in 2018. In 2017 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.

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 key individuals. The Board of Directors makes the decision on the program annually.

The 2015 program, the earning period of which ended in 2017, was based on a long-term monetary incentive program and targeted at approximately 25 executives for the earning period 2015-2017. The President and CEO and the members of the Group Management Team were included in the target group of the 2015 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 2015-2017 was EUR 1.5 million. There was no monetary reward paid in 2018 based on the program.

On 31 December 2018 the Group had one monetary and two share-based long-term incentive programs:

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 2018 no related costs were recorded.

The 2017 plan is part of a share-based long-term incentive program for the earning period 2017-2019 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 51 thousand of related costs were accrued in 2018.

The 2018 plan is part of a share-based long-term incentive program for the earning period 2018-2020 and is targeted at approximately 15 executives. The President and CEO and the members of the Group Management Team are included in the target group of the 2018 incentive program. The potential share-based performance reward is based on the adjusted operating profit (EBIT) and the absolute total shareholder return of the company's share (TSR). The potential share reward is payable in 2021. The maximum number of shares to be paid under this individual plan is 122,000 shares. EUR 15 thousand of related costs were accrued in 2018.

The administration of the share-based incentive plan and the acquisition of shares are conducted through an arrangement made with Evli Awards Management Oy (EAM) as per the decision of the Board of Directors on 12 June 2017 and 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 2016, 2017 and 2018 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 and 2018 programs also include a one year lock-up period, and the restriction on leaving the Company is extended to the end of the lock-up.

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 2018

The parent company's distributable funds on 31 December 2018 were EUR 11,422 thousand.

NOTE 36 CASH FLOW FROM BUSINESS OPERATIONS

Non-cash adjustments to the result for the financial year

	2018	2017
Depreciation, impairment charges and write-offs	5,478	3,225
Taxes	1,319	1,123
Financial expenses	1,367	1,127
Financial income	-846	-383
Other adjustments	218	210
Total	**7,535**	**5,302**

NOTE 37 RELATED-PARTY TRANSACTIONS

Exel Composites' related parties include the controlling parent company, all companies belonging the Exel Composites Group as well as Exel Composites' Board of Directors, President & CEO, Group Management Team and executives of the parent company and subsidiaries. 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 2018.

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 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%
Exel Composites USA Holdings Inc.	USA	100%	100%
Diversified Structural Composites Inc.	USA	100%	100%

The ultimate parent company is Exel Composites Plc.

Management remuneration

Senior management accrued salaries, fees and bonuses

	2018	2017
President and CEO	390	363
Members of the Board of Directors	164	170
Total	**554**	**533**

Salaries and fees per person

President and CEO and Board of Directors	2018	2017
Riku Kytömäki, President and CEO	390	363
Reima Kerttula, Chairman of the Board (as of 17 March 2016, member until 17 March 2016)	56	68
Matti Hyytiäinen, Vice Chairman of the Board (as of 17 March 2016 and until 4 April 2017, member until 17 March 2016)	0	1
Petri Helsky, Member (as of 17 March 2016)	28	27
Heikki Hiltunen, Member (until 4 April 2017)	0	0
Kai Kauto, Member (as of 4 April 2017)	25	26
Helena Nordman-Knutson, Member (as of 4 April 2017)	28	23
Jouko Peussa, Member (as of 17 March 2016)	27	25
Total	**554**	**533**

The accrued pension costs of President and CEO amounted to EUR 98 (91) thousand. The President and CEO's pension plan is pursuant to the employment pension legislation.

The holdings of the senior management on 31 December 2018

Number of shares and votes	2018	2017
Riku Kytömäki	50,200	35,100
Reima Kerttula	12,851	9,252
Matti Hyytiäinen (until 4 April 2017)	0	0
Petri Helsky	3,867	2,663
Heikki Hiltunen (until 4 April 2017)	0	0
Kai Kauto (as of 4 April 2017)	2,725	1,521
Helena Nordman- Knutson (as of 4 April 2017)	2,725	1,521
Jouko Peussa	3,867	2,663
Number of shares and votes total	**76,235**	**52,720**

NOTE 38 EVENTS AFTER THE REPORTING PERIOD

Exel Composites closes its production facility in Germany and conducted co-determination negotiations in Finland

In February 2019, Exel Composites announced that it will close its production facility in Voerde, Germany, by 30 April 2019. The closing leads to the termination of employment of 23 permanent employees. The closure will result in annual cost savings of approximately EUR 1.0 million from 2020 onwards. According to preliminary estimations, the closure will result in a one-time cash cost of EUR 1.2 million that will be recorded in the first quarter of 2019.

In January-February 2019, Exel Composites conducted co-determination negotiations in the company's manufacturing units in Finland with the purpose of improving profitability and adjusting the resources to the need. As a result, the employment of nine employees were terminated.

The closing of the Voerde manufacturing unit in Germany and the co-determination negotiations in Finland fall under the Group-wide cost reduction program initiated in 2018.

Exel Composites continues the long-term incentive program for top management

In February 2019, the Board of Directors of Exel Composites decided on the continuation of the share-based long-term incentive program for the top management of Exel Composites. The 2019 performance-based plan is part of the share-based long-term incentive program published on 4 May 2017. The performance targets applied to the plan commencing at the beginning of 2019 are adjusted operating profit (EBIT) and the absolute total shareholder return of the company's share (TSR).

PARENT COMPANY INCOME STATEMENT

EUR	Notes	1.1. -31.12.2018	1.1. -31.12.2017
Revenue	1	**32,763,727.81**	**38,508,619.38**
Increase (+) / Decrease (-) in inventories of finished goods and work in progress		903,048.41	244,557.62
Other operating income		262,823.06	372,837.75
Materials and services			
Materials and supplies			
Purchases during financial period		10,979,891.74	13,057,864.89
Increase (-) or decrease (+) in inventories		329,409.87	-492,448.59
		-11,309,301.61	-12,565,416.30
External services		-273,999.25	-815,425.95
Personnel expenses	2		
Wages and salaries		10,864,324.89	10,399,638.05
Pension costs		1,859,464.89	1,812,851.43
Other personnel expenses		442,238.77	499,724.82
		-13,166,028.55	-12,712,214.30
Depreciation and write-down	3		
Planned depreciation		-1,788,812.72	-1,521,208.15
Other operating expenses	4	-5,539,001.66	-7,491,300.18
Operating profit		**1,852,455.49**	**4,020,449.87**
Financial income and expenses	5		
Other interest and financial income		3,586,065.24	321,603.38
Interest paid and other financial expenses		-833,537.56	-1,270,978.31
		2,752,527.68	-949,374.93
Profit (-loss) before appropriations		**4,604,983.17**	**3,071,074.94**
Appropriations	6	-312,096.30	-30,647.62
Profit (-loss) before taxes		**4,292,886.87**	**3,040,427.32**
Direct taxes	7	-416,075.69	-828,883.94
Profit (-loss) for the period		**3,876,811.18**	**2,211,543.38**

PARENT COMPANY BALANCE SHEET

EUR	Notes	1.1. -31.12.2018	1.1. -31.12.2017
ASSETS			
Non-current assets	8		
Intangible assets			
Intangible assets		14,558.70	28,523.24
Other capitalized expenditure		1,622,784.26	443,465.99
		1,637,342.96	471,989.23
Tangible assets			
Land and water		90,313.28	90,313.28
Buildings		1,239,526.77	904,495.05
Machinery and equipment		3,944,869.46	3,412,682.88
Construction in progress		1,281,548.50	2,292,220.19
		6,556,258.01	6,699,711.40
Investments			
Holdings in Group companies	9	20,842,744.31	20,731,882.74
Other shares and holdings		53,069.36	53,069.36
		20,895,813.67	20,784,952.10
Total non-current assets		**29,089,414.64**	**27,956,652.73**
Current assets			
Inventories			
Raw materials and consumables		3,281,779.97	3,611,189.84
Work in progress		2,064,474.08	1,037,801.44
Finished goods		1,075,996.02	1,199,620.25
		6,422,250.07	5,848,611.53
Current receivables	10		
Trade receivables		2,780,759.88	3,973,552.61
Receivables from Group companies		15,986,851.66	2,709,248.11
Other receivables		495,265.97	587,283.26
Prepaid expenses and accrued income		347,352.93	80,573.57
		19,610,230.44	7,350,657.55
Cash in hand and at bank		315,255.76	331,158.99
Total current assets		**26,347,736.27**	**13,530,428.07**
Total assets		**55,437,150.91**	**41,487,080.80**

EUR	Notes	1.1. -31.12.2018	1.1. -31.12.2017
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		5,006,354.42	6,340,763.94
Profit/loss for the period		3,876,811.18	2,211,543.38
Total equity		**13,563,875.68**	**13,233,017.40**
Appropriation			
Cumulative accelerated depreciation		331,266.08	19,169.78
Liabilities			
Non-current liabilities	12		
Loans from financial institutions		10,780,537.12	4,000,000.00
Current liabilities	13		
Loans from financial institutions		17,195,365.93	9,000,000.00
Accounts payable		169,098.51	64,745.13
Trade payables		2,048,356.63	2,786,458.10
Liabilities to Group companies		5,511,006.95	5,778,783.18
Other liabilities		329,965.90	243,528.28
Accrued liabilities and deferred income		5,507,678.11	6,361,378.93
Total current liabilities		**30,761,472.03**	**24,234,893.62**
Total liabilities		**41,542,009.15**	**28,234,893.62**
Total liabilities and shareholders' equity		**55,437,150.91**	**41,487,080.80**

PARENT COMPANY CASH FLOW STATEMENT

EUR thousands	2018	2017
Cash flow from operating activities		
Profit for the year	3,877	2,211
Profit for the year adjustments	-243	2,548
Change in net working capital	-13,098	-345
Interest paid and other financial expenses	-385	-260
Dividend received	2,622	2
Interest received	24	76
Income taxes paid	-1,123	-466
Net cash flow from operating activities	**-8,326**	**3,766**
Cash flow from investing activities		
Capital expenditure	-2,653	-2,141
Installments in subsidiaries' shares	-111	-4,446
Proceeds from sale of fixed assets	0	57
Net cash flow from investing activities	**-2,764**	**-6,530**
Cash flow before financing activities	**-11,090**	**-2,764**
Cash flow from financing activities		
Proceeds from long-term borrowings	8,300	3,000
Repayments of long-term borrowings	-1,000	-1,000
Change of current loans	7,362	1,500
Group subsidies	-42	-25
Purchases of treasury shares	0	-525
Dividend paid	-3,546	-1,190
Net cash flow from financing activities	**11,074**	**1,760**
Change in liquid funds	**-16**	**-1,004**
Liquid funds at the beginning of period	**331**	**1,335**
Liquid funds at the end of period	**315**	**331**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

(All figures in EUR thousands unless otherwise stated)

NOTE 1 REVENUE BY MARKET AREA

	2018	2017
Europe	28,258	32,894
APAC	1,477	1,920
Rest of world	3,028	3,695
Total	**32,764**	**38,509**

NOTE 2 PERSONNEL EXPENSES

Paid

	2018	2017
President and CEO	390	363
Members of the Board	164	170
Total	**554**	**533**

Average personnel employed

	2018	2017
Office employees	89	79
Production employees	146	137
Total	**236**	**216**

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

	2018	2017
Intangible rights	14	40
Other capitalized expenditure	184	150
Buildings	137	140
Machinery and equipment	1,230	1,191
Write-downs of non-current assets	223	0
Total	**1,789**	**1,521**

NOTE 4 OTHER OPERATING EXPENSES

	2018	2017
Rents	124	147
Marketing expenses	356	244
Other expenses	5,059	7,101
Total	**5,539**	**7,491**

	2018	2017
Auditor's fee	61	43
Tax consulting	0	3
Other fees	17	27
Total	**78**	**73**

NOTE 5 FINANCE INCOME AND EXPENSES

Other interest and financial income

	2018	2017
From Group companies	2,956	15
From others	630	307
Total	**3,586**	**322**

Interest and other financial expenses

	2018	2017
To Group companies	-101	-116
To others	-733	-1,155
Total	**-834**	**-1,271**
Total finance income and expenses	**2,753**	**-949**

NOTE 6 APPROPRIATIONS

	2018	2017
Group subsidy	0	-42
Accelerated depreciation	-312	12
Total	**-312**	**-30**

NOTE 7 DIRECT TAXES

	2018	2017
Taxes	-416	-829

NOTE 8 INTANGIBLE AND TANGIBLE ASSETS

Intangible assets

	2018	2017
Acquisition cost 1 January	1,220	1,220
Increase	0	0
Decrease	0	0
Reclassification between items	0	0
Acquisition cost 31 December	1,220	1,220
Accumulated planned depreciation 1 January	-1,191	-1,151
Planned depreciation	-14	-40
Planned depreciation of decrease	0	0
Accumulated planned depreciation 31 December	-1,205	-1,191
Book value at 1 January	29	68
Book value at 31 December	15	29

Other long-term expenses

	2018	2017
Acquisition cost 1 January	4,009	3,855
Increase	347	79
Decrease	0	0
Reclassification between items	1,016	75
Acquisition cost 31 December	5,372	4,009
Accumulated planned depreciation 1 January	-3,565	-3,415
Planned depreciation	-184	-150
Planned depreciation of decrease	0	0
Accumulated planned depreciation 31 December	-3,749	-3,565
Book value at 1 January	443	440
Book value at 31 December	1,623	443

Land and water

	2018	2017
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

	2018	2017
Acquisition cost 1 January	5,379	5,357
Increase	361	20
Decrease	0	0
Reclassification between items	111	2
Acquisition cost 31 December	5,851	5,379
Accumulated planned depreciation 1 January	-4,474	-4,334
Planned depreciation	-137	-140
Planned depreciation of decrease	0	0
Accumulated planned depreciation 31 December	-4,611	-4,474
Book value at 1 January	904	1,022
Book value at 31 December	1,240	904

Machinery and equipment

	2018	2017
Acquisition cost 1 January	27,374	25,883
Increase	1,056	887
Decrease	-78	-69
Reclassification between items	773	673
Acquisition cost 31 December	29,125	27,374
Accumulated planned depreciation 1 January	-23,963	-22,800
Planned depreciation	-1,230	-1,191
Planned depreciation of decrease	12	28
Accumulated planned depreciation 31 December	-25,181	-23,963
Book value at 1 January	3,413	3,084
Book value at 31 December	3,945	3,413
Undepreciated acquisition cost of production machinery and equipment	2,935	2,484

Advance payment and construction in progress

	2018	2017
Acquisition cost 1 January	2,292	2,055
Increase	1,112	1,155
Reclassification between items	-1,899	-750
Decrease	-223	-168
Acquisition cost 31 December	1,282	2,292
Book value at 1 January	2,292	2,055
Book value at 31 December	1,282	2,292

Shares, Group companies

	2018	2017
Acquisition cost 1 January	20,732	16,286
Increase	111	4,446
Decrease	0	0
Acquisition cost 31 December	20,843	20,732

Other shares and holdings

	2018	2017
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 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%
Exel Composites USA Holdings Inc.	USA	100%	100%
Diversified Structural Composites Inc.	USA	100%	100%

NOTE 10 RECEIVABLE

Current receivables

Receivables from Group companies

	2018	2017
Trade receivables	3,373	1,319
Loan receivables	12,614	1,391
Total	**15,987**	**2,709**

Receivables from others

	2018	2017
Trade receivables	2,781	3,974
Other receivables	495	587
Prepaid expenses and accrued income	347	81
Total	**3,623**	**4,642**
Total current receivables	**19,610**	**7,351**

Deferred tax assets amounting to EUR 121 (EUR114) thousand have not been booked from cumulative depreciation exceeding the maximum tax depreciations by EUR 604 (568) thousand.

NOTE 11 EQUITY

	2018	2017
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	8,552	7,873
Dividend paid	-3,546	-1,190
Treasury shares	0	-525
Correction to previously issued financial statements	0	182
Retained earnings	5,006	6,341
Operating profit for the financial year	3,877	2,212
Total equity	**13,564**	**13,233**

Calculation of funds distributable as profit 31 December

	2018	2017
Non-restricted equity fund	2,539	2,539
Retained earnings	5,006	6,341
Operating profit/loss for the financial year	3,877	2,212
Total	**11,422**	**11,092**

NOTE 12 NON-CURRENT LIABILITIES

Liabilities to others

	2018	2017
Loans from financial institutions	10,781	4,000
Total non-current liabilities	10,781	4,000
Liabilities falling due in a period longer than five years	0	0

NOTE 13 CURRENT LIABILITIES

Liabilities to Group companies

	2018	2017
Trade payables	128	109
Accrued liabilities and deferred income	5,383	5,670
Total liabilities to Group companies	**5,511**	**5,779**

Liabilities to others

	2018	2017
Loans from financial institutions	17,195	9,000
Advance payments	169	65
Trade payables	2,048	2,786
Other liabilities	330	244
Accrued liabilities and deferred income	5,508	6,361
Total liabilities to others	**25,250**	**18,456**

Total current liabilities	**30,761**	**24,235**

Specification of accrued liabilities and deferred income

	2018	2017
Salaries, wages and holiday pay, including social security expenses	2,108	2,702
Other accrued liabilities and deferred income	3,400	3,660
Total accrued liabilities and deferred income	**5,508**	**6,362**

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	6,714	-50

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

	2018	2017
Financial institution loans	27,976	13,000
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

	2018	2017
Leasing liabilities		
Falling due not later than one year	2	12
Falling due later	2	4
Other liabilities	**6**	**312**

NOTE 16 SHARE OWNERSHIP

Distribution of share ownership on 31 December 2018

	%
Private companies	9.2
Financial and insurance institutions	62.8
Public sector entities	2.9
Non-profit organizations	0.4
Households	24.1
Foreign	0.5
Of which, nominee registration	33.2

Distribution of share ownership on 31 December 2018

Number of shares	Number of shareholders	Percentage of shareholders	Total number of shares	Percentage of total number of shares
1 - 1,000	3,173	85.23	897,890	7.55
1,001 – 10,000	472	12.68	1,310,993	11.02
10,001 – 50,000	49	1.32	997,105	8.38
over 50,000	29	0.78	8,690,855	73.05

NOTE 17 SHAREHOLDERS

Information on shareholders on 31 December 2018

Shareholder	Number of shares	Percentage of shares and votes
Nordea Bank Ab (Publ), (nominee registered)	2,249,011	18.9
Skandinaviska Enskilda Banken AB (nominee registered)	1,635,096	13.7
Sijoitusrahasto Taaleritehdas Mikro Markka	630,000	5.3
OP-Finland Small Firms Fund	498,259	4.2
OP-Finland Value Fund	493,113	4.1
Ilmarinen Mutual Pension Insurance Company	342,733	2.9
Phoebus Fund	290,000	2.4
Danske Invest Finnish Institutional Equity Fund	265,000	2.2
Matti Suutarinen	231,821	2.0
Evli Finnish Small Cap Fund	200,000	1.7
Other nominee registered	62,452	0.5
Others	4,999,358	42.0
Total	**11,896,843**	**100.0**

NOTE 18 MANAGEMENT INTERESTS

The aggregate holding of the members of Board of Directors and the President was 76,235 shares on 31 December 2018. This accounts for 0.64% of corporate shares and 0.64% 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 22 March 2018 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 also contained an entitlement for the Company to accept its own shares as pledge. The number of shares that could 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. The share repurchase authorization is valid until 30 June 2019.

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.

The authorization was not used in 2018. In 2017 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.

NOTE 20 SHARE PRICE AND TRADING

Share price

EUR	2018	2017	2016	2015	2014
Average price	5.40	6.00	5.05	8.65	6.42
Lowest price	3.98	4.84	4.71	6.32	5.56
Highest price	7.28	7.85	6.85	9.85	8.80
Share price at the end of financial year	4.00	6.57	5.02	6.53	8.39
Market capitalization, EUR million	47.3	77.7	59.7	77.7	99.8

Share trading

	2018	2017	2016	2015	2014
Number of shares traded	2,513,383	4,244,520	3,080,024	2,445,252	5,836,969
% of the average number of shares	21.1	35.8	25.9	20.6	49.1

Number of shares

	2018	2017	2016	2015	2014
Average number 1)	11,819,843	11,862,199	11,896,843	11,896,843	11,896,843
Number at end of financial year 1)	11,819,843	11,819,843	11,896,843	11,896,843	11,896,843

1) Excluding purchased own shares

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.

PROPOSAL FOR DISTRIBUTION OF PROFIT

Exel Composites Plc's distributable funds are EUR 11,422,443.94 of which profit for the financial period accounts for EUR 3,876,811.18.

The Board proposes that the profit funds be distributed as follows:	
- a dividend of EUR 0.18 per share	2,141,431.74
- carried over as equity, EUR	9,281,012.20
	11,422,443.94

Vantaa, 14 February 2019

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, 14 February 2019

Ernst & Young
Authorized Public Accountants

Johanna Winqvist-Ilkka
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, 2018. The financial statements comprise the consolidated balance sheet, 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 12,8 million euro as of 31 December 2018 comprising 17,1 % of total assets and 49,5 % 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 included 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 as well as control over the goods 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 537/2014, 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 2018 the group completed the acquisition of Diversified Structural Composites Inc. Purchase price comprised cash consideration and the acquisition was financed with a new long term loan. 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 0,8 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 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 12 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 14, 2019

Ernst & Young Oy
Authorized Public Accountant Firm

Johanna Winqvist-Ilkka
Authorized Public Accountant

Exel Composites in brief

Exel Composites is the world's leading composite technology company that engineers and manufactures composite products and solutions to an extensive range of demanding industrial applications.

The core of the business is based on our employees' high level of expertise and our own, internally developed composite technologies, which have been perfected over decades with a steady focus on innovation. With nine manufacturing plants across Europe, Asia, and North America, and a global sales network, we are firmly driven by superior customer experience and world-class operations.

Headquartered in Finland, Exel Composites employs approximately 650 people globally. The company's shares are listed on the Nasdaq Helsinki exchange.

www.exelcomposites.com