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REVIEW BY THE BOARD OF DIRECTORS

Exel Composites is a technology company which designs, manufactures and markets composite profiles and tubes for industrial applications. The Group is the leading supplier of demanding composite profile solutions and market leader on the European pultrusion market.

Exel Composites share is listed in the Small Cap Segment of the NASDAQ OMX Helsinki Ltd in the Industrials Sector.

Financial performance

Net sales for the financial year 2013 were EUR 69.3 (76.0) million.

The Group's operating profit started to develop positively in the second half of the year thanks to efficiency improvement and more efficient cost control. The Group's operating profit before non-recurring items for the financial year 2013 was EUR 5.5 (5.9) million or 8.0 (7.8) per cent of net sales. The Group's operating profit after non-recurring items was EUR 4.8 (3.4) in the financial year 2013. The operating profit for 2012 included an impairment of EUR 2.5 million and the operating profit for 2013 includes EUR 0.7 million of non-recurring items related to the CEO change and the reorganization of the Australian business unit.

In the local statutory level the parent company recognized a non-cash write-down of Australian subsidiary share holding value totaling EUR 5.5 million. Therefore, the parent company's loss for the financial period was EUR 2.2 million.

A decision to invest in a new laminate production line at Mäntyhärju factory was made during the third quarter of 2013. The investment enables us to extend our product range in high specification laminates and to grow in several market segments.

Exel Composites has continued to develop several new customer specific applications in 2013, especially in the building and construction, machine industry and transportation industry market segments.

The Group's order stock was EUR 10.5 (10.7) million at the end of 2013.

The Group's net financial expenses in 2013 were EUR 0.3 (0.4) million. The Group's profit before taxes was EUR 4.6 (3.0) million and profit after taxes EUR 3.1 (2.0) million.

Fully diluted total earnings per share were EUR 0.26 (0.17). Return on capital employed in 2013 was 13.0 (8.4) per cent. Return on equity was 11.3 (6.1) per cent.

Balance sheet and financial position

Net cash flow from operating activities was positive at EUR +7.8 (+8.2) million due to good working capital management. Cash flow before financing, but after capital expenditure, amounted to EUR 5.0 (5.4) million.

Capital expenditure was financed with cash flow from business operations. At the end of the financial year, the Group's liquid assets stood at EUR 9.4 (9.2) million.

The Group's consolidated total assets at the end of the financial year were EUR 48.5 (51.5) million.

Interest-bearing liabilities amounted to EUR 12.9 (8.2) million. Net interest-bearing liabilities were EUR 3.4 (-1.1) million.

Equity at the end of the financial year was EUR 22.8 (31.4) million and equity ratio 47.2 (61.0) per cent. The net gearing ratio was 15.0 (-3.4) per cent.

The Company paid total dividends during the financial year of EUR 3.6 (5.9) million. Dividend per share was EUR 0.30 (0.50). In addition, a capital repayment of EUR 0.50 per share amounting to EUR 5.9 million was paid from the reserve for invested unrestricted equity in December 2013.

Capital expenditure and depreciation

The capital expenditure on fixed assets amounted to EUR 2.8 (2.8) million.

Total depreciation of non-current assets during the year under review amounted to EUR 2.7 (2.9) million.

Personnel

The number of employees on 31 December 2013 was 408 (427), of whom 198 (201) worked in Finland and 210 (226) in other countries. The average number of personnel during the financial year was 427 (431).

Temporary lay-offs and permanent personnel reductions took place in several units in 2013. Exel Composites continued to invest in the development of the organization. Especially the sales organization was reinforced.

Corrective actions had a positive impact especially in the UK business unit and improved the financial performance. In 2013 turnaround measures including change in the operating model and transfer of Brisbane unit to Melbourne in Australia were largely completed. The measures taken are expected to improve the Australian unit's profitability. The focus is now on profitable growth.

The harmonization of the Group's operations was continued under the ExelWay-program. ExelWay aims at harmonizing processes between the units and improving co-operation between units in order to enhance productivity and synergies. The project's target is to implement best practices and new global functions and efficient business processes throughout the Group. New processes and practices are implemented in stages. Group-wide practices are supported by our global ERP- and CRM-programs, which are widely in use.

The harmonization improves efficiency and co-operation between units and it will be continued in 2014.

Research and development

Product and technology development costs totaled EUR 1.5 (1.6) million, representing 2.2 (2.1) per cent of net sales. The main projects were connected with the development of new products and customer applications.

Risk management

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

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

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

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

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

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

The most significant near-term business risks are related to the general economic development, government regulations and financial crisis in the Euro area as well as to market demand in certain market segments. Raw material prices, energy cost and other cost increases may continue to put pressure on profitability. Currency rate changes, price competition and alternative competing materials may also have a negative effect on the result. The availability and cost of financing may continue to have an effect on the demand and increase the risk of credit losses.

Environment

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

Incentive programs

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

A new incentive program for the Company executives was approved by the Board of Directors in May 2013. The aim of the new program 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 new program is based on a long-term monetary performance reward, and the program is targeted at approximately 20 executives for the earning period 2013 – 2015. The President and CEO and the members of the Group Management Team are included in the target group of the new incentive program.

The incentive program includes one earning period, the calendar years 2013 – 2015. The potential long-term monetary performance reward from the program for the earning period 2013 – 2015 will be based on the Group's cumulative Economic Profit and on the Group's Total Shareholder Return (TSR).

The potential reward from the earning period 2013 – 2015 will be paid in 2016. No reward will be paid to an executive, if his or her employment or service with the Group Company ends before the reward payment unless the Board decides otherwise.

The maximum reward to be paid on the basis of the earning period 2013 – 2015 will be one million EUR.

Shares and share capital

The share capital has remained unchanged during the financial year and is 11,896,843 shares each having the counter-book value of EUR 0.18. There is only one class of shares and all shares are freely assignable under Finnish law.

Exel Composites did not hold any of its own shares during the financial year.

Share performance and turnover

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

During the financial year the highest share price quoted was EUR 6.70 (8.79) and the lowest EUR 5.10 (5.55). At the end of the year, the share price was EUR 5.75 (5.90). The average share price during the financial year was EUR 6.18 (7.05).

Total shareholder return (TSR) in 2013 was 11 (-16) per cent.

A total of 2,022,018 (944,978) shares were traded during the year, which represents 17.0 (7.9) per cent of the average number of shares. On 31 December 2013, Exel Composites' market capitalization was EUR 68.4 (70.2) million.

Shareholders and disclosures

On 31 December 2013, 1.0 per cent of the shares and votes of Exel Composites were owned or controlled, directly or indirectly by the President and CEO and the members of the Board.

The Company's largest shareholder was the Swedish investment company Nordstjernan AB, which owned 22.3 per cent of shares at the end of 2013. Other major shareholders included SEB Asset Management S.A. (9.7 per cent), Ilmarinen Mutual Pension Insurance Company (5.8 per cent), OP-Suomi Small Cap Investment Fund (5.0 per cent) and Ulkomarkkinat Oy (4.0 per cent). At the end of the year, the Company had a total of 2,752 (2,746) shareholders.

Exel Composites received two flagging announcements during the financial year.

On 25 November 2013 Exel Composites received a flagging announcement according to which the holding of Nordstjernan AB had fallen under 25 per cent of the voting rights and share capital in Exel Composites Plc. Through share transactions concluded on 22 November 2013, the holding of Nordstjernan AB decreased from 3,496,506 shares (29.4 per cent) to 2,656,506 shares, representing 22.3 per cent of the shares and voting rights of the Company.

On 25 November 2013 Exel Composites received a flagging announcement according to which the holding of SEB Asset Management S.A. had exceeded 5 per cent of the voting rights and share capital in Exel Composites Plc. Through share transactions concluded on 22 November 2013, the holding of SEB Asset Management rose to 1,000,000 shares, representing 8.4 per cent of the shares and voting rights of the Company.

Corporate Governance

Exel Composites issues a Corporate Governance Statement for the financial year 2013. The Corporate Governance Statement has been composed in accordance with recommendation 54 of the new Corporate Governance Code and Chapter 2, Section 6 of the Finnish Securities Market Act. The Corporate Governance Statement is issued separately from the Board of Directors' report. Further information concerning the corporate governance matters is available at the Group's website at www.exelcomposites.com.

Decisions of the AGM 2013

The Annual General Meeting of Exel Composites Plc held on 27 March 2013 approved the Board's proposal to distribute a dividend of EUR 0.30 per share for the financial year 2012 amounting to a total of EUR 3.6 (5.9) million.

The Annual General Meeting authorized the Board of Directors to acquire the Company's own shares by using unrestricted equity. The maximum amount to be acquired is 600,000 shares. The authorization is valid until 30 June 2014.

The Annual General Meeting authorised the Board of Directors to decide on the issuance of a maximum of 2,400,000 new shares and/or conveyance of a maximum of 600,000 Company's own shares. The authorisations are valid until 30 June 2016.

Decisions of the EGM 2013

The Extraordinary General Meeting of Exel Composites Plc held on 10 December 2013 resolved to pay an additional capital repayment of EUR 0.50 per share to shareholders in addition to already paid dividend of EUR 0.30 per share decided by the Annual General Meeting on 27 March 2013. The additional capital repayment amounting to EUR 5.9 million was paid from the reserve for invested unrestricted equity.

Board of Directors and Auditors

On 27 March 2013, the Annual General Meeting appointed Heikki Hiltunen, Peter Hofvenstam, Göran Jönsson, Reima Kerttula and Heikki Mairinoja to continue on the Board of Directors. At the formative meeting of the Board of Directors held after the AGM, the Board of Directors re-elected from among its members Peter Hofvenstam as its Chairman.

The Board of Directors convened 13 times in 2013 and the average attendance rate at these meetings was 98.5 per cent. The fees paid to the Board of Directors totaled EUR 163 (178) thousand in 2013.

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

The Annual General Meeting of Exel Composites has elected a Shareholders' Nomination Board, which nominates candidates to the Annual General Meeting for election as Board members and proposes the fees to be paid to the Board members. The Nomination Board included the Chairman and persons nominated by the four largest shareholders as of 1 November 2013. In 2013 the Nomination Board comprised Tomas Billing as Chairman (Nordstjernan AB), Matti Rusanen (Ilmarinen Mutual Pension Insurance Company), Samuli Sipilä (OP Fund Management), Erkki Myllärniemi (Ulkomarkkinat Oy), and Peter Hofvenstam, the Chairman of the Board of Directors, as an expert member. The Nomination Board met twice in 2013.

Ernst & Young, Authorized Public Accountants, with Juha Hilmola, APA, as principal auditor, were elected to serve as company auditor in the AGM in 2013.

The fees paid to the auditors for audit services totaled EUR 176 (174) thousand

and for non-audit services EUR 71 (78) thousand in 2013.

Changes in Group Management

Mr. Kari Loukola was appointed VP Sales and Marketing and member of the Group Management Team as of 1 August 2013.

Events after the review period

The Board of Directors of Exel Composites Plc. appointed Riku Kytömäki as new President and CEO of Exel Composites in September 2013. He assumed his duties on 2 January 2014. He succeeded Vesa Korpimies, who gave up his duties as President and CEO on 1 January 2014.

A new incentive program for the Company executives was approved by the Board of Directors on 11 February 2014. The aim of the new program is to combine the objectives of the shareholders and the executives in order to increase the value of the Company, to commit the executives of the Company and to offer the executives a competitive reward program. The new program is based on a long-term monetary performance reward, and the program is targeted at approximately 20 executives for the earning period 2014 – 2016. The President and CEO and the members of the Group Management Team are included in the target group of the new incentive program.

The new program includes one earning period, the calendar years 2014 – 2016. The potential long-term monetary performance reward from the program for the earning period 2014 – 2016 will be based on the Group's cumulative Economic Profit and on the Group's Total Shareholder Return (TSR).

The potential reward from the earning period 2014 – 2016 will be paid in 2017. No reward will be paid to an executive, if his or her employment or service with the

Group Company ends before the reward payment.

The maximum reward to be paid on the basis of the earning period 2014 – 2016 will be one million EUR.

Outlook

The Company has reinforced the organization to work on sales development as well as on operational efficiency and productivity improvement. The market has stabilized but remains challenging. The Company will monitor the general market development and react with additional measures if needed. Uncertainties relating to general growth prospects in the economy continue, however some positive signs can be seen especially in laminate and demanding carbon tubes market. The Company is well-positioned to grow profitably when the markets recover.

Board proposal for dividend distribution

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

On 31 December 2013 Exel Composites Plc's distributable funds totaled EUR 10,769 thousand.

An additional capital repayment of EUR 0.50 per share was paid to shareholders in December 2013 in addition to already paid dividend of EUR 0.30 per share decided by the 2013 Annual General Meeting. The additional capital repayment amounting to EUR 5.9 million was paid from the reserve for invested unrestricted equity. Taking this into account, the Board of Directors of the Company does not propose any dividend distribution to the Annual General Meeting 2014 for the financial year 2013.

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

EUR 1,000	Notes	1.1.–31.12.2013	1.1.–31.12.2012
Net sales	6	69,290	75,998
Other operating income	9	667	909
Increase(+)/Decrease(-) in inventories of finished goods and work in progress		-1,287	-801
Materials and services		-24,750	-29,185
Employee benefit expenses	11	-21,128	-21,077
Depreciation	13	-2,691	-2,845
Amortization	13	0,00	-2,542
Other operating expenses	10,12	-15,258	-17,057
Operating profit		4,843	3,399
Financial income	14	378	306
Financial expenses	15	-664	-734
Profit before tax		4,557	2,971
Income taxes	16	-1,477	-940
Profit/loss for the period		3,080	2,031
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange differences on translating foreign operations		-2,174	133
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		-2,174	133
Total comprehensive income		906	2,164
Profit and loss attributable to:			
Equity holders of the parent company		3,080	2,031
Non-controlling interest		0	0
Comprehensive income attributable to:			
Equity holders of the parent company		906	2,164
Non-controlling interest		0	0
Total earnings per share, basic and diluted	18	0.26	0.17

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR 1,000	Notes	31.12.2013	31.12.2012
ASSETS			
Non-current assets			
Goodwill	20	9,393	10,898
Other intangible assets	20	921	1,220
Tangible assets	21	10,796	10,681
Other non-current assets	22	70	64
Deferred tax assets	17	641	752
Total non-current assets		21,821	23,615
Current assets			
Inventories	23	7,936	9,129
Trade and other receivables	24	9,273	9,513
Cash at bank and in hand	25	9,438	9,245
Total current assets		26,648	27,887
Total assets		48,468	51,502
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	33	2,141	2,141
Other reserves		72	45
Invested unrestricted equity fund		2,539	8,488
Translation differences		2,164	4,337
Retained earnings		15,924	16,427
Equity attributable to the equity holders of parent company		22,841	31,438
Non-controlling interest			
Total equity		22,841	31,438
Non-current liabilities			
Interest-bearing loans and borrowings	27,31	1,761	8,168
Non-current interest-free liabilities	26	402	411
Deferred tax liabilities	17	440	377
Total non-current liabilities		2,603	8,956
Current liabilities			
Interest-bearing loans and borrowings	27	11,105	11
Trade and other current liabilities	26	11,920	10,943
Income tax payable	26	0	155
Total current liabilities		23,024	11,108
Total equity and liabilities		48,468	51,502

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EUR 1,000	Share Capital	Other reserves	Invested Unre- stricted Equity Fund	Transla- tion Dif- ferences	Retained Earnings	Non-con- trolling Interest	Total
Balance at 1 January 2012	2,141	30	8,488	4,204	20,255	0	35,118
Profit for the period	-	-	-	-	2,031	-	2,031
Other comprehensive result	-	-	-	133	-	-	133
Dividend	-	-	-	-	-5,948	-	-5,948
Other items	-	15	-	-	89	-	104
Balance at 31 December 2012	2,141	45	8,488	4,337	16,427	-	31,438
Balance at 1 January 2013	2,141	45	8,488	4,337	16,427	-	31,438
Profit for the period	-	-	-	-	3,080	-	3,080
Other comprehensive result	-	-	-	-2,174	-	-	-2,174
Additional capital repayment	-	-	-5,948	-	-	-	-5,948
Dividend	-	-	-	-	-3,569	-	-3,569
Other items	-	27	-	-	-14	-	14
Balance at 31 December 2013	2,141	72	2,539	2,164	15,924	-	22,841

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR 1,000	Notes	1.1.-31.12.2013	1.1.-31.12.2012
Cash flow from operating activities			
Profit for the period		3,080	2,031
Non-cash adjustments to reconcile profit to net cash flow	36	4,088	7,170
Change in working capital		1,658	1,223
Cash flow generated by operations		8,826	10,424
Interest paid		-213	-259
Interest received		39	80
Other financial items		-196	-155
Income taxes paid		-668	-1,897
Net cash flow from operating activities		7,788	8,193
Cash flow from investing activities			
Proceeds from sale of activities			0
Purchase of non-current assets		-2,767	-2,846
Proceeds from sale of non-current assets			16
Net cash flow from investing activities		-2,767	-2,830
Cash flow before financing			
		5,021	5,363
Cash flow from financing activities			
Withdrawals of long-term borrowings			0
Repayments of long-term borrowings		-5,000	0
Change in short-term loans		9,700	0
Repayments of finance lease liabilities		-11	-10
Additional capital repayment		-5,948	0
Dividends paid		-3,569	-5,948
Net cash flow from financing		-4,828	-5,958
Change in liquid funds			
		193	-595
Liquid funds at the beginning of period		9,245	9,840
Liquid funds at the end of period		9,438	9,245

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 2013 were authorized for issue in accordance with a resolution of the Board of Directors on 11 February 2014. Final decision to adopt or reject the financial

statements is made by shareholders in Annual General Meeting on 27 March 2014.

NOTE 1 CORPORATE INFORMATION

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

The core of the operations is based on proprietary, internally developed composite

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

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

NOTE 2 BASIS OF PREPARATION

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

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

Statement of Compliance

The consolidated financial statements of Exel Composites have been prepared in compliance with International Financial Reporting Standards (IFRS), applying IAS and IFRS standards, as well as SIC and IFRIC interpretations, valid on 31 December 2013. The notes to the consolidated financial statements are also in compliance with the Finnish Accounting and Companies Acts.

Basis of Consolidation

Exel Composites' consolidated financial statements include the accounts of the parent company Exel Composites Plc and its subsidiaries as at 31 December each year. Subsidiaries are viewed as companies in which it owns, directly or indirectly, over 50 per cent of the voting rights or in which it is in a position to govern the financial and operating policies of the entity. Subsidiaries are fully consolidated from the date

that Exel Composites acquired control and are no longer consolidated from the date that control ceases. Where necessary, the accounting principles of subsidiaries have been changed to ensure consistency with the accounting principles of the Group. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Acquisitions of companies are accounted for using the purchase method. The cost of an acquisition is measured at fair value over the assets given up, shares issued or liabilities incurred or assumed at the date of acquisition. Transaction costs directly attributable to the acquisition are included in the acquisition cost. 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 2013 and 2012.

NOTE 3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

The Group has adopted following new and amended IFRS standards as of

1 January 2013. When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

IFRS 1 Government loans – Amendments to IFRS 1

The amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards requires that first-time adopters

apply the amendments made to IAS 20 concerning measurement of government loans carrying a below-market interest rate prospectively to loans entered into on or after the date of transition to IFRSs. As the Group has no such loans, the amendment did not have an impact on the Group's financial position or disclosures.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

The amendment states minimum disclosure requirements related to financial assets and financial liabilities that have been offset in statement of financial position or subject to enforceable master netting agreement or similar agreements. Adoption of the amendment did not affect the Group's financial position or disclosures.

IFRS 10 Consolidated Financial Statements

The standard outlines the requirements for the preparation and presentation of consolidated financial statements and requires entity to consolidate entities it controls. Control under the standard is defined as requiring exposure or rights to variable returns and the ability to affect those returns through power over an investee. The standard is effective for periods beginning on or after 1 January 2013. It has no effect on the Group's financial position, performance or disclosures.

IAS 27 Separate Financial Statements

The standard supersedes IAS 27 issued in 2008 and covers the accounting for investments in subsidiaries, jointly controlled entities, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements under IFRS. As the Group has chosen not to adopt IFRS in presenting its parent or subsidiary company financial statements, the new standard has no impact on financial statements of the Group, its parent or its subsidiaries.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 defines the accounting by entities that jointly control an arrangement with joint control defined as involving the contractually agreed sharing of control. IAS 28 applies with certain exceptions to all investments in which an investor has significant influence but not control or joint control. The Group is not involved in arrangements with shared control, nor does the Group have significant influence without sole or joint control in another entity. Consequently, the two stand-

ards did not have an effect on the Group's financial statements.

IFRS 12 Disclosures of Interests in Other Entities

The standard defines requirements for disclosing information about entity's interests in subsidiaries, joint arrangements, associates and structured entities. As outlined above, the Group does not have interests in joint arrangements, associates or structured entities. Disclosures concerning subsidiaries and related to IFRS 12 are provided under Note 9 of the Parent company financial statements.

IFRS 13 Fair Value Measurement

The standard sets out a single source of guidance for all fair value measurements under IFRS. Fair value under IFRS 13 is defined as an exit price. According to analysis of fair value assessment methods in use in the Group, implementation of IFRS 13 did not impact fair value calculations performed for purposes of financial reporting by the Group.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendment to IAS 1 requires a separate presentation of components of other comprehensive income that will be reclassified to profit or loss at a future point of time. The amendment affects presentation only and has no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. They affect presentation only and have no effect on the Group's financial position or performance.

IAS 19 Employee Benefits (Revised 2011)

The revised IAS 19 introduced changes to accounting for defined benefit plans. The revision changed, among other things, recognition of past service cost and presentation of the interest cost and return on defined benefit plan assets. The revisions did not affect the Group's financial performance or position.

The standards and interpretations 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, if applicable, when they become effective. Based on preliminary analysis, the standards are not

expected to impact on the Group's financial statements.

IFRS 10	Amendment concerning Investment Entities
IFRS 12	Amendment concerning Investment Entities
IAS 27	Amendment concerning Investment Entities
IAS 32	Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32
IAS 36	Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting — Amendments to IAS 39
IFRIC 21	Levies
IFRS 9	Financial Instruments

The below annual improvements have been issued but will not have an impact on the Group's financial statements:

IFRS 1	First-time Adoption of International Financial Reporting Standards – Meaning of 'effective IFRSs'
IFRS 2	Share-based Payment – Definition of vesting conditions
IFRS 3	Business Combinations – Accounting for contingent consideration in a business combination
IFRS 3	Business Combinations – Scope exceptions for joint ventures
IFRS 8	Operating Segments – Aggregation of operating segments
IFRS 8	Operating Segments – Reconciliation of the total of the reportable segments' assets to the entity's assets
IFRS 13	Fair Value Measurement – Short-term receivables and payables
IFRS 13	Fair Value Measurement – Scope of paragraph 52 (portfolio exception)
IAS 16	Property, Plant and Equipment – Revaluation method – proportionate restatement of accumulated depreciation
IAS 24	Related Party Disclosures – Key management personnel
IAS 38	Intangible Assets - Revaluation method – proportionate restatement of accumulated depreciation
IAS 40	Investment Property – Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

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 value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including sensitivity analysis of key assumptions, are given in Note 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 financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date.

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

After initial recognition, goodwill is measured at cost less any accumulated impair-

ment losses. For the purpose of impairment testing, goodwill acquired is allocated to each of the Group's cash generating units.

Business combinations prior to 31 December 2008

In comparison to the above mentioned requirements, the following differences applied:

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

The Group does not have any associates or joint ventures.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is

highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Sales of products are recognized as income once the risk and benefits related to ownership of the sold products have been transferred to the buyer and the Group no longer has the possession of, or control over, the products. Sales of services are recognized as income once the service has been rendered. Revenue from the Sports license agreements is recognized based on the actual cash flow according to IAS standard 18. Revenue arising from projects lasting over 12 months and having a material impact on the Group's financial position and performance is recognized in accordance with IAS standard 11.

Net sales comprise the invoiced value for the sale of goods and services net of indirect taxes, sales adjustment and exchange rate differences. Distribution costs for products to be sold are included in the income statement as other operating expenses. Interest income is recognized using the effective interest rate method and dividend income when the right to the dividend has been created.

Foreign currency translation

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

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

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

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

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

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

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

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The

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

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

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

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

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

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

Research and development

Research costs are expensed as incurred. Costs incurred from development projects, which are often connected with the design and testing of new or advanced products, are recorded in the balance sheet as intangible assets from the time that the product can be technically achieved, it can be utilized commercially, and the product is expected to create a comparable financial benefit. Other development costs are recorded as expenses. Capitalized development costs are amortized on a straight-line basis beginning from the commercial production of the product during the period they are effective, yet no longer than five years. There were no capitalized development costs during 2012 and 2013.

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 2012 and 2013, the Group had no assets where the borrowing costs would have been capitalized.

Financial assets

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

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

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

"Financial assets at fair value through profit or loss" is divided into two subcategories: held-for-trading assets and designated items. The latter includes any financial asset that is designated on initial recognition as one to be measured at fair value with fair value changes in profit or loss. Held-for-trading financial assets have primarily been acquired for the purpose of generating profits from changes in market prices over the short term. Derivatives that do not meet the criteria for hedge accounting have been classified as being held for trading. Held-for-trading financial assets and those maturing within 12 months are included in current assets. The items in this group are measured at fair value. The fair value of all the investments in this group has been determined on the basis of price quotations in well-functioning markets. Both realized and unrealized gains and losses due to changes in fair value are recorded in the income statement in the financial period in which they were incurred.

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

"Held-to-maturity financial assets" include non-derivative financial assets with fixed or determinable payments and fixed maturities when the Group has the positive

intention and ability to hold them to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. The Group did not have any held-to-maturity investments during the years ended 31 December 2013 and 2012.

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

A financial asset is derecognized when:

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

Cash and short-term deposits

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

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

Financial liabilities

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

liabilities include trade and other payables, bank overdrafts, loans and borrowings and derivative financial instruments.

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

Derivative financial instruments and hedging

Derivative contracts are recorded initially as an acquisition cost equal to their fair value. Following their acquisition derivative contracts are valued according to their fair value.

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

Hedges for net investments in foreign units are recorded in the same way as cash-flow hedges. A hedge on a foreign subsidiary's equity is recorded in shareholders' equity in the same way as the exchange rate difference in shareholders' equity. The Group did not hedge its net foreign investments exposure during 2013 or 2012.

Impairment of non-financial assets

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

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

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

Impairment of financial assets

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

Lease agreements

Lease agreements concerning tangible assets in which the Group holds a material share of the risks and benefits of ownership are classified as financial lease agreements. A financial lease agreement is entered in the balance sheet at either the fair value of the leased asset on the starting date of the lease agreement or the current value of the minimum rents, whichever is lower. Lease payments are divided into financing costs and installment payment of the liability so that the interest rate of the remaining liability remains unchanged. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities. The financing cost calculated with the effective interest rate is recorded in the income statement as a financial expense. Tangible fixed assets acquired under financial lease agreements are depreciated over their economic lifetime or the period of lease, whichever is shorter.

Lease agreements in which the risks and benefits of ownership are retained by the lessor are treated as other lease agreements (operational leasing). Rents paid on other lease agreements are expensed in even installments in the income statement over the duration of the rental period.

Assets leased by the Group in which the risks and benefits of ownership are transferred to the lessee are treated as financial leasing and recorded in the balance sheet as a receivable according to present value. Financial income from financial lease agreements is determined so that the remaining net investment provides the same income percentage over the duration of the rental period.

Assets leased by the Group other than through financial leasing are included in the balance sheet as tangible fixed assets and are depreciated according to their estimated useful economic life in the same way as tangible fixed assets used by the Group. Leasing income is recorded in the income statement in even installments over the duration of the rental period.

Inventories

Inventories are valued in the balance sheet either at the acquisition cost or at the net realizable value, whichever is lower. The acquisition cost is determined using the weighted average price method. The acquisition cost of finished and incomplete

products comprises raw materials, direct costs of labor, other direct costs and the appropriate portion of the variable general costs of manufacture and fixed overhead at the ordinary rate of operations, but it does not include borrowing costs. The net realizable value is the estimated selling price in ordinary business operations less the estimated expenditure on product completion and sales.

Trade receivables

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

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

Share capital

Ordinary shares are included in shareholders' equity. Expenses incurred directly from new share issues, but not including expenses incurred from company mergers, are recorded in shareholders' equity as a reduction of received payments.

Taxes

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

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

Deferred taxes are calculated for all temporary differences between accounting and taxation using the tax rates valid at the closing date. The largest temporary differences arise from the 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 and adjusted with the actuarial profits and losses and retroactive labor costs. Pension liabilities are calculated by independent actuaries. The pension liability is determined according to the projected unit credit method: the pension liability is discounted to the present value of estimated future cash flows using the interest rate which is equal to the interest rate of government bonds corresponding to the term of the pension liability. Pension costs are recorded in the income statement as an expense with costs periodised 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.

Share-based compensation

The Group has a long-term incentive program for the Group Management Team and selected key employees of the Company. The aim of the program is to 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 2012 program includes matching shares and a long-term monetary performance reward, and the program is targeted at 18 executives for the earning period 2012 – 2014. The members of the Group Management Team are included in the target group of the 2012 incentive program.

The 2012 program includes one earning period, the calendar years 2012 – 2014. The prerequisite for the participation in the matching shares component is that the executive owns the Company's shares in accordance with the decision by the Board of Directors. The potential long-term monetary performance reward from the program for the earning period 2012 – 2014 will be based on the Group's cumulative Economic Profit and on the Group's Total Shareholder Return (TSR).

The potential reward from the earning period 2012 – 2014 will be paid in 2015.

The maximum reward to be paid on the basis of the earning period 2012 – 2014 will correspond to the value of up to 900,000 EUR for the monetary performance reward and up to 30,000 Exel Composites Plc shares for the matching shares reward.

The 2013 program includes one earning period, the calendar years 2013 – 2015. The potential long-term monetary perfor-

mance reward from the program for the earning period 2013 – 2015 will be based on the Group's cumulative Economic Profit and on the Group's Total Shareholder Return (TSR).

The potential reward from the earning period 2013 – 2015 will be paid in 2016. The maximum reward to be paid on the basis of the earning period 2013 – 2015 will be one million EUR.

No reward will be paid to an executive, if his or her employment or service with the Group Company ends before the reward payment unless the Board decides otherwise.

The cost of the programs will be accounted for as operating expenses during the duration of the program and accrued for in the financial statements according to IFRS 2.

There is a vesting period of two years before the title of the shares is transferred regarding the shares given to the participant from 2012 program.

Provisions

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

The right of personnel to annual leave and leave based on a long period of service are recognized when the right is created. The recorded provision corresponds to the

obligations regarding the annual leave and leave based on a long period of service based on work performed by the reporting date. The Group recognizes a provision against loss-making agreements if the benefits of an agreement are expected to be smaller than the unavoidable costs required to fulfill the obligations of the agreement.

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

Dividends

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

Earnings per share

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

NOTE 6 SEGMENT INFORMATION

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

Operating segments consist of asset groups and businesses whose risks and profitability relative to products or services differ from other business segments. In ge-

ographical 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 Nordic Countries, Other European Countries, and Other Countries. Net sales of geographical distribution are presented according to the customers, while assets are presented according to the location of the assets.

Net sales outside the group according to location of customers

EUR 1,000	2013	2012
Nordic countries	11,974	14,315
Other European countries	44,150	47,976
Other countries	13,166	13,707
Total	69,290	75,998

Revenue from the biggest customer amounted to EUR 13,915 thousand (2012: EUR 13,347 thousand).

Total assets according to geographic location		
EUR 1,000	2013	2012
Nordic countries	14,048	14,817
Other European countries	11,654	10,746
Other countries	12,687	15,689
Total	38,389	41,253

Capital expenditure according to geographic location		
EUR 1,000	2013	2012
Nordic countries	1,633	1,533
Other European countries	801	779
Other countries	333	534
Total	2,767	2,846

NOTE 7 BUSINESS COMBINATIONS

The Group did no acquisitions in 2013 or 2012.

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	Average rate 2013	Average rate 2012	Balance sheet rate 2013	Balance sheet rate 2012
Australia	AUD	1.37700	1.24134	1.54230	1.27120
UK	GBP	0.84925	0.81110	0.83370	0.81610
China	RMB	8.16549	8.10942	8.34910	8.22070
Sweden	SEK	8.65049	8.70673	8.85910	8.58200
USA	USD	1.32815	1.28560	1.37910	1.31940

NOTE 9 OTHER OPERATING INCOME

EUR 1,000	2013	2012
Rental income	25	15
Other operating income	642	890
Net gain on disposal of non-current assets	0	5
Total	667	909

Other operating income includes one-off Exel Sports Brands' licensing income of EUR 0.6 (0.8) million.

NOTE 10 OTHER OPERATING EXPENSES

EUR 1,000	2013	2012
Rental expenses	1,477	1,232
Other operating expenses	13,782	15,825
Total	15,258	17,057

The fees paid in 2013 to the external auditor for auditing Exel Group companies totaled EUR 176 (174) thousand, while the fees paid for non-audit services totaled EUR 71 (78) thousand.

NOTE 11 EMPLOYEE BENEFIT EXPENSES

EUR 1,000	2013	2012
Wages and salaries	17,355	17,579
Pension costs – defined contribution schemes	1,795	1,837
Pension costs – defined benefit schemes	-2	91
Other employee benefits	1,981	1,570
Total	21,128	21,077

Personnel	2013	2012
Average number of personnel	427	431

NOTE 12 RESEARCH AND DEVELOPMENT EXPENDITURE

The income statement includes research and development costs entered as costs amounting to EUR 1,511 thousand in 2013 (EUR 1,606 thousand in 2012). These costs are included in the income statement under Employee Benefit Expenses and Other Operating Expenses.

NOTE 13 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

Depreciation of assets, EUR 1,000	2013	2012
Intangible assets	408	613
Tangible assets		
Buildings	263	321
Machinery and equipment	2,012	1,911
Total	2,683	2,845

Impairment and write-down of assets, EUR 1,000	2013	2012
Intangible assets	0	442
Goodwill	0	1,074
Tangible assets		
Land	8	170
Buildings	0	238
Machinery and equipment	0	617
Total	8	2,542

NOTE 14 FINANCIAL INCOME

EUR 1,000	2013	2012
Interest income on loans and receivables	39	78
Dividend income	1	1
Foreign exchange gains	221	209
Change in fair value of financial assets recognized at fair value through profit or loss (from derivatives)	116	18
Other finance income	0	1
Total finance income	378	306

NOTE 15 FINANCIAL EXPENSES

EUR 1,000	2013	2012
Interest expenses on debts and borrowings	216	246
Interest expenses under finance leases	0	1
Foreign exchange losses	353	378
Change in fair value of financial assets recognized at fair value through profit or loss (from derivatives)	0	0
Other finance expenses	95	109
Total finance expenses	664	734

Exchange differences for sales (exchange rate loss EUR -64 thousand) and purchases (exchange rate profit 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 2013 and 2012:

EUR 1,000	2013	2012
Income tax based on taxable income for the financial year	1,440	1,742
Income taxes from previous financial periods	-19	5
Deferred taxes	55	-807
Total income taxes reported in the income statement	1,477	940

A reconciliation between tax expense and the product of accounting profit multiplied by Finland's domestic tax rate for the years ended 31 December 2013 and 2012 is as follows:

Income tax reconciliation, EUR 1,000	2013	2012
Accounting profit before tax	4,557	2,971
Tax calculated at domestic tax rate 24.5%	1,117	728
Difference between the domestic and foreign tax rates	330	3
Expenses not deductible for tax purposes	-242	45
Other	272	164
Tax charge	1,477	940
Effective tax rate	32.4	31.7

NOTE 17 DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Deferred tax assets, EUR 1,000	1.1.2013	Recognized in income statement	Recognized in shareholders' equity	Exchange rate differences	31.12.2013
Intercompany profit in inventory	3	-1	-	-	2
Losses	284	-69	-	-	215
Other temporary differences	970	-160	-	-	810
Offset with deferred tax liabilities	-505	120	-	-	-386
Net deferred tax assets	752	-111	-	-	641

Deferred tax assets, EUR 1,000	1.1.2013	Recognized in income statement	Recognized in shareholders' equity	Exchange rate differences	31.12.2013
Accumulated depreciation					
Other temporary differences	882	-56	-	-	826
Offset with deferred tax assets	-505	120	-	-	-386
Net deferred tax liabilities	377	64	-	-	440

Deferred tax assets, EUR 1,000	1.1.2012	Recognized in income statement	Recognized in shareholders' equity	Exchange rate differences	31.12.2012
Intercompany profit in inventory	4	-1	-	-	3
Losses	78	206	-	-	284
Other temporary differences	756	214	-	-	970
Offset with deferred tax liabilities	-690	185	-	-	-505
Other temporary differences			-	-	
Net deferred tax assets	148	604	-	-	752

Deferred tax assets, EUR 1,000	1.1.2012	Recognized in income statement	Recognized in shareholders' equity	Exchange rate differences	31.12.2012
Accumulated depreciation					
Other temporary differences	1,229	-347	-	-	882
Offset with deferred tax assets	-690	185	-	-	-505
Net deferred tax liabilities	539	-162	-	-	377

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 2013 of EUR 858 (EUR 1,314) thousand, of which the company has recorded deferred tax assets of EUR 215 (284) 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.

	2013	2012
Profit for the financial year (EUR 1,000) attributable to ordinary equity holders of the parent company	3,080	2,031
Weighted average number of outstanding shares during the financial year (1,000 shares)	11,897	11,897
Basic and diluted earnings per share (EUR/share)	0.26	0.17

NOTE 19 DIVIDENDS PER SHARE

The Annual General Meeting held on 27 March 2013 approved the Board's proposal to distribute a dividend of EUR 0.30 per share.

The Extraordinary General Meeting held on 10 December 2013 approved the Board's proposal to pay an additional capital repayment from the reserve for invested unrestricted equity amounting to EUR 0.50 per share.

Following the balance sheet date the Board of Directors has proposed for approval at the Annual General Meeting that no dividend be paid for the financial year 2013.

NOTE 20 INTANGIBLE ASSETS

The Group has no internally created intangible assets.

Goodwill, EUR 1,000	2013	2012
Acquisition cost at 1 Jan.	16,052	16,043
Additions	0	0
Exchange rate differences	-1,689	9
Acquisition cost at 31 Dec.	14,363	16,052
Accumulated amortization at 1 Jan.	-5,154	-4,104
Impairment charge	0	-1,074
Exchange rate differences	184	24
Accumulated amortization at 31 Dec.	-4,969	-5,154
Book value at 1 Jan.	10,898	11,939
Book value at 31 Dec.	9,393	10,898

Other intangible assets, EUR 1,000	2013	2012
Acquisition cost at 1 Jan.	5,722	5,597
Additions	9	31
Decreases	0	0
Transfers between asset groups	53	90
Exchange rate differences	-700	4
Acquisition cost at 31 Dec.	5,084	5,722
Accumulated amortization at 1 Jan.	-4,854	-4,020
Amortization for the period	-248	-409
Impairment charge and write-downs	0	-442
Decreases	0	0
Exchange rate differences	592	17
Accumulated amortization at 31 Dec.	-4,510	-4,854
Book value at 1 Jan.	868	1,577
Book value at 31 Dec.	573	868

Other long-term expenses, EUR 1,000	2013	2012
Acquisition cost at 1 Jan.	3,313	3,140
Additions	94	26
Decreases	0	0
Transfers between asset groups	61	147
Translation differences	0	0
Acquisition cost at 31 Dec.	3,468	3,313
Accumulated amortization at 1 Jan.	-2,961	-2,756
Amortization for the period	-160	-205
Decreases	0	0
Translation differences	0	0
Accumulated amortization at 31 Dec.	-3,121	-2,961
Book value at 1 Jan.	352	383
Book value at 31 Dec.	348	352

NOTE 21 PROPERTY, PLANT AND EQUIPMENT

Land and water areas, EUR 1,000	2013	2012
Acquisition cost at 1 Jan.	875	869
Additions	0	0
Decreases	0	0
Transfer between asset groups	0	0
Exchange rate differences	-14	6
Acquisition cost at 31 Dec.	860	875
Impairment charge and write-downs	-225	-217
Exchange rate differences	4	0
Book value at 1 Jan.	658	820
Book value at 31 Dec.	640	658

Buildings and structures, EUR 1,000	2013	2012
Acquisition cost at 1 Jan.	7,132	7,025
Additions	84	89
Decreases	0	0
Transfer between asset group	29	10
Exchange rate differences	-105	8
Acquisition cost at 31 Dec.	7,140	7,132
Accumulated amortization at 1 Jan.	-4,509	-3,952
Amortization for the period	-263	-321
Decreases	0	0
Amortization for the period	0	-238
Exchange rate differences	85	2
Accumulated amortization at 31 Dec.	-4,687	-4,509
Book value at 1 Jan.	2,624	3,074
Book value at 31 Dec.	2,453	2,624

Machinery and equipment, EUR 1,000	2013	2012
Acquisition cost at 1 Jan.	39,447	37,286
Additions	1,706	2,410
Decreases	0	-445
Transfers between asset groups	455	172
Exchange rate differences	-776	24
Acquisition cost at 31 Dec.	40,832	39,447
Accumulated amortization at 1 Jan.	-32,698	-30,356
Amortization for the period	-2,002	-1,901
Impairment charge and write-downs	0	-617
Decreases	0	176
Translation differences	654	0
Accumulated amortization at 31 Dec.	-34,046	-32,698
Book value at 1 Jan.	6,747	6,927
Book value at 31 Dec.	6,784	6,747

Advance payments and construction in progress, EUR 1,000	2013	2012
Acquisition cost at 1 Jan.	638	768
Additions	874	290
Transfers between asset groups	-598	-419
Decreases	0	0
Exchange rate differences	0	0
Acquisition cost at 31 Dec.	914	638
Book value at 1 Jan.	638	768
Book value at 31 Dec.	914	638

Finance lease arrangements, EUR 1,000	2013	2012
Machinery and equipment		
Acquisition cost at 1 Jan.	1,810	1,810
Additions	0	0
Decreases	0	0
Exchange rate differences	0	0
Acquisition cost at 31 Dec.	1,810	1,810
Accumulated amortization at 1 Jan.	-1,796	-1,786
Amortization for the period	-10	-10
Impairment charge and write-down	0	0
Decreases	0	0
Exchange rate differences	0	0
Accumulated amortization at 31 Dec.	-1,806	-1,796
Book value at 1 Jan.	14	24
Book value at 31 Dec.	4	14

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.

EUR 1,000	2013	2012
Book value at 1 Jan.	64	64
Decreases	0	0
Change in fair value	6	0
Book value at 31 Dec.	70	64

NOTE 23 INVENTORIES

EUR 1,000	2013	2012
Raw materials	4,582	4,363
Work in progress	808	825
Finished products and goods	2,545	3,941
Total inventories	7,936	9,129

During the 2013 financial year an expense of EUR 0.3 million was recognized to reduce the book value of inventories to their net realizable value (EUR 0.4 million in 2012).

NOTE 24 TRADE AND OTHER RECEIVABLES

EUR 1,000	2013	2012
Trade receivables	8,297	8,728
Deferred income	241	527
Other receivables	735	259
Total receivables	9,273	9,513

During the 2013 financial year credit losses of EUR 76 thousand were recorded (EUR 73 thousand in 2012), consisting of actual credit losses amounting to EUR 2 thousand (EUR 2 thousand in 2012) and change in the bad debt provision amounting to EUR 74 thousand (EUR 71 thousand in 2012) covering all overdue trade receivables which are over 90 days overdue.

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

		Past due but not impaired						
		Neither past due nor impaired	< 30 days	30–60 days	61–90 days	91–180 days	181–365 days	Over 1 year
2013	8,297	6,355	1,692	167	83	0	0	0
2012	8,728	6,444	1,868	327	89	0	0	0

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 9,438 (9,245) thousand.

NOTE 26 TRADE AND OTHER NON-INTEREST-BEARING LIABILITIES

EUR 1,000	2013	2012
Trade payables	5,627	6,641
Accrued expenses	4,753	3,343
Advance payments	100	5
Other current interest-free liabilities	1,440	1,109
Non-current interest-free liabilities	402	411
Total	12,322	11,509

NOTE 27 INTEREST-BEARING LOANS AND BORROWINGS

Non-current interest-bearing loans and borrowings, EUR 1,000	2013	2012
	Book values	Book values
Loans from financial institutions	1,440	7,840
Pension loans	321	324
Finance lease liabilities	0	5
Total	1,761	8,168
Current interest-bearing loans and borrowings, EUR 1,000		
Short-term loans from financial institutions	11,100	0
Current portion of long-term debt (repayments)	0	0
Finance lease liabilities	5	11
Total	11,105	11
Maturity of non-current interest-bearing liabilities, EUR 1,000		
2013	0	0
2014	1,400	1,440
2015	1,440	6,400
2016	0	0
2017	0	0
2018	0	0
Later	0	0
Total	2,840	7,840

In 2013 early installments were made amounting to EUR 5.0 million.

Maturity of finance lease liabilities, EUR 1,000	2013	2012
Finance lease liabilities – total value of minimum lease payments		
Not later than 1 year	5	11
1–5 years	0	5
Finance lease liabilities – present value of minimum lease payments		
Not later than 1 year	5	11
1–5 years	0	5
Future finance charges	0	0
Total finance lease liabilities	5	16

Among interest-bearing loans EUR 5,000 thousand (EUR 5,000 thousand in 2012) has been converted to fixed interest rates through interest rate swap agreements.

NOTE 28 IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES

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

Distribution of goodwill, EUR 1,000	2013	2012
Finland	135	135
Germany	1,305	1,305
Belgium	209	209
Austria	688	688
Exel Composites Group	7,056	8,562
Total	9,393	10,898

Impairment tests are made annually on goodwill and intangible assets with an indefinite economic life. On the closing date the Exel Composites Group had no intangible assets with an unlimited economic life.

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 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 next five years. Forecasts for periods further ahead in the future have been calculated on the assumption of annual growth of 3% (3%) on the industry in the long term. The level of gross margins in these forecasts

is expected to remain on average at the current level.

Discount rates are defined separately in order to reflect the effect of the different business risks on the expected return on equity. The cost of liabilities is defined according to the existing credit portfolio. The calculation of the average cost of capital takes into account the Group's targeted capital structure, as well as the effect of debt on the cost of Group equity. The discount rate before taxes used in the calculations varied between 11.4% – 14.8% (10.5% – 11.3%).

On the basis of the impairment test, the amount of money that can be accrued by all cash-generating units exceed the

corresponding balance sheet values. No impairment loss was recorded in 2013. In 2012 impairment loss of EUR 2,542 thousand was recorded.

Sensitivity of the impairment test

With regard to the assessment of value in use the management believes that if the turnover drops over 7% there would be a situation where the carrying value would not exceed the recoverable amount. Alternatively the sales margin must decline over 5 per cent units or discount rate increase to over 18.7%.

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) and the Chinese renminbi (RMB). Foreign exchange risks are generated by commercial transactions, from monetary items in the assets and liabilities and from net investments in foreign subsidiaries. The objective of foreign exchange risk management is to protect the operating result and shareholders' equity against foreign exchange rate fluctuations.

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

Currency positions are assessed at their net amount in each currency generally for the following 12-month period. Currency flows are partly protected by forward agreements and currency options. The Group's transaction exposure is in USD amounting to USD 1.8 million on 31 December 2013.

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

Net investment, EUR 1,000	31 Dec. 2013	31 Dec. 2012
AUD	12,123	15,999
GBP	5,717	5,425
RMB	4,056	3,893

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

31 December 2013	AUD	GBP	RMB
Increase in currency rate vs. EUR	5%	5%	5%
Effect on profit before tax in EUR			
Effect on equity EUR	606	286	203

31 December 2012	AUD	GBP	RMB
Increase in currency rate vs. EUR	5%	5%	5%
Effect on profit before tax in EUR			
Effect on equity EUR	800	271	195

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 2013 were divided to the currencies as follows:

Currency	Amount EUR 1,000	%
EUR	12,540	100%
Total	12,540	100%

Non-current loans have adjustable rates of interest, but they are partially protected against interest rate risks by converting them to fixed interest rates through interest rate swaps. At the balance sheet date the Group had interest swap contracts worth EUR 5,000 thousand, where the Group pays 2.500% 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 2013 was EUR 125 thousand (EUR 78 thousand in 2012).

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 2013 amounting to EUR 31.3 million of which EUR 21.3 million were committed.

The Finance Department sees to it that a sufficient number of different financing sources are available and that the maturity

schedule of foreign loans is managed. The parent company's Finance Department centrally manages the Group's refinancing and its management. The Group's internal debt ratios exist primarily directly between the parent company and its subsidiaries.

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

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

Year ended 31 Dec. 2013	On demand	Less than 3 months	3-12 months	1-5 years	> 5 years	Total
Interest-bearing liabilities	0	4,380	6,000	2,160	0	12,540
Trade and other current payables		11,920				11,920

Year ended 31 Dec. 2012	On demand	Less than 3 months	3-12 months	1-5 years	> 5 years	Total
Interest-bearing liabilities	0	0	0	7,840	0	7,840
Trade and other current payables		11,098				11,098

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 2013 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.

EUR 1,000	2013	2012
Interest-bearing liabilities	12,866	8,179
Cash and cash equivalents	9,438	9,245
Net interest-bearing liabilities	3,428	-1,066
Shareholders' equity	22,841	31,438
Net gearing %	15.0	-3.4

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. Defined benefit pension schemes are not significant.

Amounts recognized in the income statement, EUR 1,000	2013	2012
Service cost for the financial year	1,795	1,837
Differences in benefit schemes	-2	91
Total included in personnel expenses	1,793	1,928

Amounts recognized in the balance sheet, EUR 1,000	2013	2012
At the beginning of financial period	324	233
Transferred to other liabilities	0	0
Pension expenses in the balance sheet	-2	91
At the end of financial period	321	324

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.

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

EUR 1,000	2013 Net fair value	2013 Nominal value	2012 Net fair value	2012 Nominal value
Trade and other receivables	9,273	9,273	9,513	9,513
Cash and cash equivalents	9,438	9,438	9,245	9,245
Interest rate swap agreements	-53	5,000	-164	5,000
Bank loans	12,549	12,540	7,864	7,840
Finance leasing	5	5	15	15
Non-current loan facilities	0	0	0	0
Trade and other payables	11,920	11,920	11,098	11,098

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

NOTE 32 CONTINGENT LIABILITIES

EUR 1,000	2013	2012
Commitments on own behalf		
Mortgages	2,783	2,783
Floating charges	12,500	12,500
Operating leases		
Not later than one year	810	1,061
1 – 5 years	994	2,404
Other liabilities	6	6

NOTE 33 SHARE CAPITAL

EUR 1,000	Number of shares (1,000)	Share capital	Invested unrestricted equity fund	Total
1 January 2012	11,897	2,141	8,488	10,589
Share issue				
31 December 2012	11,897	2,141	8,488	10,589
Share issue				
31 December 2013	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 27 March 2013 the Annual General Meeting authorized the Board of Directors to acquire the Company's own shares by using unrestricted equity. The maximum amount to be acquired is 600,000 shares.

The authorization shall also contain an entitlement for the Company to accept its own shares as pledge. The number of shares that can be acquired or held as pledges by the Company on the basis of this authorization shall not exceed one tenth (1/10) of all outstanding shares of the Company. The authorization is valid until 30 June 2014.

On 27 March 2013 the Annual General Meeting authorized the Board of Directors

to issue a maximum of 2,400,000 new shares and convey a maximum of 600,000 own shares. By virtue of the authorization, the Board of Directors also has the right to grant option rights, convertible bonds and/or special rights referred to in Chapter 10, Section 1 of the Companies Act. The authorization is valid until 30 June 2016.

These authorizations have not been exercised during the year.

NOTE 34 SHARE-BASED PAYMENT PLANS

The Group has a long-term incentive program for the Group Management Team and selected key employees of the Company. The aim of the program is to 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 2012 program includes matching shares and a long-term monetary performance reward, and the program is targeted at 18 executives for the earning period 2012 – 2014. The members of the Group Management Team are included in the target group of the 2012 incentive program.

The 2012 program includes one earning period, the calendar years 2012 – 2014. The prerequisite for the participation in the matching shares component is that the executive owns the Company's shares in accordance with the decision by the Board of Directors. The potential long-term monetary

performance reward from the program for the earning period 2012 – 2014 will be based on the Group's cumulative Economic Profit and on the Group's Total Shareholder Return (TSR).

The potential reward from the earning period 2012 – 2014 will be paid in 2015.

The maximum reward to be paid on the basis of the earning period 2012 – 2014 will correspond to the value of up to 900,000 EUR for the monetary performance reward and up to 30,000 Exel Composites Plc shares for the matching shares reward.

The 2013 program includes one earning period, the calendar years 2013 – 2015. The program is targeted at 18 executives for the earning period 2013 – 2015. The members of the Group Management Team are included in the target group of the new incentive program. The potential long-term monetary performance reward from the program for the earning period 2013 – 2015 will be based on the Group's cumulative

Economic Profit and on the Group's Total Shareholder Return (TSR).

The potential reward from the earning period 2013 – 2015 will be paid in 2016.

The maximum reward to be paid on the basis of the earning period 2013 – 2015 will be one million EUR.

No reward will be paid to an executive, if his or her employment or service with the Group Company ends before the reward payment unless the Board decides otherwise.

The cost of the programs will be accounted for as operating expenses during the duration of the program and accrued for in the financial statements according to IFRS 2.

There is a vesting period of two years before the title of the shares is transferred regarding the shares given to the participant from 2012 program.

No payments were made in 2013.

NOTE 35 DISTRIBUTABLE FUNDS, 31 DECEMBER 2013

The parent company's distributable funds on 31 December 2013 were EUR 10,769 thousand.

NOTE 36 CASH FLOW FROM BUSINESS OPERATIONS

Non-cash adjustments to the result for the financial year, EUR 1,000	2013	2012
Depreciation, impairment charges and write-offs	2,691	5,387
Taxes	1,477	940
Financial expenses	664	734
Financial income	-378	-306
Other adjustments	-366	415
Total	4,088	7,170

NOTE 37 RELATED PARTY TRANSACTIONS

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

Name of subsidiary	Domicile	Group share of holding
Exel GmbH	Germany	100%
Exel Composites N.V.	Belgium	100%
Exel Composites GmbH	Austria	100%
Exel USA, Inc.	USA	100%
Exel Composites (Nanjing) Co. Ltd.	China	100%
Exel Composites (Australia) Pty. Ltd.	Australia	100%
Pacific Composites Ltd.	Australia	100%
Pacific Composites (Europe) Ltd.	UK	100%
Fibreforce Composites Ltd.	UK	100%
Pacific Composites Ltd.	New Zealand	100%
Pro Stick Oy	Finland	100%

The ultimate parent company is Exel Composites Plc.

Management remuneration

Senior management salaries, fees and bonuses, EUR 1,000	2013	2012
President & CEO	586	263
Members of the Board of Directors	163	178
Total	749	441

Salaries and fees per person, EUR 1,000	2013
Vesa Korpimies, President and CEO	586
Peter Hofvenstam, Chairman of the Board	52

Members of the Board	2013
Heikki Hiltunen	27
Göran Jönsson	28
Reima Kerttula	28
Heikki Mairinoja	28

The accrued pension costs of CEO amounted to EUR 58 thousand. The CEO's pension plan is pursuant to the employment pension legislation.

Number of shares	2013
Vesa Korpimies, President and CEO	106,074
Peter Hofvenstam, Chairman of the Board	3,933

Members of the Board	2013
Heikki Hiltunen	1,846
Göran Jönsson	4,846
Reima Kerttula	1,846
Heikki Mairinoja	1,846
Number of shares and votes total	120,391

NOTE 38. EVENTS AFTER THE REPORTING PERIOD

The Board of Directors of Exel Composites Plc. appointed Riku Kytömäki as new President and CEO of Exel Composites in September 2013. He assumed his duties on 2 January 2014. He succeeded Vesa Korpiemies, who gave up his duties as President and CEO on 1 January 2014.

A new incentive program for the Company executives was approved by the Board of Directors on 11 February 2014. The aim of the new program is to combine the objectives of the shareholders and the executives in order to increase the value of the Company, to commit the executives of the Company and to offer the executives a competitive reward program. The new

program is based on a long-term monetary performance reward, and the program is targeted at approximately 20 executives for the earning period 2014 – 2016. The President and CEO and the members of the Group Management Team are included in the target group of the new incentive program.

The new program includes one earning period, the calendar years 2014 – 2016. The potential long-term monetary performance reward from the program for the earning period 2014 – 2016 will be based on the Group's cumulative Economic Profit and on the Group's Total Shareholder Return (TSR).

The potential reward from the earning period 2014 – 2016 will be paid in 2017. No reward will be paid to an executive, if his or her employment or service with the Group Company ends before the reward payment.

The maximum reward to be paid on the basis of the earning period 2014 – 2016 will be one million EUR.

PARENT COMPANY INCOME STATEMENT

EUR 1,000	Notes	1.1.-31.12.2013	1.1.-31.12.2012
Net sales	1	33,801	39,599
Increase (+) / Decrease (-) in inventories of finished goods and work in progress		-290	-531
Other operating income		710	870
Materials and services			
Materials and supplies			
Purchases during financial period		12,620	13,853
Increase (-) or decrease (+) in inventories		-540	392
		-12,080	-14,245
External services		-162	-657
Personnel expenses	2		
Wages and salaries		8,514	8,107
Pension costs		1,412	1,445
Other personnel expenses		445	456
		-10,371	-10,007
Depreciation and write-down	3		
Planned depreciation		-1,254	-1,222
Other operating expenses	4	-6,311	-7,933
Operating profit		4,043	5,874
Financial income and expenses	5		
Other interest and financial income		680	1,736
Interest paid and other financial expenses		-6,025	-585
		-5 345	1,150
Profit before extraordinary items		-1,302	7,025
Group subsidy	6	0	0
Profit before appropriations and taxes		-1,302	7,025
Direct taxes	7	-907	-1,317
Profit for the period		-2,209	5,708

PARENT COMPANY BALANCE SHEET

EUR 1,000	Notes	31.12.2013	31.12.2012
ASSETS			
Non-current assets	8		
Intangible assets			
Intangible assets		151	118
Other capitalized expenditure		348	352
		498	469
Tangible assets			
Land and water		90	90
Buildings		1,258	1,385
Machinery and equipment		2,756	2,554
Construction in progress		909	633
		5,013	4,663
Investments			
Holdings in Group companies	9	22,401	24,643
Other shares and holdings		53	53
		22,454	24,696
Total non-current assets		27,966	29,828
Current assets			
Inventories			
Raw materials and consumables		2,841	2,301
Work in progress		808	822
Finished goods		320	597
		3,969	3,720
Current receivables	10		
Trade receivables		3,990	3,740
Receivables from Group companies		757	911
Other receivables		27	4
Prepaid expenses and accrued income		346	64
		5,120	4,719
Cash in hand and at bank		1,331	3,188
Total current assets		10,420	11,627
Total assets		38,386	41,455

EUR 1,000	Notes	31.12.2013	31.12.2012
LIABILITIES AND SHAREHOLDERS' EQUITY			
Equity	11		
Share capital		2,141	2,141
Share premium reserve		0	0
Invested unrestricted equity fund		2,539	8,488
Retained earnings		10,439	8,300
Profit for the financial period		-2,209	5,708
Total equity		12,911	24,637
LIABILITIES			
Non-current liabilities	12		
Loans from financial institutions		1,440	7,840
Current liabilities	13		
Loans from financial institutions		11,100	0
Accounts payable		119	5
Trade payables		2,086	2,242
Liabilities to Group companies		7,820	4,371
Other liabilities		379	387
Accrued liabilities and deferred income		2,531	1,973
Total current liabilities		24,035	8,978
Total liabilities		25,475	16,818
Total liabilities and shareholders' equity		38,386	41,455

PARENT COMPANY CASH FLOW STATEMENT

EUR 1,000	2013	2012
Cash flow from business operations		
Profit for the year	-2,209	5,708
Profit for the year adjustments	7,548	1,270
Change in net working capital	3,142	618
Interest paid and other financial expenses	-411	-339
Dividend received	517	1,563
Interest received	11	35
Income taxes paid	-745	-918
Cash flow from business operations	7,853	7,937
Cash flow from investing activities		
Disposal of business	0	0
Capital expenditure	-1,634	-1,539
Installments in subsidiaries' shares	-3,259	0
Proceeds from sale of fixed assets	0	16
Net cash flow from investments	4,893	-1,523
Cash flow before financing	2,960	6,414
Cash flow		
Withdrawals of long-term borrowings	0	0
Repayments of long-term borrowings	-5,000	0
Change in short-term loans	9,700	0
Group subsidies	0	0
Additional capital repayment	-5,948	0
Dividend paid	-3,569	-5,948
Cash flow from financing	-4,817	5,948
Change in liquid funds	-1,857	466
Liquid funds Jan. 1	3,188	2,722
Liquid assets from merger	0	0
Liquid funds Dec. 31	1,331	3,188

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

NOTE 1 NET SALES BY MARKET AREA

EUR 1,000	2013	2012
Nordic Countries	12,545	14,812
Other European Countries	17,966	20,913
Other Countries	3,290	3,874
Total	33,801	39,599

NOTE 2 PERSONNEL EXPENSES

Paid 2012, EUR 1,000	2013	2012
President	263	556
Members of the Board	163	178
Total	426	733
Average personnel employed		
Salaried employees	66	70
Non-salaried employees	135	128
Total	201	198

NOTE 3 DEPRECIATION

Fixed assets have been entered in the balance sheet at cost after deduction of planned depreciation. Planned depreciation is calculated on the basis of economic life, as a straight-line depreciation on the original cost.

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

Planned depreciation, amortization and impairment, EUR 1,000	2013	2012
Intangible rights	28	119
Other capitalized expenditure	160	205
Buildings	197	211
Machinery and equipment	869	687
Write-downs of non-current assets	0	0
Total	1,254	1,222

NOTE 4 OTHER OPERATING EXPENSES

EUR 1,000	2013	2012
Rents	175	178
Marketing expenses	155	208
Other expenses	5,981	7,547
Total	6,311	7,933

EUR 1,000	2013	2012
Auditor's fee	58	70
Tax counseling	0	11
Other fees	22	0
Total	80	81

NOTE 5 FINANCE INCOME AND EXPENSES

EUR 1,000	2013	2012
Other interest and financial income		
From Group companies	516	1,561
From others	164	174
Total	680	1,736
Interest and other financial expenses		
To Group companies	-94	-84
To others	-5,931	-501
Total	-6,025	-585
Total finance income and expenses	-5,345	1,151

NOTE 6 EXTRAORDINARY ITEMS

EUR 1,000	2013	2012
Extraordinary items / Group subsidy	0	0
Total	0	0

NOTE 7 DIRECT TAXES

EUR 1,000	2013	2012
Taxes	-907	-1,317

NOTE 8 INTANGIBLE AND TANGIBLE RIGHTS

EUR 1,000	2013	2012
Intangible rights		
Acquisition cost Jan. 1	1,129	1,010
Increase	9	29
Decrease	0	0
Reclassification between items	53	90
Acquisition cost Dec. 31	1,191	1,129
Accumulated planned depreciation Jan. 1	-1,012	-892
Planned depreciation	-28	-120
Planned depreciation of decrease	0	0
Accumulated planned depreciation Dec. 31	-1,040	-1,012
Book value at Jan. 1	118	118
Book value at Dec. 31	151	118

EUR 1,000	2013	2012
Other long-term expenses		
Acquisition cost Jan. 1	3,208	3,035
Increase	94	26
Decrease	0	0
Reclassification between items	61	147
Acquisition cost Dec. 31	3,363	3,208
Accumulated planned depreciation Jan. 1	-2,856	-2,651
Planned depreciation	-160	-205
Planned depreciation of decrease	0	0
Accumulated planned depreciation Dec. 31	-3,016	-2,856
Book value at Jan. 1	352	383
Book value at Dec. 31	348	352
Land and water		
Acquisition cost Jan. 1	90	90
Increase	0	0
Decrease	0	0
Acquisition cost Dec. 31	90	90
Book value at Jan. 1	90	90
Book value at Dec. 31	90	90
Buildings		
Acquisition cost Jan. 1	4,909	4,831
Increase	44	68
Decrease	0	0
Reclassification between items	26	10
Acquisition cost Dec. 31	4,979	4,909
Accumulated planned depreciation Jan. 1	-3,524	-3,313
Planned depreciation	-197	-211
Planned depreciation of decrease	0	0
Accumulated planned depreciation Dec. 31	-3,721	-3,524
Book value at Jan. 1	1,385	1,518
Book value at Dec. 31	1,258	1,385
Machinery and equipment		
Acquisition cost Jan. 1	21,244	20,011
Increase	612	1,120
Decrease	0	-59
Reclassification between items	458	172
Acquisition cost Dec. 31	22,314	21,244
Accumulated planned depreciation Jan. 1	-18,690	-18,050
Planned depreciation	-869	-687
Planned depreciation of decrease	0	47
Accumulated planned depreciation Dec. 31	-19,559	-18,690
Book value at Jan. 1	2,554	1,961
Book value at Dec. 31	2,756	2,554
Undepreciated acquisition cost of production machinery and equipment	2,729	2,518

EUR 1,000	2013	2012
Advance payment and construction in progress		
Acquisition cost Jan. 1	633	763
Increase	874	289
Reclassification between items	-598	-419
Decrease	0	0
Acquisition cost Dec. 31	909	633
Book value at Jan. 1	633	763
Book value at Dec. 31	909	633
Shares		
Group companies		
Acquisition cost Jan. 1	24,643	24,643
Increase	3,258	0
Decrease	-5,500	0
Acquisition cost Dec. 31	22,401	24,643
Other shares and holdings		
Acquisition cost Jan. 1	53	53
Increase	0	0
Decrease	0	0
Acquisition cost Dec. 31	53	53

NOTE 9 COMPANIES OWNED BY PARENT COMPANY

Shares in subsidiaries	Registration country	Owned by the parent company %
Name of company		
Exel GmbH	Germany	100
Exel Composites N.V.	Belgium	100
Exel Composites GmbH	Austria	100
Exel USA, Inc.	USA	100
Exel Composites (Nanjing) Co. Ltd.	China	100
Exel Composites (Australia) Pty. Ltd.	Australia	100
Pacific Composites (Europe) Ltd.	UK	100
Pro Stick Oy	Finland	100

NOTE 10 RECEIVABLES

Current receivables, EUR 1,000	2013	2012
Receivables from Group companies		
Trade receivables	757	911
Loan receivables	0	0
Prepaid expenses and accrued income	0	0
Total receivables from Group companies	757	911
Receivables from others		
Trade receivables	3,990	3,740
Other receivables	27	4
Prepaid expenses and accrued income	346	64
Total receivables from others	4,363	3,808
Total current receivables	5,120	4,719

Deferred tax assets amounting to EUR 101 (128) thousand have not been booked from cumulative depreciation exceeding the maximum tax depreciations by EUR 0.5 (0.5) million.

NOTE 11 EQUITY

EUR 1,000	2013	2012
Share capital Jan. 1	2,141	2,141
Share capital Dec. 31	2,141	2,141
Invested unrestricted equity fund Jan. 1	8,488	8,488
Additional capital repayment	-5,948	0
Invested unrestricted equity fund Dec. 31	2,539	8,488
Retained earnings	14,008	14,248
Dividend paid	-3,569	-5,948
Retained earnings	10,439	8,300
Operating profit for the financial year	-2,209	5,708
Total equity	12,911	24,637
Calculation of funds distributable as profit Dec. 31	2013	2012
Non-restricted equity fund	2,539	8,488
Retained earnings	10,439	8,300
Operating profit/loss for the financial year	-2,209	5,708
Total	10,769	22,496

NOTE 12 NON-CURRENT LIABILITIES

EUR 1,000	2013	2012
Liabilities to others		
Loans from financial institutions	1,440	7,840
Total non-current liabilities	1,440	7,840
Liabilities falling due in a period longer than five years	0	0

NOTE 13 CURRENT LIABILITIES

EUR 1,000	2013	2012
Liabilities to Group companies		
Trade payables	-56	459
Accrued liabilities and deferred income	7,877	3,913
Total liabilities to Group companies	7,820	4,371
Liabilities to others		
Loans from financial institutions	11,100	0
Advance payments	119	5
Trade payables	2,086	2,242
Other liabilities	379	387
Accrued liabilities and deferred income	2,531	1,973
Total liabilities to others	16,215	4,607
Total current liabilities	24,035	8,978
Specification of accrued liabilities and deferred income	2013	2012
Salaries, wages and holiday pay, including social security expenses	1,869	1,327
Other accrued liabilities and deferred income	662	646
Total accrued liabilities and deferred income	2,531	1,973

NOTE 14 CONTINGENT LIABILITIES

Derivatives

Interest rate risk

The company's long-term debt is subject to interest rate risk, which is why it has fixed the rate of interest on some of its borrowings through swap agreements that extend to the years 2008–2014.

EUR 1,000	Face value	Fair market value
Interest swaps (NPV)		
Interest swaps	5,000	-53
Liabilities for which a corporate mortgage and real estate mortgages have been provided as collateral	2013	2012
Financial institution loans	12,540	7,840
Mortgages given on land and buildings	2,783	2,783
Corporate mortgage given	12,500	12,500
Collateral for Group companies		
Credit limit guarantee	0	0

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

NOTE 15 LEASING, RENTAL AND OTHER LIABILITIES

EUR 1,000	2013	2012
Leasing liabilities		
Falling due in 2013	37	61
Falling due later	44	39
Rental liabilities		
Falling due in 2013	0	0
Falling due later	0	0
Other liabilities	6	6

NOTE 16 SHARE OWNERSHIP

Distribution of share ownership on 31 December 2013	%
Private companies	13.2
Financial and insurance institutions	36.7
Public sector entities	6.6
Non-profit organizations	1.8
Households	18.9
Foreign	22.7
Of which, nominee registration	11.8

Distribution of share ownership on 31 December 2013

Shares	Number of shareholders	Percentage of shareholders	Total number of shares	Percentage of total number of shares
1–1,000	2,360	85.76	677,414	5.69
1,001–10,000	335	12.17	934,976	7.86
10,001–50,000	29	1.05	647,109	5.44
over 50,000	28	1.02	9,637,344	81.01

NOTE 17 SHAREHOLDERS

Information on shareholders on 31 December 2013

Shareholder	Number of shares	Percentage of shares and votes
Nordstjernan AB	2,656,506	22.3
SEB Asset Management S.A.	1,149,573	9.7
Ilmarinen Mutual Pension Insurance Company	689,400	5.8
OP-Suomi Small Cap Investment Fund	589,551	5.0
Ulkomarkkinat Oy	480,000	4.0
Fondita Nordic Micro Cap Investment Fund	450,000	3.8
Veikko Laine Oy	395,796	3.3
Alfred Berg Finland Investment Fund	364,814	3.1
Nordea Fennia Investment Fund	358,094	3.0
Matti Suutarinen	291,400	2.4
Nominee registration	1,398,553	11.8
Other	3,073,156	25.8
Total	11,896,843	100.0

NOTE 18 MANAGEMENT INTERESTS

The aggregate holding of the members of Board of Directors and the President was 120,391 shares on 31 December 2013. This accounts for 1.01% of corporate shares and 1.01% 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 27 March 2013 the Annual General Meeting authorized the Board of Directors to acquire the Company's own shares by using unrestricted equity. The maximum amount to be acquired is 600,000 shares. The authorization shall also contain an entitlement for the Company to accept its own shares as pledge. The number of shares that can be acquired or held as pledges by the

Company on the basis of this authorization shall not exceed one tenth (1/10) of all outstanding shares of the Company. The authorization is valid until 30 June 2014.

On 27 March 2013 the Annual General Meeting authorized the Board of Directors to issue a maximum of 2,400,000 new shares and convey a maximum of 600,000 own shares. By virtue of the authorization,

the Board of Directors also has the right to grant option rights, convertible bonds and/or special rights referred to in Chapter 10, Section 1 of the Companies Act. The authorization is valid until 30 June 2016.

These authorizations have not been exercised during the year.

NOTE 20 SHARE PRICE AND TRADING

Share price (EUR)	2009	2010	2011	2012	2013
Average price	4.08	5.86	8.10	7.05	6.18
Lowest price	2.37	5.00	6.75	5.55	5.10
Highest price	6.20	7.25	9.40	8.79	6.70
Share price at the end of financial year	5.39	7.06	7.65	5.90	5.75
Market capitalization, EUR million	64.1	84.0	91.0	70.2	68.4
Share trading	2009	2010	2011	2012	2013
Number of shares traded	3,522,974	2,298,611	1,381,139	944,978	2,022,018
% of total	29.6	19.3	11.6	7.9	17.0
Number of shares adjusted for share issues					
Average number	11,896,843	11,896,843	11,896,843	11,896,843	11,896,843
Number at end of financial year	11,896,843	11,896,843	11,896,843	11,896,843	11,896,843

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

NOTE 21 KEY INDICATORS

Key indicators illustrating financial trends

Figures given in EUR 1,000 (unless otherwise stated)	2009 IFRS	2010 IFRS**	2011 IFRS**	2012 IFRS**	2013 IFRS**
Net sales	70,005	72,872	85,136	75,998	69,290
Operating profit	7,990	9,430	11,082	3,399	4,843
% of net sales	11.4	12.9	13.0	4.5	7.0
Profit before extraordinary items	7,970	8,936	10,798	2,971	4,557
% of net sales	11.4	12.3	12.7	3.9	6.6
Profit before provisions and income taxes	7 970	8 936	10,798	2,971	4,557
% of net sales	11.4	12.3	12.7	3.9	6.6
Total assets	57,303	56,885	57,046	51,502	48,468
Return on equity %	31.3	23.3	23.5	6.1	11.3
Return on capital employed, %	20.9	21.8	26.1	8.4	13.0
Equity ratio, %	44.6	57.4	61.6	61.0	47.2
Net gearing, %	23.7	-4.3	-5.00	-3.4	15.0
Capital expenditure	1,440	1,570	3,208	2,846	2,767
% of net sales	2.1	2.2	3.8	3.7	4.0
Research and development costs	1,407	1,312	1,639	1,606	1,511
% of net sales	2.0	1.8	1.9	2.1	2.2
Average personnel	436	404	428	431	427
Personnel at year end	419	408	428	431	408
Share data					
Earnings per share (EPS), EUR	0.50	0.57	0.67	0.17	0.26
Adjusted earnings per share (EPS), EUR*	0.50	0.57	0.67	0.17	0.26
Equity per share, EUR	2.15	2.73	2.95	2.64	1.92
Dividend per share, EUR	0.25	0.50	0.50	0.30	0.00
Payout ratio, %	50.00	87.80	74.90	175.8	0.00
Effective yield of shares, %	4.64	7.08	6.54	5.08	0.00
Price/earnings (P/E), %	10.79	12.40	11.45	34.57	22.21

* Adjusted for the dilution of option rights

** From continuing operations

COMPUTATION FORMULAE

Return on equity %

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

Return on investment %

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

Solvency 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

$$\frac{\text{profit before extraordinary items, provisions and income taxes less income taxes +/- minority interest}}{\text{average adjusted number of shares in the financial period}} \times 100$$

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 %

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

Price/earnings (P/E) %

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

PROPOSAL FOR DISTRIBUTION OF PROFIT

Exel Composites Plc's distributable funds are EUR 10,769,401.18 of Which loss for the financial period accounts for EUR -2,208,681.20

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

– no dividend be paid	0.00
– carried over as equity	10,769,401.18
	<hr/>
	10,769,401.18

Vantaa, 11 February 2014

Peter Hofvenstam
Chairman

Heikki Hiltunen

Göran Jönsson

Reima Kerttula

Heikki Mairinoja

Riku Kytömäki
President and CEO

Our auditor's report has been issued today.

Vantaa, 11 February 2014

Ernst & Young
Authorized Public Accountants

Juha Hilmola
Authorized Public Accountant

AUDITOR'S REPORT

To the Annual General Meeting of Exel Composites Plc

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Exel Composites Plc for the financial period 1.1. - 31.12.2013. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in

Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company and the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors.

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

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

Opinion on the consolidated financial statements

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

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

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

Opinions based on the decision of the Board of Directors

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

Vantaa, February 11, 2014

Ernst & Young Oy
Authorized Public Accountant Firm

Juha Hilmola
Authorized Public Accountant

SHARES AND SHAREHOLDERS

Shares and share capital

Exel Composites' share capital remained unchanged during the financial year and was at the end of 2013 11,896,843 shares each having the counter-book value of EUR 0.18. There is only one class of shares and all shares are freely assignable under Finnish law. Exel Composites did not hold any of its own shares during the financial year.

Board of Directors' authorizations

The Annual General Meeting held on 27 March 2013 authorized the Board of Directors to decide on the repurchase of the Company's own shares and share issue.

Share repurchase authorization

The Annual General Meeting authorized the Board of Directors to repurchase the Company's own shares on the following terms:

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 contains an entitlement for the Company to accept its own shares as pledge.

The number of shares that can be acquired or held as pledges by the Company shall not exceed one tenth (1/10) of all outstanding shares of the Company.

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 OMX 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 OMX Helsinki Ltd and Euroclear Finland Ltd.

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.

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

The share repurchase authorization is valid until 30 June 2014 and it revokes the repurchase authorization given by the Annual General Meeting on 29 March 2012.

Share issue authorization

The Annual General Meeting authorised the Board of Directors to decide on the issuance of a maximum of 2,400,000 new shares and/or conveyance of a maximum of 600,000 Company's own shares. By virtue of the authorisation, the Board of Directors also has the right to grant option rights,

convertible bonds and/or other special rights referred to in Chapter 10, Section 1 of the Companies Act, which entitle to new shares or the Company's own shares against payment in such a manner that the subscription price of the shares is paid in cash or by using the subscriber's receivable to set off the subscription price.

New shares may be issued and the Company's own shares held by the Company may be conveyed to the Company's shareholders in proportion to their current shareholdings in the Company or waiving the shareholder's pre-emption right, through a directed share issue if the Company has a weighty financial reason to do so such as using the shares as consideration in possible mergers and acquisitions and other business arrangements, to finance investments or as a part of the Company's incentive program for personnel.

New shares may be issued and the Company's own shares held by the Company may be conveyed either against payment or for free. A directed share issue may be free only if there is an especially weighty financial reason both for the Company and with regard to the interests of all shareholders in the Company, such as using the shares as a part of the Company's incentive program for personnel. The new shares may also be issued in a free share issue to the Company itself.

The Board of Directors has the right to decide that the possible subscription price for issued new shares or the possible consideration payable for the conveyed own shares shall be either entirely or partially entered into the invested unrestricted equity fund to the extent and manner decided by the Board of Directors.

The Board of Directors shall decide on all other terms and conditions related to the authorisations. The authorisations shall be valid until 30 June 2016 and they shall revoke the authorizations given by the Annual General Meeting on 31 March 2010.

These authorizations have not been exercised during the year.

Share performance and turnover

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

During the financial year 2013 the highest share price quoted was EUR 6.70 (8.79) and the lowest EUR 5.10 (5.55). At the end of the year, the share price was

EUR 5.75 (5.90). The average share price during the financial year was EUR 6.18 (7.05).

Total shareholder return (TSR) in 2013 was 11 (-16) per cent.

A total of 2,022,018 (944,978) shares were traded during the year, which represents 17.0 (7.9) per cent of the average number of shares. On 31 December 2013, Exel Composites' market capitalization was EUR 68.4 (70.2) million.

Management interests

The aggregate holding of the members of the Board of Directors and the President was 120,391 shares on 31 December 2013. This accounts for 1.0 per cent of corporate shares and 1.0 per cent of the votes carried by all shares. The members of the Board of Directors and the President do not have any unsubscribed option rights.

Up-to-date information concerning the holdings of Exel Composites' statutory insiders is available at the Company website at www.exelcomposites.com.

Incentive programs

A new incentive program for the Company executives was approved by the Board of Directors in May 2013. The aim of the new program 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 new program is based on a long-term monetary performance reward, and the program is targeted at approximately 20 executives for the earning period 2013 – 2015. The President and CEO and the members of the Group Management Team are included in the target group of the new incentive program.

The incentive program includes one earning period, the calendar years 2013 – 2015. The potential long-term monetary performance reward from the program for the earning period 2013 – 2015 will be based on the Group's cumulative Economic Profit and on the Group's Total Shareholder Return (TSR).

The potential reward from the earning period 2013 – 2015 will be paid in 2016. No reward will be paid to an executive, if his or her employment or service with the Group Company ends before the reward payment unless the Board decides otherwise.

The maximum reward to be paid on the basis of the earning period 2013 – 2015 will be one million EUR.

Dividend policy

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

An additional capital repayment of EUR 0.50 per share was paid to shareholders in December 2013 in addition to already paid dividend of EUR 0.30 per share decided by the 2013 Annual General Meeting. The additional capital repayment amounting to EUR 5.9 million was paid from the reserve for invested unrestricted equity. Taking this into account, the Board of Directors of the Company does not propose any dividend distribution to the Annual General Meeting 2014 for the financial year 2013.

Shareholders and disclosures

At the end of 2013, Exel Composites had a total of 2,752 (2,746) shareholders. The Company's largest shareholder was the Swedish investment company Nordstjernan AB, which owned 22.3 per cent of shares at

the end of 2013. Other major shareholders included SEB Asset Management S.A. (9.7 per cent), Ilmarinen Mutual Pension Insurance Company (5.8 per cent), OP-Suomi Small Cap Investment Fund (5.0 per cent) and Ulkomarkkinat Oy (4.0 per cent).

A list of the largest shareholders is updated monthly at the Company website at www.exelcomposites.com.

Exel Composites received two flagging announcements during the financial year.

On 25 November 2013 Exel Composites received a flagging announcement according to which the holding of Nordstjernan AB had fallen under 25 per cent of the voting rights and share capital in Exel Composites Plc. Through share transactions concluded on 22 November 2013, the holding of Nordstjernan AB decreased from 3,496,506 shares (29.4 per cent) to 2,656,506 shares, representing 22.3 per cent of the shares and voting rights of the Company.

On 25 November 2013 Exel Composites received a flagging announcement

according to which the holding of SEB Asset Management S.A. had exceeded 5 per cent of the voting rights and share capital in Exel Composites Plc. Through share transactions concluded on 22 November 2013, the holding of SEB Asset Management rose to 1,000,000 shares, representing 8.4 per cent of the shares and voting rights of the Company.

The information on the largest shareholders and the distribution of share ownership on 31 December 2013 is available in Notes 16 and 17 on pages 40 and 41.

ANNUAL REPORT 2013

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Disclaimer:

All forward-looking statements in this Annual Report are based on current expectations and currently known facts. Therefore, they involve risks and uncertainties that may cause actual results to differ materially from results currently expected by the Company.

Exel Composites' reporting for 2013 consists of two elements: annual report and financial statements. Printed copies can be ordered from Exel Composites' Communications via the Company website at www.exelcomposites.com or by email at investor@exelcomposites.com.

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