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exel

Exel Group

Industry Division

Exel Oyj
Kivara, Finland

Exel GmbH
Voerde, Germany

Exel Composites N.V.
Oudenaarde, Belgium

Exel Composites GmbH
Kapfenberg, Austria

Pacific Composites Pty. Ltd.
Melbourne, Australia
Brisbane, Australia

Pacific Composites (Nanjing) Co. Ltd China

Fibreforce Composites Ltd
Runcorn, UK

Sport Division

Exel Oyj
Mäntyharju, Finland

Exel Sports Oy
Finland

Exel GmbH
Rohrdorf, Germany

Exel USA, Inc.
Georgia, USA

International Gateway AB
Piteå, Sweden

Nordic Sports Products (Beijing) Ltd Beijing, China

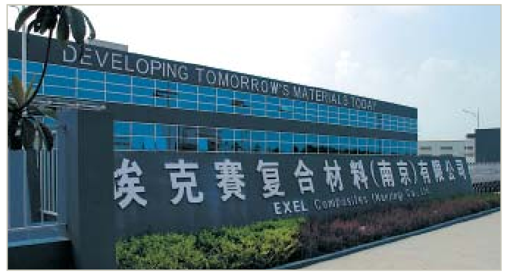
Introduction
Exel Oyj is a leading, international Group specialised in composite technology, with a special focus on pultrusion, Pull-Winding and continuous lamination. The Group's operations include design, manufacturing and marketing of advanced composite products for industrial applications and consumer goods.

Divisions
The Group operates in two divisions: Industry and Sport.

Industrial applications is the largest division and accounts for 75% of the Group's turnover. The Industry Division offers over 1000 composite profile applications. All applications are designed together with our clients and custom made for each client individually. Our key business segments include telecommunication, building and construction, transportation, energy industry, paper machine parts, cleaning and maintenance, machine engineering and general industries. Segments in which the use of composite profiles is growing most rapidly include the transportation industry, infrastructure, wind energy, the offshore industry, consumer products and construction.

The Sport division accounts for 25% of the Group's turnover. The main consumer product groups of the Sport Division include cross-country skiing poles, alpine skiing poles, and Nordic Walking poles, plus floorball sticks and products for both recreational and professional use that are marketed under the Exel and Canadien brand names. Exel is the market leader in several product categories and the originator of the Nordic Walking concept. Exel also serves the sports equipment industry by supplying clients with composite components. These include laminates for skis, snowboards and ice-hockey sticks, as well as windsurfing masts for sail and board manufacturers.

Production sites



Geographical presence
Exel is the world's first international pultrusion company, with manufacturing sites in seven countries. Furthermore, the Group has sales offices in four countries.

Strategy
Exel strives for profitable growth and a corresponding increase in shareholder value through strong organic growth and strategic acquisitions where necessary. The focus of expansion is on the Industry Division.

Based on in-house technologies and close co-operation with clients in R&D, a competitive advantage is achieved that benefits the product assortment of our clients.

As a continuously increasing number of significant international corporations become clients for our composite profiles, Exel expands its service offerings globally as well as locally.

Vision
Exel's goal is to be the market leader in carefully selected, structually attractive market segments based on its expertise in composite technology.

The objective of the Industry Division is to further strengthen its position as the international leader in the pultrusion industry in terms of both market share and technologies. The Sport Division aims to be the leading brand in select niche market segments.

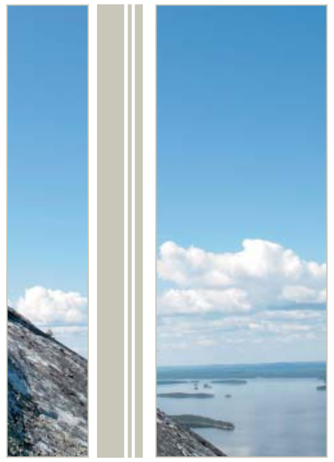
Financial targets
Exel Group has set the following financial targets:

Net sales
- average annual growth at least 15%

Operating profit
- average annual growth at least 15%

Dividends
- Exel aims to distribute 40% of net income in dividends, as permitted by investments and expansion plans

Net gearing
- Exel aims to maintain a strong balance, with a maximum gearing of 100%



Key ratios	2006	2005	Change, %
Net sales, EUR millions	112.4	91.3	23.1
Operating profit, EUR millions	0.4	12.4	-96.9
% of net sales	0.3	13.6	
Profit for the period, EUR millions	-0.7	8.9	-108.2
Return on capital employed (ROCE), %	1.2	34.0	
Net gearing, %	112.8	30.2	
Solvency ratio, %	29.9	50.0	
Earnings per share	-0.06	0.78	-107.9
Equity/share	2.05	2.34	-12.4

Main events in 2006

- In February Exel acquired the shares of the Australia-based Pacific Composites Pty. Ltd. Through the acquisition Exel established itself as the world's first international pultrusion company.

- Production of industrial composite profiles in Nanjing, China was started

- In January the decision was made to transfer the finishing and assembly of pole and floorball products to China during the year. The restructuring of operations at the Mäntyharju factory was also announced. The factory will focus in the future on the manufacture of composite products and in terms of sports equipment, on the production of pole and floorball shafts, surfboard masts and laminates. Mäntyharju will be a part of the global Exel Industry organisation.

- Restructuring of European operations: Operations in Clacton, UK were transferred to the Runcorn site and sub-contracting agreement with Bekaert in the Munguia plant in Spain was discontinued: production was transferred to Exel's other European plants.

- Personnel negotiations at the Mäntyharju factory were concluded in March. As a result, 57 full-time jobs and approximately 20 part-time jobs were discontinued at the end of September.

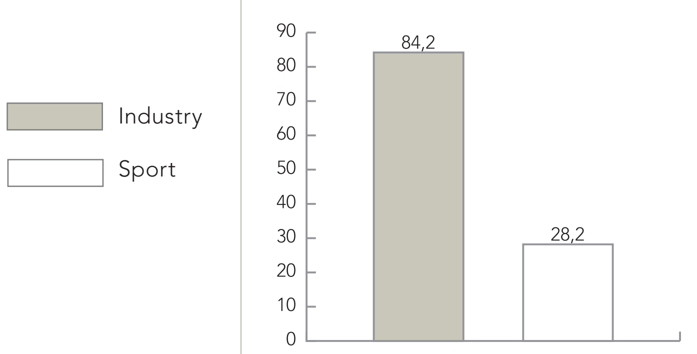
- Ari Jokelainen, President & CEO, resigned from Exel as of 20 November 2006. Göran Jönsson was appointed President & CEO.

Financial results

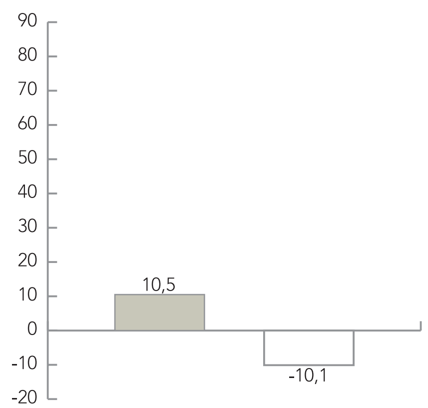
Net sales for the Exel Group grew in 2006, ending the year at EUR 112.4 (91.3) million. This represents growth on the previous year of 23.1%.

Exel's profitability in 2006 was not satisfactory and the Group reported operating profit of EUR 0.4 million. The impact of non-recurring items related to reorganizations amounted to EUR -6.7 million. Additionally, the Sport Division's operating profit was weakened by lower sales.

Net sales by division 2006 (EUR, million)



Operating profit by division 2006 (EUR, million)



The 2006 financial year was marked by many changes in the Exel Group. Through the acquisition of the Australia-based Pacific Composites Pty. Ltd, Exel established itself as the first international pultrusion company with a worldwide share of the pultrusion market of some 10%. The acquisition was synergistic and enabled Exel to serve global customers, to restructure its European production and to gain faster access to Chinese production. The integration of Pacific Composites proceeded as planned in 2006, but we faced challenges in other areas. The development of the Sport Division was highly unsatisfactory. Sales declined and the operating results dropped sharply. During the year, the seriousness of the situation became clear and actions were taken to restore profitability. The restructuring programme adjusted the too heavy cost level and aligned it to current sales and market conditions. The division has been reorganized and functions as an independent company focusing on the development, marketing and sales of poles and floorball sticks under the strong Exel brand name. The parent company continues to give administrative support and serves as a supplier of pole shafts. Decision has been taken to move the pole assembly to China. As a consequence of this move, the operations of the Mäntyharju factory in Finland have been redirected from sporting goods to industrial applications. Through the restructuring measures, the business is well positioned to turnaround. However, as the Sport Division is no longer a core activity within the Exel Group, Exel conducts a strategic review of the long-term prospects.

For the Industry Division 2006 has been a year of consolidation. The production operations of Pacific Composites in Australia, Great Britain and China have been integrated into the Exel Group during the year. The European production platform has been streamlined and we gained access to competitive Chinese production. Although much focus has been given to the integration and restructuring tasks, the Industry Division has also achieved organic growth and developed profitable niche segments, in spite of a difficult carbon fibre situation. The Industry Division has worldwide leading market positions and is able to serve customers with advanced pultruded composite products on a global basis. Composite materials are expected to continue replacing traditional materials in industrial and consumer applications.

I took up my duties as President & CEO on 20 November 2006, following the departure of Ari Jokelainen, who had led the company as President & CEO since 1990. Since I have assumed the position as CEO, I am pleased to have found that Exel has a profitable core business, skilled personnel, good customer clientele, proprietary manufacturing, competitive product range and exciting growth opportunities. The company has grown from a mid-size European player in the late 1990s to an international supplier of high value added composite products. I see in the company strong potential to further develop the industrial activities globally where Exel should further strengthen its role as the leading partner for its customers in developing new, innovative applications for composite profiles.

In 2007, we will put our efforts into the following areas:
- restoring the profitability of the Group
- clarifying the Group structure making it more transparent with clear business segments and well-defined responsibilities, and
- pursuing growth by organic expansion in profitable niche segments, as well as well fitted strategic acquisitions.

We will continue to optimize our production facilities and to expand our production in China in order to remain cost efficient and to serve the Chinese market. In the last two years we have made successful acquisitions of Faserprofil and Pacific Composites. My objective is to continue to take the leading role in the consolidation of the industry. Focusing Exel Group's resources on its core industrial business under a streamlined structure will provide a solid platform for building long-term shareholder value.

The past year was a challenging year for many of us and difficult, far-reaching decisions had to be made. Now it is time to move on and to embark on a journey to fully transform Exel into the global champion of advanced composites to the benefit of our customers, employees and shareholders.

March 2007
Göran Jönsson
President & CEO

Group sales
Net sales for the Exel Group grew by 23.1% in 2006, ending the year at EUR 112.4 (91.3) million.

The Group's main line of business, the Industry Division, experienced strong growth; net sales for 2006 amounted to EUR 84.2 (56.8) million, an increase of 48.3%. The majority of this growth resulted from the acquisitions of Pacific Composites and the Austrian company, Faserprofil in 2005. Pacific Composites' inclusion as of 28 February 2006 increased net sales for the Industry Division by EUR 24.4 million. The Industry Division accounted for 75% of total Group sales.

Net sales for the Sport Division in 2006 fell by 18.3% from the previous year to EUR 28.2 (34.5) million. The Sport Division accounted for 25% of total Group sales. The market for Nordic Walking products remained weak in German-speaking countries in Central Europe and the decrease in sales was due to a declining Nordic Walking market. New markets did not yet create a sufficient increase in demand.

Group profit
Exel's profitability in 2006 was highly unsatisfactory and the Group reported an operating profit of only EUR 0.4 (12.4) million or 0.3 (13.6) per cent of net sales. It was weakened by non-recurring items relating to restructuring measures of EUR -4.9 million for the Sport Division and EUR -0.5 million for the Industry Division. Additionally, the Sport Division's operating profit was weakened by lower sales. Restructuring measures are expected to improve profitability in 2007.

EUR -1.3 million of the acquisition price of Pacific Composites was allocated to the value of the inventory. This figure in its entirety decreased realized sales margins in the Industry Division during the period March-May. Additionally, total non-recurring items in the Group during the financial year were EUR -6.7 million.

Profitability remained at a satisfactory level in the Industry Division despite a considerable increase in raw material prices. Some of this price pressure was passed on within the production chain. Operating profit decreased to EUR 10.5 (10.8) million, including non-recurring items of EUR -1.8 million related to the integration of Pacific Composites and including a closure of one of the UK production units.

Operating profit for the Sport Division became a significant loss of EUR -10.1 (1.6) million. The operating loss includes non-recurring items due to reorganizations amounting to EUR -4.9 million. The weak profitability was also due to the decline in the Nordic Walking markets in Central Europe and investments made to open new Nordic Walking markets.

Restructuring programme
The development of the Sport Division was not satisfactory in 2006. Sales declined and the operating results dropped sharply. The Nordic Walking markets weakened and competition intensified in the German-speaking markets. Exel invested heavily in opening new markets, particularly in North America, China and Japan alongside work to strengthen the organization and dvelop the Nordic Fitness Sports™ concept. These efforts, however, did no offset the decrease in sales in traditional markets.

Exel Sports Brands has been separated from all other Exel activities. The 2006 restructuring programme has adjusted the too heavy cost level to current sales in order to restore profitability of the business. Exel has also subcontracted all finishing, assembly and packaging operations for poles and floorball products to China. Exel Sports Brands has now been transformed from a technology driven organization to a truly market oriented company. Through the extensive restructuring measures, the competitive position of Exel Sports Brands has been reinforced and the business is well positioned to pursue controlled, profitable growth in the sporting goods industry. However, as Exel Sports Brands is no longer a core activity within the Exel Group, Exel reviews different structural alternatives and seeks a strategic partner with a long-term interest in developing the Exel Sports Brands company and contributing to the positive development.

Capital expenditure and depreciation
Group capital expenditure on fixed assets amounted to EUR 19.9 million, of which operative capital investments accounted for EUR 2.7 million. The most significant investment was the acquisition of the Australia-based Pacific Composites at the end of February 2006. The cash consideration for Pacific Composites' shares amounted to EUR 17.3 million. In addition, Exel's share capital was increased by a new share issue to Lemarne Corporation Limited of 230,743 shares, with the market value of EUR 2.8 million.

Total depreciation of non-current assets during the year under review amounted to EUR 4.6 (3.6) million. Goodwill is not amortized under IFRS. According to impairment tests that have been performed, write-downs were made amounting to EUR 1.1 million in the Sport Division. Additionally, other operating expenses include 1.5 million write-offs in fixed assets relating to the Sport Division.

Balance sheet and financial position
Cash flow from business operations was positive at EUR 5.2 (7.9) million.

Operative capital expenditure was financed with cash flow from business operations. To fund the acquisition of Pacific Composites, EUR 18 million of interest-bearing long-term debt was raised. At the end of the financial year the Group's liquid assets stood at EUR 6.2 (5.8) million.

Cash flow before financing but after capital expenditure amounted to EUR -20.9 (4.4) million. The company paid total dividends during the financial year of EUR 4.7 (3.9) million. Dividend per share was EUR 0.40 (0.35).

The Group's consolidated total assets at the end of the financial year were EUR 81.9 (54.6) million. The increase was caused by the Pacific Composites acquisition in Australia combined with the working capital demand due to the increase in sales volumes.

Equity at the end of the financial year was EUR 24.4 (27.0) million and solvency ratio 29.9% (50.0%). Interest-bearing liabilities amounted to EUR 33.7 (14.0) million, of which short-term liabilities accounted for EUR 7.9 (4.3) million. Net interest-bearing liabilities were EUR 27.5 (8.2) million, and the net gearing ratio was 112.8% (30.2%).

Changes in Group structure and organization
Exel acquired the Australia-based Pacific Composites Pty. Ltd. on 28 February 2006. The Group has operations in Australia, China and the UK. Pacific Composites' consolidation in the Group increased net sales for the Industry Division by EUR 24.4 million in 2006.

The formation of the Industry Division's organization at the Mäntyharju factory began in the third quarter of 2006.

Introduction
The main business segments of the Industry Division include telecommunication, building and construction, transportation, energy industry, paper machine parts, cleaning and maintenance, machine engineering, and general industries. Exel specialises in the development, manufacture and marketing of rigid, durable and lightweight composite profiles. There are already over 1000 fibreglass and carbon fibre profile applications, all of which are the result of customer-focused product development. Work on replacing other materials, such as aluminum, steel and wood, with composite materials is ongoing and new applications are regularly being found. The unrivalled lightweight and rigid qualities of composite materials make them unbeatable in terms of durability and functionality. Exel invests considerable financial and human resources with key partners in strategic areas of R&D. It is Exel's objective to create superior competitiveness for its customers.

The operations of the Industry Division reported continued growth in net sales which increased by 48.3% to EUR 84.2 (56.8) million. The Division's operating profit was EUR 10.5 (10.8) million.

The increase in net sales is mainly due to the acquisition of Pacific Composites Pty. Ltd. from Lemarne Corporation Limited in February 2006 and the Austrian acquisition in April 2005.

Through the acquisition of Pacific Composites and its subsidiaries Fibreforce Composites Ltd. in the UK and Pacific Composites (Nanjing) Co., Ltd. in China, Exel established itself as the world's first international pultrusion company. The acquisition extended the product range and reinforced Exel's leading position in the Pacific Rim/Far East.

The investment project of building our own factory in Shenzhen, China, was discontinued, as Pacific Composites has new production facilities in Nanjing, China. The acquisition enabled Exel to start production in China ahead of the planned schedules.

Industry Division 2006

Net sales	EUR 84.2 million
Operating profit	EUR 10.5 million
Average number of employees	384

Operating environment
The composite applications markets are still growing, and the use of new materials in an increasing number of application areas continues. The recent increase in the price of metals, especially aluminum and stainless steel, has further stimulated interest among designers and engineers in composite profiles and solutions.

Carbon fibre raw materials remained in short supply throughout the year and hampered growth significantly. A significant share of the supply of carbon material is directed to US defence projects, aerospace and infrastructure products. Increased production capacity is expected to gradually reduce the problem in 2007.

Specialised factories
Exel products are manufactured in eight factories, of which the newest are the factories in Australia, the UK and China that came with the acquisition of Pacific Composites in February. Profile applications are designed and manufactured at the factories according to customer demands.

The relatively new and modern Melbourne factory in Australia has historically specialised in telecommunications products, but it is now finding new and exciting applications in the building, construction and infrastructure industries. The plant also manufactures profiles for the electrical industry, mining and transportation. The Australia-based Brisbane factory's main product group is pre-preg tubes, which are used for fishing rods, antennas, lightning protection and outriggers. Sonobuoys, metal/mine detectors and paddles complete the product range.

The factory in Runcorn, Great Britain develops and produces profiles for example for wind turbine blades, mining and aerospace. The Nanjing factory in China was completed in summer 2005. It produces a series of pultrusion products for various industries both for the domestic and international markets.

Other factories producing profiles are located in Joensuu and Mäntyharju in Finland, Voerde in Germany, Oudenaarde in Belgium and Kapfenberg in Austria.

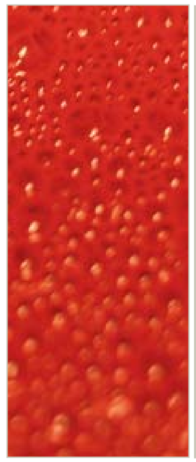
Production in Spain, which was subcontracted to the previous owner Bekaert, has been transferred to other Exel factories.

Product lines
Profiles
The profiles product group consists of composite fibreglass and carbon fibre tubes and profiles. Tubes are manufactured using either pultrusion technology or Exel's in-house developed continuous Pull-Winding technology, which allows wall thickness and product weight to be minimised while simultaneously maximising rigidity and durability.

A significant growing application area consists of wind energy applications. There are also good growth expectations within transportation industry applications. In addition, profiles used in the manufacture of buses, trains and trailers have been successfully introduced to commercial production. Composite profiles play an important role in energy efficiency solutions by reducing weight and offer new alternatives in corrosion prevention. In the infrastructure sector Exel technology is used in roofing and bridge structures, for example. The production of antenna profiles used in the production of 3G telecommunications networks has got off to a good start, and Exel has developed several new profiles for this sector.

Paper machine products
Doctor blades continued to be the main article among paper machine products in 2006. Despite the lack of raw material, sales of paper machine products continued to increase.

New applications will be developed within the product group with extensive product development both for doctoring and other applications where characteristics specific to composites



such as specific strength, lightness or corrosion resistance are needed.

Airport products
This product line consists of frangible lattice masts, which are primarily marketed as support structures for airport approach lighting systems. In 2006 it could be clearly seen that the major safety mast installations in Europe have been completed already. Meanwhile, safety mast installations in Asia, Africa and South America continue to lag behind despite the requirements stipulated by the International Civil Aviation Organization (ICAO). In 2006, airport safety masts were delivered to, among others, Moscow's Vnukovo Airport, Abu Dhabi International Airport, Hyderabad International Airport in India, Subang Airport in Malaysia as well as to several airports operated by the Federal Aviation Administration in the USA, including Nashville, Tennessee.

The first delivery of frangible Glide Path Towers to U.S. Air Forces took place at the end of the year. Glide Path Towers are part of the Instrument Landing System with which aircrafts can be guided for landing during poor visibility.

The expansion of the ICAO-compliant frangible product family for airports offers the possibility to enter an increasing number of airport projects in Western and other markets.

Conventional and telescopic handles
Exel is Europe's leading marketer and manufacturer of composite tool handles and telescopic handle systems. This product line consists of single-section fibreglass handles, a broad selection of fibreglass and carbon fibre telescopic models with a reach of up to 20 metres, and tailor-made profile and tube series. Key application areas include gardening tools and equipment for versatile maintenance work. Telescopic systems made by Exel are used in a variety of applications, ranging from professional window cleaning to precision measuring equipment.

In 2006 Exel introduced a new telescopic pole system – Exel Xtel System™ – the first and original 10-section composite telescopic pole. The pole incorporates a state-of-the-art patented locking system and a versatile range of composite tubes for demanding high-reach work. In the development phase the emphasis was put on the locking system's high mechanical function and innovative design, as well as on the reduction of the pole's weight while maintaining stiffness. The initial comments from the market have been very positive.

Exel's production technology and optimised material selection enable tailor-made solutions. Exel's strength lies in its ability to serve customers flexibly in markets that differ considerably from each other both geographically and by segment.

Personnel
There were at the end of 2006 392 employees in Exel's Industry Division. As a result of the transfer of the Group's operations from Clacton, UK to the Group's other unites, 25 employee contracts were discontinued during the year.

Outlook for 2007
In line with the strategy of the Exel Group, the goal of the Exel Industry Division in 2007 is to grow profitably. Our growing global capacity puts us in a very strong position to capture international opportunities and to offer our global customers excellent innovative solutions.

The continued expansion of our Chinese plant will be a key strategy in supporting existing customers both in China and outside the region. Further investments in the plant and staff will be required to achieve our growth projections in Asia.

A major challenge in the future for the Industry Division as market leader will also be to increase awareness among designers and other industrial professionals about the utilisation potential of composite materials and new application areas.

We shall strive to offer our customers more and more processed solutions in order to create added value for our customers wherever practicable and profitable.

As a group we shall continue to innovate and provide new products and processes that will keep us at the cutting edge of pultrusion technology and hybrid processes. This allows Exel to continually provide our customers with improvements to their products and to differentiate ourselves from competitors.

Sport Division 2006

Net sales	EUR 28.2 million
Operating profit	EUR -10.1 million
Average number of employees	195

Introduction
Exel's Sport Division has two main areas of activities: consumer products utilising the Exel brand (Sports Brands) and OEM production of components for the sporting goods industry (Sports Industry). The main product groups for Sports Brands include alpine, cross-country, Nordic Walking and trekking poles, floorball products and related accessories. The main product groups for Sports Industry include laminates for the ski, snowboard and ice-hockey stick industries, plus windsurfing masts.

During the financial year important decisions were made concerning the Sport Division to respond to increased competition. A central part of improving cost competitiveness was to subcontract the surface treatment, assembly and packaging operations for all the poles and floorball products to China. The transfer took place in phases throughout the year and was completed by the end of the year. The Mäntyharju factory's operations were restructured. In future the factory will focus on the manufacture of composite products and, in terms of sports equipment, on the production of pole and floorball shafts, windsurfing masts and laminates. In addition, production for the Industry Division that already takes place at the factory will be increased. The restructuring led to the termination of 57 permanent employment contracts.

Product lines
Poles
According to general market opinion, the sporting goods markets are growing annually by 3–5%.

Research reveals that approximately 7 million people already actively practice Nordic Walking. Around half of these use Exel poles. Despite the decline in the Nordic Walking market in Germany and Austria, Exel is the market leader in the Nordic Walking segment. Recently Nordic Walking in Europe has grown especially in Northern Italy and the Netherlands.

Competition in Central Europe has partly intensified due to increased supplies and price competition. In line with Exel's strategy, the main emphasis of operations in the Nordic Walking markets is on ensuring competitiveness in existing market areas and opening new markets by creating awareness about the Nordic Walking concept. Business operations support the strengthening of the position and competitiveness of the Exel brand among international sports retailers.

In June 2006 Exel won an International Stevie® Award for "Best Product Development Organization" in the 2006 International Business Awards (IBAs) for the launch of Nordic Walking.

Exel is also one of the world's leading manufacturers of cross-country ski poles. The total market for cross-country ski poles is stable. The product range includes poles for top professionals and recreational skiers alike. Exel's racing team included such names as biathlon world champions Michael Greiss and Tobias Angerer.

Exel also manufactures and markets alpine and trekking poles. The total market in this category is of considerable size. Exel's market position as a supplier of composite poles alone has been very small to date; the vast majority of products on the market consists of aluminum poles. Exel's alpine poles continued to be promoted by Kalle Palander and Tanja Poutiainen of Finland. Exel also signed an agreement with one of the best Swiss alpine skiers, Didier Cuche. In addition, Exel worked together with the successful Finnish national freestyle team, including Mikko Ronkainen, Tapio Luusua and Sami Mustonen.

Nordic Fitness Sports™ concept
The Nordic Fitness Sports™ (NFS) concept, which has become very popular in Central Europe, was further developed. The summer sports disciplines of the NFS™ concept include Nordic Walking, Nordic Blading and Nordic Hill Walking, which is also called Nordic Trekking. Winter disciplines include Nordic Skiing and Nordic Snowshoeing. The concept is based on safe year-round fitness sports that all utilise poles as a central component and that can be enjoyed by everyone.

During 2006 Exel signed many new contracts with various ski and recreational centres in cooperation with strategic partners supplying Nordic Fitness Sports Park™ packages. The concept offers travel industry professionals an interesting opportunity to expand their operations on a year-round basis.

Floorball
Exel is the market leader in floorball sticks and accessories, in addition to which Exel's product range includes other floorball supplies and equipment. Floorball products are marketed under the Exel and Canadien brands.

In addition to Scandinavia, floorball is also played in Switzerland and the Czech Republic among Central European countries. The number of people practising floorball can be expected to grow in the future in new market areas, such as Germany and North America.

In 2006, the International Floorball Federation (IFF) signed a partnership agreement with Exel Sports for the years 2006–2010 in order to develop floorball worldwide. As a result, Exel became IFF's official floorball equipment provider. Exel also signed an agreement with the Swedish Floorball Federation. These agreements further strengthen Exel's position as the world's leading floorball manufacturer.

Exel Sports was the main sponsor of the Floorball World Championships that were held in May 2006 at the Globen Arena in Stockholm, Sweden.

New market areas in the USA and China

Exel USA
In order to open new markets in the USA, Exel established a new subsidiary at the end of 2004. Exel USA, Inc. is based in Burlington, Vermont, a popular winter sports region close to the Canadian border. Previously, Exel operated in the USA through an importer. With its own six-person sales and marketing team, Exel is seeking increased market shares in the traditional pole markets, as well as a boost for launching and establishing the Nordic Walking concept in North America, particularly in regions where there is natural potential for practising the sport.

Exel China
The decision to establish a marketing and sales joint venture with the China Institute of Sports Science (CISS) was made at the end of 2004. Nordic Sports Products (Beijing) Ltd. was among the first foreign companies to receive a business license at the end of 2005 for importing, wholesaling and retailing products manufactured by Exel.

Exel continues as the sole supplier of poles to the Chinese Ski Federation, and Chinese athletes have performed excellently in the World Cup.

OEM products
The laminates product group manufactures and markets fibreglass and carbon fibre reinforced laminates for the ski, snowboard and hockey stick industries. This product group is making strong efforts to develop product applications for new markets. New industrial applications are being sought continuously. On the whole, sales of laminate products increased noticeably over the previous year.

Another key OEM product group consists of windsurfing masts, all of which are sold under customers' own brands. The overall market in this product sector is relatively stable, and no major growth is expected due to the limited number of people who practice windsurfing. Exel is the world's leading manufacturer of windsurfing masts.

Personnel
There were at the end of 2006 144 employees in Exel's Sport Division. Personnel negotiations at the Mäntyharju factory were concluded in March. As a result, 57 full-time jobs and approximately 20 part-time jobs were discontinued during 2006. In addition, 11 full-time jobs were discontinued at the German company.

Outlook for 2007
Nordic Walking markets in German-speaking Central Europe are significantly down from the record year in 2005. This is due to retail chains selling off old stock as customer demand has decreased. Nevertheless, in 2007 retail chains are expected to favour leading pole brands, including Exel.

Personnel

Personnel policy

Highly skilled personnel and state-of-the-art technology play a key role in Exel's operations. A knowledgeable workforce is Exel's most important resource and the prerequisite for our existence, growth and development. The management sees to it that expertise and motivation are developed. Personnel development is indeed one of the primary cornerstones of Exel's personnel policy. Annual performance reviews and production team meetings combined with studies charting expertise are used to clarify where knowledge is needed and to support personal development.

Equality issues

Together with employee representatives, an equality programme has been created for Exel that emphasises the responsibility of leadership actions in equality issues and that supports the equal development of all employees, as well as the rotation of tasks and use of family leave. Current personnel have priority in recruitment. The salary policy motivates employees equally and fairly.

Training programmes

During the financial year, the project to improve leadership skills was continued. At the Finnish factories training in employee negotiations and improving teamwork was organised. Training in change management was initiated in the autumn at the Mäntyharju factory. The training programme focusing on improving leadership skills was continued. The Kivara factory's entire personnel received training in the handling of chemicals. The management and salaried employees participated in training courses focusing on operating in China. Training in the new office system and travel management software was also organised. In addition, training in a new enterprise resource planning system that will be taken into use in 2007 was given. The persons whose employment contracts were terminated were offered an extensive training package concerning change protection in co-operation with the local employment agencies. Change protection offers persons whose employment has been terminated a personal programme for finding a new job. They are also entitled to receive a higher than normal unemployment allowance.

Human resources management

The job descriptions of the Industry Division have been revised and the international harmonisation of the classification of production jobs is underway. During the period under review a personnel guidebook was drawn up along with the content and guidelines for employment contracts, the termination of employment and recruitment. The laminate and windsurfing mast teams' existing expertise and development needs were mapped out through a survey. In addition, team discussions relating to training needs and the development of personnel were arranged.

The development of a global intranet was started at the beginning of the autumn. The objective of the new intranet is to improve communication and teamwork within the Group.

Wellbeing and safety

Projects aimed at improving wellbeing at work were continued in co-operation with employee and occupational safety committee representatives. Central themes included chemical and work safety, internal communications, familiarisation and work guidance. An occupational health survey was carried out at the Mäntyharju and Kivara factories in co-operation with occupational health care. The survey allows for the personal development of the wellbeing of personnel. In addition, a plan of action for occupational health care was drawn up.

Incentive programmes

Exel Oyj's performance-based incentive programme covers all employees. Salaried employees receive a monthly salary and an annual bonus tied to the attainment of annually established goals emphasising growth and profitability. Non-salaried employees are also eligible for incentive compensation, but their annual bonus is based on productivity. Key employees are additionally covered by a share-based programme designed to enhance their long-term commitment.

Number of employees

At the end of 2006 the Group employed 555 (466) personnel. The average number of employees during the period was 600 (467). The number of employees in Finland was 237 (315) and in other countries 318 (151). The Industry Division employed 392 (239) personnel and the Sport Division 144 (227) personnel at the end of 2006. The number of employees increased during the financial year due to increased volumes and the acquisition in Australia (157).

Quality, environment and safety

Quality, environment and safety are an essential part of management and are developed according to objectives based on the Exel Group's operating principles.

Quality system

Most of Exel's units have a certified quality system that fulfils the requirements of ISO 9001 standard. The quality systems of the Finnish and Australian units were recertified in 2006. Surveillance audits were carried out in other units.

In 2006 a project was launched to develop separate quality systems towards a common quality system for the Exel Group. This will become an important part of the Group's management system. At the end of the year Exel signed a certification agreement with Bureau Veritas Certification with which the Group's separate quality systems will be united into one common system.

We have charted business processes in all our units. The efficiency of these processes are assessed and improved on the principle of continuous improvement. Assessment is being developed towards a commensurable measuring system to cover all Exel's units globally.

Environment and safety

The environment management system has been further developed to fulfil the ISO 14001 standard's requirements at Exel's Finnish factories. Environmental aspects have been updated and risks assessed.

Particular attention has been given to the recognition and implementation of legislation on recognised environmental aspects. The most important risks related to environmental matters have been observed during the development of the system.

Chemical legislation classifies the operations of the Kivara factory as extensive chemical treatment, which requires an application for operating permission from TUKES (Safety Technology Authority). The application procedure was carried out, and certain necessary development activities were implemented. TUKES audited the operations and granted an operating permission for extensive chemical treatment.

The authorities required the Mäntyharju factory to apply for a new environmental certificate. The application is being processed and the certificate will be granted in the first half of 2007.

Waste management was developed significantly in 2006. Waste sorting has commenced at both Finnish factories, and recycling has been improved significantly. More and more waste is being used for the production of energy and recycling. As a result, the quantity of waste taken to the dumps has decreased.

At other Exel factories the emphasis in environmental matters was on reducing waste both by making manufacturing processes more efficient and by improving operating methods.

Exel also participates actively in utilising composite waste as a part of the European Composite Recycling Services Company (ECRC). The company aims at developing new applications to utilise composite waste and influencing European legislation as a part of the European composite industry.

Safety has been developed by occupational safety committees. An occupational safety programme has been implemented at the factories and the number of accidents has remained low.





Operations
Exel Oyj is a leading, international Group specialised in composite technology, with a special focus on pultrusion, Pull-Winding and continuous lamination. The Group's operations include design, manufacturing and marketing of advanced composite products for industrial applications and consumer goods. Exel's most well-known consumer products include cross-country, alpine and Nordic Walking poles, antenna radomes and other industrial applications.

Adoption of International Financial Reporting Standards (IFRS)
Exel has applied IFRS reporting since the beginning of 2005. The financial review for 2006 has been prepared in accordance with the recognition and measurement principles of IFRS, which are the same as in the 2005 financial statements.

The financial statements of Pacific Composites Pty. Ltd., which was acquired by Exel Oyj on 28.2.2006, are included in the consolidated financial statements as of 1.3.2006.

Group net sales
Net sales for the Exel Group grew by 23.1% in 2006, ending the year at EUR 112.4 (91.3) million.

The Group's main line of business, the Industry Division, experienced strong growth; net sales for 2006 amounted to EUR 84.2 (56.8) million, an increase of 48.3%. The majority of this growth resulted from the acquisitions of Pacific Composites and the Austrian company, Faserprofil in 2005. Pacific Composites' inclusion as of 28 February 2006 increased net sales for the Industry Division by EUR 24.4 million. The Industry Division accounted for 75% of total Group sales.

Net sales for the Sport Division in 2006 fell by 18.3% from the previous year to EUR 28.2 (34.5) million. The Sport Division accounted for 25% of total Group sales. The market for Nordic Walking products remained weak in German-speaking countries in Central Europe and the decrease in sales was due to a declining Nordic Walking market. New markets did not yet create a sufficient increase in demand.

Group profit
Exel's profitability in 2006 was highly unsatisfactory and the Group reported an operating profit of only EUR 0.4 (12.4) million or 0.3 (13.6) per cent of net sales. It was weakened by non-recurring items relating to restructuring measures of EUR -4.9 million for the Sport Division and EUR -0.5 million for the Industry Division. Additionally, the Sport Division's operating profit was weakened by lower sales. Restructuring measures are expected to improve profitability in 2007.

EUR -1.3 million of the acquisition price of Pacific Composites was allocated to the value of the inventory. This figure in its entirety decreased realized sales margins in the Industry Division during the period March-May. Total non-recurring items in the Group during the financial year were EUR -6.7 million.

Profitability remained at a satisfactory level in the Industry Division despite a considerable increase in raw material prices. Some of this price pressure was passed on within the production chain. Operating profit decreased to EUR 10.5 (10.8) million, including non-recurring items of EUR -1.8 million related to the integration of Pacific Composites and including a closure of one of the UK production units.

Operating profit for the Sport Division became a significant loss of EUR -10.1 (1.6) million. The operating loss includes non-recurring items due to reorganizations amounting to EUR -4.9 million. The weak profitability was also due to the decline in the Nordic Walking markets in Central Europe and investments made to open new Nordic Walking markets.

The availability of carbon fibre was exceptionally scarce throughout 2006. The lack of supply also increased raw material price levels, although it was possible to transfer some of the increase to product prices. The low supply limited the development of new applications and impacted sales of some product groups. The main carbon fibre suppliers have announced investments to increase capacity. The new capacity will enter the markets in stages from the second half of 2007.

The Group's net financial expenses in 2006 were EUR 1.1 (0.3) million. The Group's loss before taxes was EUR -0.7 (12.0) million and the loss after taxes the same, EUR -0.7 (8.9) million.

Earnings per share were EUR -0.06 (0.78), diluted EUR -0.06 (0.76). Return on investment was 1.2% (34.0%).

Balance sheet and financial position
Cash flow from business operations was positive at EUR 5.2 (7.9) million.

Operative capital expenditure was financed with cash flow from business operations. To fund the acquisition of Pacific Composites, EUR 18 million of interest-bearing long-term debt was raised. At the end of the financial year the Group's liquid assets stood at EUR 6.2 (5.8) million.

Cash flow before financing but after capital expenditure amounted to EUR -20.9 (4.4) million. The company paid total dividends during the financial year of EUR 4.7 (3.9) million. Dividend per share was EUR 0.40 (0.35).

The Group's consolidated total assets at the end of the financial year were EUR 81.9 (54.6) million. The increase was caused by the Pacific Composites acquisition in Australia combined with the working capital demand due to the increase in sales volumes.

Equity at the end of the financial year was EUR 24.4 (27.0) million and solvency ratio 29.9% (50.0%). Interest-bearing liabilities amounted to EUR 33.7 (14.0) million, of which short-term liabilities accounted for EUR 7.9 (4.3) million. Net interest-bearing liabilities were EUR 27.5 (8.2) million, and the net gearing ratio was 112.8% (30.2%).

Capital expenditure and depreciation
Group capital expenditure on fixed assets amounted to EUR 19.9 million, of which operative capital investments accounted for EUR 2.7 million. The most significant investment was the acquisition of the Australia-based Pacific Composites at the end of February 2006. The cash consideration for Pacific Composites' shares amounted to EUR 17.3 million. In addition, Exel's share capital was increased by a new share issue to Lemarne Corporation Limited of 230,743 shares, with the market value of EUR 2.8 million.

Total depreciation of non-current assets during the year under review amounted to EUR 4.6 (3.6) million. Goodwill is not amortized under IFRS. According to impairment tests that have been performed, write-downs were made amounting to EUR 1.1 million in the Sport Division. Additionally other operating expenses include 1.5 million write-offs in fixed assets relating to the Sport Division.

Personnel
The number of Exel Group employees on 31 December 2006 was 555 (466), of whom 237 (315) worked in Finland and 318 (151) in other countries. The average number of personnel during the financial year was 600 (467). The increase over the previous year was due to the acquisition of Pacific Composites.

The restructuring of the Sport Division led to the termination of 57 permanent employment contracts in Finland. Of this, 25 persons were eligible for various retirement plans. Thus, the residual amount of employment contracts to be terminated was 32 persons. The number of temporary employment relationships, which came to termination at the end of their duration, was approximately 20 persons. In addition, 11 full-time jobs were discontinued at the German company.

As a result of the transfer of the Clacton operations in the UK to Runcorn and other Group sites, 25 full-time jobs were discontinued.

Research
Product development costs totalled EUR 2.2 (2.3) million, representing 1.9% (2.5%) of net sales. The main projects are connected with the development of new customer applications, including transportation profiles, poles and floorball products, and the testing and development of the properties of vital raw materials, including polyester and epoxy resins, as well as glass and carbon fibres.

Risk management

The central short-tem goal of Exel is to distinctly improve the profitability and competitiveness and to secure the financial position of business demands. The primary task of Exel's enterprise risk management concept is to support the realisation 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 realisation of the goals, threats and opportunities affecting the company 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 has divided the risks in four categories: strategic, operational, finance and hazard risks. In 2006 Exel identified and made an assessment of the risks. Strategic and operational business risks are reviewed on unit, division and group level. Regarding strategic risks Exel is exposed to market situation and consumer behaviour especially in consumer goods market where sporting goods are sold. The key raw materials, especially carbon fibre, 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 fluctuation in absolute terms as well as in relation to competing materials. The poor availability of skilled employees may locally impact in the quality and productivity of the business. The protection of self-developed own technology is important and the risk of IPR violations is exceeding 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 risk, and credit and other counter party risk. Currency and interest rate risks are managed by hedging using different derivatives. Credit insurance is in place to cover risks related to trade receivables.

Environment

The environment management system has been further developed to fulfil the ISO 14001 standard's requirements at Exel's Finnish factories. Environmental aspects have been updated and risks assessed.

Particular attention has been given to the recognition and implementation of legislation on recognized environmental aspects. The most important risks related to environmental matters have been observed during the development of the system.

Waste management was developed significantly in 2006. Waste sorting has commenced at both Finnish factories, and recycling has been improved significantly. More and more waste is being used for the production of energy and recycling. As a result, the quantity of waste taken to the dumps has decreased.

At other Exel factories the emphasis in environmental matters was on reducing waste both by making manufacturing processes more efficient and by improving operating methods.

Exel also participates actively in utilising composite waste as a part of the European Composite Recycling Services Company (ECRC). The company aims at developing new applications to utilise composite waste and influencing European legislation as a part of the European composite industry.

Industry Division

Net sales for the Industry Division increased by 48.3% over the previous year to EUR 84.2 (56.8) million. Deliveries for industrial profiles continued to be affected by shortage of carbon fibre. Operating profit remained almost on the same level, EUR 10.5 (10.8) million. Increased volumes, the acquisition of the Pacific Composites Group, improved efficiency and stringent cost control had a positive impact on the profit, but non-recurring items amounting to EUR 1.8 million decreased the profitability.

Through the acquisition of Pacific Composites, Exel established itself as the world's first truly international pultrusion company. The acquisition extended the product range and reinforced Exel's leading position in the Pacific Rim/Far East. New commercial applications include for example profiles for aerospace applications. Exel can now serve its international customers globally. The acquisition has accelerated the entry into the Chinese market and Exel could terminate its own plans for building a new factory in southern China. The integration of Pacific Composites was completed in all essential aspects.

Sport Division

The development of the Sport Division was not satisfactory in 2006. Sales declined and the operating results dropped sharply. Net sales decreased 18.3% to EUR 28.2 (34.5) and the division made a loss of EUR 10.1 million, including non-recurring costs of -4.9 million. The Nordic Walking markets weakened and competition intensified in the German-speaking markets. Exel invested heavily in opening new markets, particularly in North America, China and Japan alongside work to strengthen the organization and develop the Nordic Fitness Sports™ concept. These efforts, however, did not offset the decrease in sales in traditional markets.

The cost structure of the Sport Division was in 2006 too heavy in relation to the level of net sales. Measures aimed at restoring profitability were taken throughout the year. The transfer of surface treatment, assembly and packaging operations for Nordic Walking and floorball products to China was completed to a large extent by the end of the year. Moreover, the marketing, sales and logistics costs of the Sport Division in Finland, Germany and the USA were adjusted to the present sales volumes. The warehousing and delivery operations of Exel Sports were outsourced to a service provider at the end of August. These restructuring measures had a negative impact on the delivery performance and profitability during the last quarter.

Floorball operations have developed strongly with new products and strengthened marketing efforts. Exel was the main sponsor of the 2006 Floorball World Championships.

The market for OEM products was stable. Sales of laminates have increased over the previous year, and new industrial applications are being developed.

Changes in the Group structure and Acquisitions

Pacific Composites in Australia joined the Group following its acquisition. It has production facilities in Melbourne and Brisbane in Australia, Nanjing in China and Runcorn in the UK.

The Group comprised at the turn of the year the parent company Exel Oyj and its subsidiary Exel Sports Oy operating in Finland, plus ten subsidiaries operating abroad: Exel GmbH in Germany, Exel USA, Inc. in the United States, Exel Composites N.V. in Belgium, Exel Composites GmbH in Austria, International Gateway AB in Sweden, Nordic Sports Products (Beijing) Ltd. in China, Exel Composite Materials (Shenzhen) Ltd. in China, Pacific Composites Pty. Ltd. in Australia, Pacific Composites (Nanjing) Co. Ltd. in China, as well as Fibreforce Composites Ltd. in the UK.

Exel Oyj owns 100 percent of all subsidiaries except Nordic Sports Products (Beijing) Ltd., of which it owns 80 percent.

Exel GmbH manufactures thermoplastic components for Central European ski and snowboard manufacturers in Rohrdorf, plus antenna profiles and other profiles in Voerde. It also acts as an importer, marketing company and distributor of poles and floorball products, as do Exel USA, Inc. and Nordic Sports Products (Beijing) Ltd. International Gateway develops and markets a number of floorball product brands under its control. The subsidiaries in Belgium, Austria and Pacific Composites and its subsidiaries manufacture industrial profiles. The parent company also owns a subsidiary called Pro Stick Oy, which remained inactive during the financial year.

Changes in the Group management
The Board appointed Göran Jönsson as President & CEO of the Exel Group as of 20 November 2006. Vesa Korpimies continues as Executive Vice President.

From 20 November to 31 December 2006 the President's salary and other benefits totalled EUR 38 thousand.

Incentive programmes
Exel Oyj's performance-based incentive programme covers all employees. Salaried employees receive a monthly salary and an annual bonus tied to the attainment of annually established goals emphasising growth and profitability. Non-salaried employees are also eligible for incentive compensation, but their annual bonus is based on productivity. Key employees are additionally covered by a share-based programme designed to enhance their long-term commitment.

The subscription for the first part (A) of the 2001 warrant programme for key employees commenced on 1 June 2002, and 50,400 subscriptions were made in 2006. The subscription for the second part (B) of the warrant programme commenced on 1 October 2003, resulting in 45,800 subscriptions in 2006. The subscription period for all option rights ended on 30 April 2006.

In 2004 Exel's Board of Directors launched a share-based incentive system. According to this system, the Board annually decides on a lump sum to be paid out to key employees based on achieved targets. The rewarded employee is obliged to buy Exel Oyj shares with the incentive bonus and a 20% own contribution and to retain ownership for a minimum period of two years. The purpose of the long-term incentive scheme is to support the exceeding of the financial targets set by the company and achieving the goals for earnings per share and return on capital employed or similar goals.

Shares and share capital
Exel's share is listed in the Mid Cap segment of the OMX Exchange's Nordic list in the Materials sector.

The Annual General Meeting of Exel Oyj held on 6 April 2006 approved the Board's proposal to distribute a dividend of EUR 0.40 per share, representing a total of EUR 4.7 million for the financial year 2005.

The AGM authorised the Board of Directors to increase the share capital by a maximum of EUR 100,000, to acquire the company's own shares representing no more than 5% of the Company's total share capital, and to convey the company's own shares.

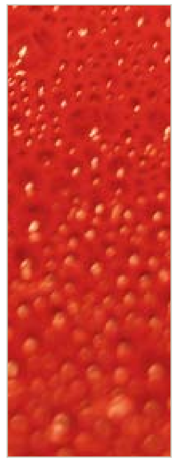
Exel's share capital has increased during the year due to a subscription by Lemarne Corporation Ltd by EUR 41,533 and subscriptions made under the warrant programme by EUR 30,096 to EUR 2,141,431 and the number of shares registered in the Trade Register has increased to 11,896,843 each having the counter-book value of EUR 0.18. There is only one class of shares, and all shares are freely assignable under Finnish law.

Share performance and turnover
During the financial year the highest share price quoted was EUR 15.13 (14.80) and the lowest EUR 10.50 (11.35). At the end of the year, the share price was EUR 13.60 (13.05). The average share price during the financial year was EUR 12.86 (12.73).

A total of 5,172,938 (4,114,242) shares were traded during the year, which represents 43.5% (35.7%) of the average number of shares. On 31 December 2006, Exel's market capitalisation was EUR 161.8 (150.1) million.

Shareholders and disclosures
On 31 December 2006, 3.7% of the shares and votes of Exel were owned or controlled, directly or indirectly by the President & CEO and the members of the Board.

Exel's largest shareholder is the Swedish investment company Nordstjernan AB, which owned 29.4% of shares at the end of 2006. Other major shareholders included Ilmarinen Mutual Pension Insurance Company (6.8%) and Varma Mutual Pension Insurance Company (4.3%).



At the end of the year the company had a total of 2,197 (2,967) shareholders. During the year under review, Exel received no disclosures under Chapter 2, section 9 of the Securities Market Act.

Corporate Governance
Exel complies with the general insider trading guidelines issued by the Helsinki Stock Exchange on 1 January 2006, as well as with the official regulations related to the governance of public joint stock companies. Exel's corporate governance principles are available on the company website at www.exel.net.

Board of Directors and Auditors
On 6 April 2006 the Annual General Meeting appointed Kari Haavisto, Peter Hofvenstam, Vesa Kainu, Esa Karppinen and Ove Mattsson to continue on the Board of Directors. Ove Mattsson was re-elected Chairman of the Board. Torgny Eriksson and Matti Virtaala resigned from the Board at the Annual General Meeting.

The Board of Directors appointed Göran Jönsson (M.Sc., Econ.) as Chief Executive Officer of the Exel Group as of 20 November 2006. He succeeded Ari Jokelainen.

The Board of Directors convened 13 times in 2006 and the average attendance rate at these meetings was 93%. The fees paid to the Board of Directors totalled EUR 119 thousand in 2006.

The Board of Directors has reviewed the independence of Board members in accordance with item 18 of the Corporate Governance Recommendation. The members of the Board are considered to be independent of the company. Ove Mattsson, Kari Haavisto and Vesa Kainu are independent of major shareholders. Peter Hofvenstam and Esa Karppinen are not independent of major shareholders since Peter Hofvenstam is the Vice President of Nordstjernan AB and Esa Karppinen is the President of Berling Capital Oy.

The Board of Directors has been assisted by a compensation committee comprising Ove Mattsson, Peter Hofvenstam and Vesa Kainu. This committee met 6 times in 2006.

In addition, the company has a nomination committee comprising the Chairman and persons nominated by the four largest shareholders as of 15 November before the Annual General Meeting. In 2006 the nomination committee comprised Tomas Billing (Nordstjernan AB) as Chairman, Mikko Koivusalo (Varma Mutual Insurance Company), Pertti Laine (Veikko Laine Oy) and Mikko Mursula (Ilmarinen Mutual Pension Insurance Company), and Ove Mattsson. The committee met once in 2006.

PricewaterhouseCoopers Oy, Authorised Public Accountants, with Christian Savtschenko-Alexandroff, APA, as principal auditor, and Johan Kronberg, APA, served as company auditors.

The fees paid to the auditors totalled EUR 314 thousand in 2006.

Significant events after the financial year
In January 2007 Exel Sports Oy's Managing Director Mika Sulin announced his resignation. Aki Karihtala, Senior Vice President of Exel's Sport Division, was appointed Exel Sports' Managing Director as of 1 March 2007.

Strategic reorientation
In February 2007, the Board of Directors made a resolution to sharpen the focus on the Industry Division and to conduct a strategic review of the Sport Division.

Through the acquisition of Pacific Composites, Exel established itself as the world's first international pultrusion company. The acquisition reinforced Exel's Industry Division in the growing Asian markets and improved the company's ability to serve international customers. Exel will continue to invest in its core industrial business and to expand operations organically and through acquisitions. The global pultrusion market is highly fragmented, but it is consolidating. Exel is in a strong position to lead this consolidation with bolt-on acquisitions and to reap benefit from synergies. Focusing Exel Group's resources on its core industrial business under a streamlined structure will provide a solid platform for building long-term shareholder value.

Notwithstanding its achievements in the industrial markets, Exel has built a significant Sports Brands consumer goods business with sales over EUR 20 million. Exel Sports Brands is the creator of the Nordic Walking and Nordic Fitness Sports™ concept. It is a leading producer of poles and floorball sticks.

Exel Sports Brands is now separated from all other Exel activities. The 2006 restructuring programme has adjusted the too heavy cost level to current sales in order to restore profitability of the business. Exel has also subcontracted all finishing, assembly and packaging operations for poles and floorball products to China. Exel Sports Brands has now been transformed from a technology driven organization to a truly market oriented company. Through the extensive restructuring measures, the competitive position of Exel Sports Brands has been reinforced and the business is well positioned to pursue controlled, profitable growth in the sporting goods industry. However, as Exel Sports Brands is no longer a core activity within the Exel Group, Exel reviews different structural alternatives and seeks a strategic partner with a long-term interest in developing the Exel Sports Brands company and contributing to the positive development.

Outlook for 2007

In 2007, the Group will focus on restoring the profitability of the Exel Group. The focus on the primary business segment of the Group, the Industry Division, will be sharpened and a new business organization will be introduced. The Group will benefit from the acquisition of Pacific Composites and the restructuring measures implemented at enhancing efficiency and cutting costs. For the full-year 2007, Exel expects profit before taxes to improve compared to the 2006 profit before taxes and non-recurring items.

Board proposal for dividend distribution

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

On 31 December 2006 the Group's distributable funds totalled EUR 13,729 thousand and those of the parent company EUR 15,620 thousand.

The Board proposes to the Annual General Meeting that a dividend be paid for the 2006 financial year of EUR 0.20 (0.40) per share.

As a basis for its proposal, the Board of Directors has made an assessment of the Group's financial position and ability to meet its commitments, as well as the Group's outlook and investment requirements. The Board considers the proposed dividend well-balanced given the prospects, the capital requirements and the risks of the Group's business activities.

The proposed record date for dividends is 24 April 2007. If the Annual General Meeting approves the Board's proposal, it is estimated that dividend payments will commence on 2 May 2007.

	Notes	1.1.–31.12.2006	1.1.–31.12.2005
NET SALES	1	**112,395**	**91,288**
Increase(+)/Decrease in inventories			
of finished goods and work in progress		2,504	254
Production for own use		500	411
Other operating income	3	145	186
Materials and services		-54,480	-34,238
Employee benefit expenses	5	-26,127	-20,436
Depreciation	7	-4,612	-3,584
Impairment		-1,495	0
Other operating expenses	4,6	-28,443	-21,493
OPERATING PROFIT		**386**	**12,388**
Financial income	8	343	164
Financial expenses	9	-1,410	-506
PROFIT BEFORE TAX		**-681**	**12,046**
INCOME TAXES	10	-52	-3,144
PROFIT/LOSS FOR THE PERIOD		**-733**	**8,902**
Attributable to			
Equity holders of the parent company		-724	8,902
Minority interest		-10	0
Earnings per share for profit of the year attributable to the equity holders of the parent company (EUR per share)			
Basic	11	-0.06	0.78
Diluted	11	-0.06	0.76

Consolidated balance sheet, EUR 1,000

	Notes	31.12.2006	31.12.200
ASSETS			
NON-CURRENT ASSETS			
Goodwill	13	10,107	3,877
Other intangible assets	13	3,158	880
Tangible assets	14	18,766	15,395
Other non-current assets	15	76	103
Deferred tax assets	21	2,200	1,070
TOTAL NON-CURRENT ASSETS		**34,307**	**21,325**
CURRENT ASSETS			
Inventories	16	19,975	15,361
Trade and other receivables	17	20,695	12,157
Other liquid assets	18		1,324
Cash at bank and in hand	18	6,199	4,454
TOTAL CURRENT ASSETS		**46,869**	**33,295**
Held-for-sale non-current asses	14	748	
TOTAL ASSETS		**81,924**	**54,621**
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	**27**		
Share capital		2,141	2,070
Share issue		0	287
Share premium reserve		8,492	5,142
Retained earnings		13,729	19,530
Equity attributable to the equity holders of parent company		**24,363**	**27,029**
Minority interest		0	11
TOTAL EQUITY		**24,363**	**27,040**
NON-CURRENT LIABILITIES			
Deferred tax liabilities	21	1,091	407
Interest-bearing liabilities	20,23	25,752	9,611
TOTAL NON-CURRENT LIABILITIES		**26,844**	**10,018**
CURRENT LIABILITIES			
Interest-bearing liabilities	20	7,934	4,346
Trade and other non-current liabilities	19	22,438	12,284
Tax liability for income tax		345	933
TOTAL CURRENT LIABILITIES		**30,717**	**17,563**
TOTAL EQUITY AND LIABILITIES		**81,924**	**54,621**

Statement of changes in shareholders' equity, EUR 1,000

	Share Capital	Share Issue	Share Premium Reserve	Translation Diffe-rences	Retained Earnings	Minority Interest	Total
Balance at 1 January 2005	**1,932**	**817**	**3,390**	**1**	**14,552**		**20 ,92**
Exchange rate differences				6			6
Other items						10	10
Profit for the period					8,902		8,902
Net income recognized directly in the equity							
Net income recognized in the profit for the period				6	8,902	10	8,918
Dividend					-3,931		-3,931
Share issue	138	-530	1,752				1,360
Balance at 31 Dec. 2005	**2,070**	**287**	**5,142**	**7**	**19,523**	**10**	**27,039**
Balance at 31 Jan. 2006	**2,070**	**287**	**5,142**	**7**	**19,523**	**10**	**27,039**
Exchange rate differences				-458			-458
Other items					101		101
Profit for the period					-724	-10	-733
Net income recognized directly in the equity							
Net income recognized in the profit for the period				-458	-623	-10	
Dividend					-4,720		
Share issue	71	-287	3,350				3,134
Balance at 31 December 2006	**2,141**	**0**	**8,492**	**-451**	**14,181**	**0**	**24,363**

Consolidated cash flow statement, EUR 1,000

	Notes	1.1.-31.12.2006	1.1.-31.12.2005
CASH FLOW FROM OPERATING ACTIVITIES			
Profit for the period		-733	8,902
Adjustments	30	9,330	6,935
Change in working capital		245	-2,760
Interest paid		-998	-407
Interest received		195	59
Other financial items		8	12
Income taxes paid		-2,819	-4,823
NET CASH FLOW FROM OPERATING ACTIVITIES		**5,228**	**7,918**
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisitions	2	-18,279	-2,056
Capital expenditure		-2,655	-2,377
Proceeds from sale of fixed assets		0	62
NET CASH FLOW FROM INVESTING ACTIVITIES		**-20,934**	**-4,371**
CASH FLOW BEFORE FINANCING		**-15,706**	**3,547**
Share issue		3,134	1,360
Proceeds from long-term borrowings		18,000	2,000
Repayments of long-term borrowings		-1,991	-2,011
Change in short-term loans		2,079	-30
Repayments of finance lease liabilities		-375	-307
Dividends paid		-4,720	-3,931
NET CASH FLOW FROM FINANCING		**16,127**	**- 2,919**
CHANGE IN LIQUID FUNDS		**421**	**628**
Liquid funds at the beginning of period		5,778	5,150
Liquid funds at the end of period		6,199	5,778

(All figures in EUR thousands unless otherwise stated)

ACCOUNTING PRINCIPLES

Listed below are the key accounting principles that have been applied in preparing the consolidated financial statements. The Board of Directors has on 22 February 2007 approved the financial statements to be published.

PRINCIPAL ACTIVITIES

Exel Oyj is a Finnish company specialised in composite technology established in 1960. The Group's operations consist of industrial applications and sporting goods. Exel's best known products include industrial profiles, paper machine applications, toolhandles and lattice masts. The most significant sports products include cross-country, alpine and Nordic Walking poles and floorball sticks. The Group's factories are located in Finland, Germany, Belgium, Austria, UK, Australia and China. Sales companies are located in Sweden, Germany, the USA and China. Some 85% of production is exported. Exel's share is listed in the Mid Cap segment of the OMX Exchange's Nordic list in the Materials sector. Exel Oyj is domiciled in Mäntyharju, Finland and its registered address is Uutelantie 24 B, 52700 Mäntyharju, Finland.

ACCOUNTING PRINCIPLES FOR THE FINANCIAL STATEMENTS

COMPILING PRINCIPLES

The consolidated financial statements of Exel Oyj 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 2006. The notes to the consolidated financial statements are also in compliance with the Finnish Accounting and Companies Acts.

The financial statements have been prepared under the historical cost convention, with the exception of available-for-sale investment securities and certain other financial assets and financial liabilities, which are recognised at fair value. The financial statements are given in EUR thousands.

The preparation of financial statements may require the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements 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.

CONSOLIDATION PRINCIPLES

Exel's consolidated financial statements include the accounts of the parent company Exel Oyj and its subsidiaries. Subsidiaries are viewed as companies in which it owns, directly or indirectly, over 50 percent of the voting rights or in which it is in a position to govern the financial and operating policies of the entity. Subsidiaries have been consolidated from the date that Exel 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.

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 including any costs directly attributable to the acquisition. The excess acquisition cost over the fair value of net assets acquired is recognised as goodwill.

All intercompany transactions, receivables, liabilities and unrealised profits, as well as intragroup profit distributions, are eliminated as part of the consolidation process.

When compiling the opening IFRS balance sheet, Exel 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.

Minority interest

Minority 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 Group includes one company that has a minority shareholder, Nordic Sports Products (Beijing) Ltd, in which the minority shareholder has a 20 percent holding. The minority's share of the accumulated losses is allocated to minority interest in the consolidated balance sheet up to the maximum of the investment.

REVENUE RECOGNITION

Sales of products are recognised as income once the risks and benefits related to ownership of the sold products have been transferred to the buyer and the Group no longer has possession of, or control over, the products. Sales of services are recognised as income once the service has been rendered. 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 recognised using the effective interest rate method and dividend income when the right to the dividend has been created.

FOREIGN CURRENCY TRANSLATIONS

Figures that describe the result and financial position of Group units are measured in the currency of each individual unit's main operating environment (operating currency). The consolidated financial statements are presented in euros, which is the functional and presentation currency for the Group's parent company.

The income statements of independent foreign subsidiaries are translated into euros at the average exchange rates for the financial year and the balance sheets are translated at the exchange rate of the balance sheet date. Exchange differences arising from the translation of the net investment in foreign entities are recorded directly to equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the date of the transactions. Monetary items in foreign currencies are recorded at the rate of the balance sheet date. Non-monetary items in foreign currencies that have been adjusted according to fair value are recorded at the rate of the adjustment date. Otherwise non-monetary items are recorded at the rates of exchange prevailing at the date of the transactions. 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

Goodwill

In the case of companies acquired after 1 January 2004, goodwill represents the share of the acquisition cost in excess of the Group's share of the fair value of the acquiree's identified net assets, liabilities and conditional liabilities at the time of acquisition. The goodwill on the consolidation of business functions prior to this date corresponds to the carrying amount as per the previously employed accounting standards, which has been used as the assumed acquisition cost.

Goodwill and the calculation of the fair value at the date of acquisition is considered the property of the acquired company and is recorded at the rates of exchange on the date of the acquisition. Goodwill is not amortised but is instead subjected to an annual impairment test. If the estimated future cash flow of a business is lower than its carrying amount on the balance sheet, the resulting impairment loss is recorded as an expense in the income statement.

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 utilised commercially, and the product is expected to create a comparable financial benefit. Other development costs are recorded as expenses. Activated development costs are amortised 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 activated development costs during 2006.

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 amortised on a straight-line basis during the period they are financially effective.

Other intangible assets

The acquisition costs of patents, trademarks and licences are capitalised in intangible assets and depreciated on a straight-line basis during their useful lives.

Intangible assets are recognised in the balance sheet only if an asset's acquisition cost can be reliably defined and if the expected financial benefit deriving from the asset is realised for the good of the company. Intangible assets are recognised in the balance sheet at historical costs less accumulated depreciation and impairment losses.

Intangible assets are amortised on a straight-line basis over their estimated useful lives:

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

PROPERTY, PLANT AND EQUIPMENT

Tangible fixed assets are valued 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 cost of acquisition or revaluation 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 recognised as an expense. Expenditure on significant modernisation and improvement projects are recognised in the balance sheet if they are likely to increase the future economic benefits embodied in the specific asset to which they relate. Modernisation 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.

Interest costs on borrowings to finance the construction of these assets and other liability costs are recognised as expenses.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying amount is to be accrued primarily from the sale of the asset rather than from its continued use. The conditions for classification as held for sale are met if the sale is highly probable and the asset is available for immediate sale in its present condition on general and ordinary conditions, and when management is committed to a plan to sell and the sale is expected to take place within 12 months of classification.

Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset will be measured in accordance with applicable IFRS standards. After classification as held for sale, non-current assets are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets that are classified as held for sale shall not be depreciated.

GOVERNMENT GRANTS

Government grants are deducted from the asset's book value. Grants are recorded in the form of minor depreciations during the useful life of the asset.

Other grants are recorded as income for the financial periods during which the related expenses occurred.

FINANCIAL ASSETS

Financial assets are classified in accordance with the purpose underlying the acquisition of the financial asset. The assets are categorised on initial recognition. Transaction costs are included in the original carrying amount of financial assets when the item in question is not measured at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

"Financial assets at fair value through profit or loss" is divided into two subcategories: held-for-sale 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-sale 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-sale. Held-for-sale 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 realised and unrealised 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 amortised cost. They are included in the balance sheet 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.

"Held-for-sale financial assets" are assets that are not included in derivative assets and which have either been expressly designated for inclusion in this group or not classified into any other group. They are included in non-current assets, unless it is intended that they will be held for less than 12 months from the closing date, in which case they are included in current assets. Held-for-sale assets can comprise shares and interest-bearing investments, and they are measured at fair value. The fair value of assets in this category is generally defined on the basis of the publicly quoted price, which is the purchase price quoted on the closing date.

LIQUID FUNDS

Liquid funds comprise cash and bank deposits withdrawable on demand. The maturity of items classified into liquid funds is no more than three months from the date of acquisition. 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.

Within liquid funds, cash and cash equivalents are recorded at the original amount. In the balance sheet, the use of Group account limits is included in current interest-bearing liabilities.

FINANCIAL LIABILITIES

Financial liabilities are originally booked at their fair value on the basis of the consideration received. Transaction costs have been included in the original carrying amount of financial liabilities. Finance lease liabilities are recognised at fair value. All financial liabilities are later valued at the periodized acquisition 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 CONTRACTS

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 recognised in profit or loss. The Group has interest rate swap agreements, whose non-current financial liabilities have been converted to fixed interest rates, and forward foreign exchange contracts. Derivative financial instruments are presented in Section 25 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.

IMPAIRMENT

Tangible and intangible 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. 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 semifinished goods. Impairment is measured at the level of cash-generating units, which is the lowest level that is primarily independent of other units and whose cash flows can be distinguished from other cash flows.

The recoverable amount is the fair value of the asset item less selling costs or the value in use, whichever is higher. The recoverable amount of financial assets is either the fair value or a the present value of future cash flows discounted at the original effective interest.

An impairment loss is recorded when an asset's carrying amount is greater than its recoverable amount. An impairment loss is recognised immediately on the income statement. If the impairment loss is allocated to a cash-generating unit, it is first allocated to reduce the goodwill allocated to the cash-generating unit and after this to the other asset items of the unit in equal proportions. An impairment booked on goodwill is not cancelled in any situation.

Financial assets
The Group assesses on each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. The significant and prolonged impairment of stock investments in which the fair value remains less than the acquisition cost, is an indication of the impairment of an available for sale stock.

An impairment of trade receivables is recognised when there is justified evidence that the Group will not receive all of the 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 delay of over 90 days in paying. 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 recognised loss is cancelled through profit or loss.

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 instalment 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 instalments 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 instalments over the duration of the rental period.

INVENTORIES

Inventories are valued in the balance sheet either at the acquisition cost or at the net realisable 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 labour, 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 liability expenses. The net realisable 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 recognised 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 delay of over 90 days in paying. 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.

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.

DEFERRED 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 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 disposal 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 utilised will materialise in the future. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date.

EMPLOYEE BENEFITS

Pension obligations
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 labour 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 state promissory notes 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, in terms of the portion exceeding a certain limit, are recognised over the employees' average term of service.

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.

The disability pension component of Finland's statutory employment pension scheme (TEL) is accounted for as a defined benefit plan 1 January 2004. Due to changes approved by Finnish authorities in December 2004 TEL's disability pension component is accounted for as a defined contribution plan from 1 January 2006. The change in calculation basis is recognised in the financial statements for 2005 as a reduction in the disability pension system and entered in the income statement.

Share-based compensation
The Group has granted key personnel stock option certificates that entitle the holder to subscribe to shares at a price based on the weighted average share price on the Helsinki Stock Exchange during a period defined in the stock option programme. The subscription price is lowered after the determining period and before the subscription by the amount of dividends distributed. When shares are subscribed using stock option certificates, the cash payments, adjusted for any transaction costs, received are credited to the share capital and the share premium fund.

The subscription price for stock options granted to company employees is determined on the day they are issued. When stock options are exercised, the cash payments, adjusted for any transaction costs, received are entered in the share capital (nominal value) and the share premium fund.

The Group has applied IFRS 2 Share-Based Payment to all share option schemes in which options have been granted after 7 November 2002, and to which rights have not vested before 1 January 2005. No expenses on prior share option schemes have been presented in the income statement. The option scheme ended on 30 April 2006.

PROVISIONS

A provision is recognised in the balance sheet when the Group has a legal or actual obligation on the basis of a prior event, the materialisation 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 recognised 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 balance sheet date.

The Group recognises a provision against loss-making agreements if the benefits of an agreement are expected to be smaller than the unavoidable costs required to fulfil the obligations of the agreement.

A provision for restructuring is recognised 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.

ACCOUNTING PRINCIPLES REQUIRING THE DISCRETION OF THE MANAGEMENT AND PRIMARY UNCERTAINTY FACTORS RELATED TO ESTIMATES

When financial statements are prepared, it is necessary to make estimates and assumptions whose result may deviate from the estimates and assumptions made. In addition, it is necessary to exercise discretion in the application of the accounting principles. The assessments and estimates are based on the best management judgement on the balance sheet date. Any changes in assessments and estimates are recognised in the bookkeeping in the financial year during which the assessments and estimates are revised and in all subsequent financial years.

Within the Group the primary assumptions about the future and the estimates made on the balance sheet date regarding the primary uncertainty factors that will cause a significant risk in essentially changing the carrying values of assets and liabilities during the following financial year are as follows:

Determining the fair value of assets acquired through corporate mergers
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 esti-

mate 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. Further information about determining the fair value of assets acquired through corporate mergers is presented in Note 2.

Impairment testing
Annual impairment tests are performed within the Group on goodwill, semi-finished intangible assets and intangible assets that have an unlimited economic lifespan, and indications of impairment are assessed as presented above in the accounting principles. The amount of money that can be accrued by the cash-generating units are determined by calculations based on service value, the drawing up of which requires use of estimates and assumptions.

An impairment loss totalling EUR 1.1 million has been recorded during the 2006 financial year for the Sport Division's Mäntyharju unit, which forms a cash-generating unit. This sum is allocated entirely to goodwill.

DIVIDENDS

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

COMPARATIVE DATA

Comparative data has been amended as necessary to correspond to changes in the method of presentation made during the financial year.

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.

NEW STANDARDS AND IFRIC INTERPRETATION

The following mandatory amendments to the IAS and IFRS standards and IFRIC interpretations that entered into force on 1 January 2006 have not caused changes to the Group's accounting principles.

- IAS 21 (amendment) The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
- IFRIC 6 Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
- IAS 39 (amendment) Financial Instruments: Recognition and Measurement and IFRS 6 (amendment) Insurance Contracts – Financial Guarantee Contracts
- IFRS 1 (amendment) First-time Adoption of International Financial Reporting Standards and IFRS 6 (amendment) Exploration for and evaluation of Mineral Resources
- IAS 39 (amendment) Fair Value Option
- IAS 39 (amendment) Financial Instruments: Recognition and Measurement (Cash Flow Hedges of Forecast Intragroup Transactions)
- IAS 19 (amendment) Employee benefits: Reporting Actuarial Gains and Losses, Group-defined Benefit Plans and Information to be Presented in Financial Statements
- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRIC 4 Determining Whether an Arrangement Contains a Lease
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Funds.

Below are listed the standards, interpretations and their amendments that have been issued before the publication date of the financial statements, but which have not yet been adopted by the Group. The Group will assess at a later date the impact that adopting these standards and interpretations will have on future financial statements.

- IAS 1 (amendment) Presentation of Financial Statements – Capital Disclosures
- IFRS 7 Financial Instruments: Disclosures
- IFRS 8 Operating Segments
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11 – IFRS 2 Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements.

1. SEGMENT INFORMATION

Segment information is presented according to the Group's business and geographical segment distribution. The Group's primary segment reporting form is based on business segments. Business segments are based on the Group's internal organisational structure and internal financial reporting.

Business segments consist of asset groups and businesses whose risks and profitability relative to products or services differ from other business segments. Geographical segments' products or services are produced in a certain financial environment the risks and profitability of which differ from the financial environment's risks and profitability of other geographical segments.

Transactions between segments are based on market prices. The assets and liabilities of segments include those kinds of operational items that each segment uses in its business operations or that can be allocated on reasonable grounds to segments. Unallocated items include tax and financial items, as well as items shared by the entire company. Investments include increases in tangible assets and intangible assets that are used for more than one financial period.

Business segments
The Group's business segments are Industry and Sport. The company has no discontinued operations.

Geographical segments
The Group's geographical segments are the Nordic countries, other European countries, and other countries. Net sales of geographical segments are presented according to the location of the customers, while assets are presented according to the location of the assets.

Primary reporting format – business segment information 1 Jan.-31 Dec. 2006

EUR 1,000	Industry	Sport	Others and Eliminations	Group
External net sales	84,202	28,193		112,395
Internal net sales	0	1	-1	
Total sales	84,202	28,194	-1	112,395
Operating profit of the segment	10,478	-10,092		386
Net financing costs				-1,067
Income taxes				-52
Profit for the financial year				-733
Segment's assets	53,512	18,947	191	72,650
Unallocated assets			9,274	9,274
Total assets				81,924
Segment's liabilities	15,583	6,837	248	22,668
Non-allocated liabilities			34,893	34,893
Total liabilities				57,561
Capital expenditure	18,871	992		19,863
Depreciation	-2,921	-1,692		-4,612
Impairment and write-down	-5	-1,490		-1,495

Segment assets include other assets except liquid assets and tax assets and other non-current assets.

Segment liabilities include other non-interest-bearing liabilities except tax liabilities.

Primary reporting format – business segment information 1 Jan.-31 Dec. 2005

EUR 1,000	Industry	Sport	Others and Eliminations	Group
External net sales	56,795	34,493		91,288
Internal net sales		2	-2	
Total sales	56,795	34,495		91,288
Operating profit of the segment	10,808	1,580		12,388
Net financing costs				-342
Income taxes				-3,144
Profit for the financial year				8,902
Segment's assets	24,702	22,625	-117	47,209
Unallocated assets			7,411	7,411
Total assets				54,621
Segment's liabilities	6,621	5,857		12,478
Non-allocated liabilities			15,103	15,103
Total liabilities				27,581
Capital expenditure	2,972	1,227		4,119
Depreciation	-1,884	-1,700		-3,584

Secondary reporting format

Net sales outside the Group according to location of customers

EUR 1,000	2006	2005
Nordic countries	20,111	21,410
Other European countries	61,362	64,000
Other countries	30,922	5,877
Total	112,395	91,288

Total assets according to secondary segment

EUR 1,000	2006	2005
Nordic countries	27,894	31,348
Other European countries	24,690	15,090
Other countries	20,066	771
Total	72,650	47,209

Capital expenditure according to secondary segment

EUR 1,000	2006	2005
Nordic countries	1,618	1,723
Other European countries	3,408	2,357
Other countries	14,837	39
Total	19,863	4,119

2. BUSINESS ACQUISITIONS

The Group acquired on 28 February 2006 all of the shares in Pacific Composites Pty. Ltd. The acquisition was executed under the name of Exel Composites Pty Ltd., a holding company established by the Group in Australia. The company operates primarily in the pultrusion business and has subsidiaries in Great Britain and China. The acquisition cost was AUD 31.8 million (EUR 19.8 million), of which AUD 27.3 milllion was paid in cash and AUD 4.5 in Exel Oyj shares. In addition to the purchase price paid in cash, acquisition expenses included consulting fees of EUR 0.6 million. The 10-month result of Pacific Composites Pty. Ltd. is included in the consolidated income statement for the 2006 financial year. The transferred assets and liabilities were acquired at fair value. The acquisition created goodwill of EUR 7.8 million, the creation of which was influenced by accelerated entry into the Chinese market and realized synergies connected with purchasing and production co-operation and utilising a common marketing and sales network. The goodwill also reflects the segment know-how obtained through the acquisition. The consolidated net sales would have been approximately EUR 1.7 million and the result EUR 0.2 million greater if the acquisition would have been realised at the beginning of the financial year.

The following assets and liabilities arising from the acquisitions have been recognised:

Assets and liabilities of acquired business operations	Fair value used in combination	Book value before combination
Intangible assets	3,172	19
Property, plant and equipment	7,110	6,034
Inventories	4,998	3,913
Receivables	4,091	4,091
Cash and cash equivalents	2,180	2,180
Liabilities	-6,973	-6,973
Deferred tax liabilities	-1,908	-314
Net assets	12,671	8,950
Goodwill	7,788	
Acquisition costs	20,459	
Cash and cash equivalents of the company	-2,180	
Cash outflow on acquisition	18,279	

The Group acquired on 1 April 2005 the Austrian company Faserprofil GmbH that was combined with the Group company Exel Composites GmbH. The acquisition included the business operations of Faserprofil GmbH, specialised in glass fibre profiles, as well as its fixed assets and inventories. The Group also took on certain obligations, primarily related to personnel. The acquisition cost was EUR 2,056 thousand, which was paid in cash. In addition to the purchase price paid in cash, acquisition expenses included consulting fees of EUR 159 thousand. The 9-month result of Exel Composites GmbH is included in the consolidated income statement for the 2005 financial year. The transferred assets were acquired at fair value. The acquisition created goodwill of EUR 688 thousand, which includes a surplus payment totalling EUR 300 thousand that is dependent on achieving sales targets in 2006 and 2007. Goodwill is considered as describing the segment know-how gained through the acquisition, as well as the improved utilisation of the entire Group's marketing and sales capacity and the synergy benefits that are made possible through this. The Group's net sales would have been approximately EUR 1.0 million and result EUR 0.1 million greater if the acquisition would have been made at the beginning of the financial year. The book values of the acquisition before the merger did not comply with IFRS standards.

The following assets and liabilities arising from the acquisitions have been recognised:

Assets and liabilities of acquired business operations	Fair value used in combination	Book value before combination
Intangible assets	4	4
Property, plant and equipment	1,105	661
Inventories	471	446
Receivables	8	8
Liabilities	-220	-220
Deferred tax liabilities		
Net assets	1,369	899
Goodwill	688	
Acquisition costs	2,056	

The tangible assets acquired through the merger were valued at fair value on the basis of the market prices of similar assets taking into consideration the age, wear and other related factors of the acquired assets.

Intangible rights include the value of customer relationships, which is defined based on the estimated duration of the customer relationships and the discounted value of the cash flow created by them.

3. OTHER OPERATING INCOME

EUR 1,000	2006	2005
Rental income	11	4
Other operating income	134	175
Profit from sales of non-current assets		7
Total	**145**	**186**

4. OTHER OPERATING EXPENSES

EUR 1,000	2006	2005
Rental expenses	1,688	1,072
Fixed asset write-offs	860	
Other operating expenses	25,895	20,420
Total	**28,443**	**21,493**

5. EMPLOYEE BENEFIT EXPENSES

EUR 1,000	2006	2005
Salaries	21,166	16,362
Pension costs – defined contribution schemes	2,319	2,228
Pension costs – defined benefit schemes	100	-82
Other employee benefits	2,542	1,928
Total	**26,127**	**20,436**

Average number of personnel	2006	2005
Industry Division	384	236
Sport Division	195	231
Other	20	
Total	**600**	**467**

6. RESEARCH AND DEVELOPMENT EXPENDITURE

The income statement includes research and development costs entered as costs amounting to EUR 2,169 thousand in 2006 (EUR 2,323 thousand in 2005). These costs are included in the income statement under Salaries and Other Operating Expenses.

7. DEPRECIATION, AMORTISATION AND IMPAIRMENT

Depreciation of assets, EUR 1,000	2006	2005
Intangible assets	806	411
Tangible assets		
Buildings	491	442
Machinery and equipment	3,315	2,731
Total	**4,612**	**3,584**

Depreciation of assets, EUR 1,000	2006	2005
Intangible assets		
Goodwill	1,090	
Tangible assets		
Buildings	5	
Machinery and equipment	400	
Other		
Total	**1,495**	

8. FINANCE INCOME

EUR 1,000	2006	2005
Interest income	195	60
Dividend income	1	1
Foreign exchange gains	39	104
Change in fair value of financial assets recognised at fair value (from derivatives)	26	-8
Other finance income	81	5
Total finance income	**343**	**164**

9. FINANCE EXPENSES

EUR 1,000	2006	2005
Interest expenses	1,279	482
Foreign exchange losses	102	26
Change in fair value of financial assets recognised at fair value (from derivatives)	27	-63
Other finance expenses	2	61
Total finance expenses	**1,410**	**506**

Exchange differences for sales (+EUR 118 thousand) and purchases (-EUR 109 thousand) are entered in the income statement in the appropriate sales and purchase accounts.

10. INCOME TAXES

EUR 1,000	2006	2005
Income tax based on taxable income for the financial year	1,953	3,504
Income taxes from previous financial periods	-11	6
Deferred taxes	-1,890	-366
Total income taxes	**52**	**3,144**

EUR 1,000	2006	2005
Income tax reconciliation		
Loss before taxes	-681	12,046
Tax calculated at domestic rate 26%	-177	3,132
Difference between the domestic and foreign tax rates	146	-104
Expenses not deductible for tax purposes	83	116
Changes in tax laws		
Other		
Tax charge	**52**	**3,144**
Effective tax rate	**-7.6%**	**26.1%**

11. EARNINGS PER SHARE

Undiluted earnings per share is calculated by dividing the profit attributable to shareholders of the parent company by the weighted average number of outstanding shares during the financial year.

	2006	2005
Profit for the financial year (EUR 1,000) attributable to shareholders of the parent company, continued operations	-724	8,902
Weighted average number of outstanding shares during the financial year (1,000 shares)	11,830	11,313
Undiluted earnings per share (EUR/share), continued operations	-0.06	0.78

The calculation of the diluted earnings per share takes into account the dilutive effect of converting all potential shares to shares. The Group uses stock options as a dilutive financial instrument that increase the number of shares. Stock options have a dilutive effect when the exercise price of the options is lower than the fair value of the share. The amount of the dilution is the number of shares that can be considered as issued for no consideration, since the Group could not issue the same number of shares at fair value with the funds received from share subscriptions. The fair value is based on the average price of the share during the financial year. The dilution effect has no impact on the result for the financial year.

	2006	2005
Weighted average number of shares, 1,000	11,830	11,313
Effect of stock options, 1,000	17	237
Weighted average number of shares for diluted earnings per share, 1,000	11,847	11,550
Diluted earnings per share (EUR/share), continued operations	-0.06	0.76

12. DIVIDENDS PER SHARE

The Annual General Meeting held on 6 April 2006 approved the Board's proposal to distribute a dividend for the 2005 financial year of EUR 0.40 per share, amounting to a total dividend payment of EUR 4,720 thousand.

In 2005 a dividend of EUR 0.35 per share was distributed, or a total of EUR 3,931 thousand.

13. INTANGIBLE ASSETS

The Group has no internally created intangible assets.

Goodwill, EUR 1,000	2006	2005
Acquisition cost at 1 Jan.	6,440	5,751
Additions	7,320	688
Exchange rate differences		1
Acquisition cost at 31 Dec.	13,760	6,440
Accumulated amortisation at 1 Jan.	-2,563	-2,563
Impraiment charge	-1,090	
Accumulated amortisation at 31 Dec.	-3,653	-2,563
Book value at 1 Jan.	3,877	3,188
Book value at 31 Dec.	10,107	3,877

Goodwill is allocated to cash-flow generating business units as follows:

Distribution of goodwill, EUR 1,000	2006	2005
Sport Division, Finland	452	1,541
Industry Division, Finland	135	135
Industry, Germany	1,305	1,305
Industry, Belgium	207	207
Industry, Austria	688	688
Industry, Pacific Composites	7,320	
Total	**10,107**	**3,877**

Impairment tests are made annually on goodwill and intangible assets with an unlimited economic lifespan. On the closing date the Exel Group had no other intangible assets with an unlimited economic lifespan than goodwill.

The Group has allocated goodwill to 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 2 percent annual growth in the long term. The level of sales margins in these forecasts is expected to remain on average at the current level.

Discount rates are defined separately for each business sector 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 8.5%–9.0% depending on the cash-generating unit.

On the basis of the impairment test, the amount of money that can be accrued by all cash-generating units exceeds the corresponding balance sheet values with the exception of the Mäntyharju unit, for which an impairment loss totalling EUR 1.090 million has been recorded. The main causes of the impairment loss were the decline in sales volumes for poles and the transfer of assembly and finishing of poles to subcontractors in China due to the competitive situation. Following the recognition of the impairment loss, no goodwill is allocated to the Mäntyharju unit.

Other intangible assets, EUR 1,000

Intangible assets, EUR 1,000	2006	2005
Acquisition cost at 1 Jan.	857	775
Additions	3,055	82
Decreases	-20	
Exchange rate differences	1	
Acquisition cost at 31 Dec.	3,893	857
Accumulated amortisation at 1 Jan.	-565	-490
Disposals	-532	-75
Impairment charge		
Decreases	12	
Exchange rate differences		
Accumulated amortisation at 31 Dec.	-1,085	-565
Book value at 1 Jan.	291	284
Book value at 31 Dec.	2,806	291

All intangible assets are other than internally created.

Other long-term expenses, EUR 1,000	2006	2005
Acquisition cost at 1 Jan.	2,252	1,969
Additions	75	283
Decreases	-134	
Transfers between asset groups	12	
Translation differences		
Acquisition cost at 31 Dec.	2,205	2,252
Accumulated amortisation at 1 Jan.	-1,663	-1,327
Disposals	-274	-336
Impairment charge		
Decreases	86	
Translation differences		
Accumulated amortisation at 31 Dec.	-1,851	-1,663
Book value at 1 Jan.	589	642
Book value at 31 Dec.	352	589

14. PROPERTY, PLANT AND EQUIPMENT

Land and water areas, EUR 1,000	2006	2005
Acquisition cost at 1 Jan.	123	123
Additions	872	
Decreases		
Transfers between asset groups	-104	
Exchange rate differences	19	
Acquisition cost at 31 Dec.	910	123
Impairment charge	-5	
Book value at 1 Jan.	123	123
Book value at 31 Dec.	905	123

Buildings and structures, EUR 1,000	2006	2005
Acquisition cost at 1 Jan.	4,558	4,179
Additions	2,333	380
Decreases	-33	
Transfers between asset groups	-632	
Exchange rate differences	24	
Acquisition cost at 31 Dec.	6,250	4,558
Accumulated amortisation at 1 Jan.	-2,157	-1,875
Disposals	-332	-282
Impairment charge		
Decreases	14	
Translation differences		
Accumulated amortisation at 31 Dec.	2,475	-2,157
Book value at 1 Jan.	2,402	2,305
Book value at 31 Dec.	3,777	2,402

Machinery and equipment, EUR 1,000	2006	2005
Acquisition cost at 1 Jan.	25,546	22,810
Additions	5,128	2,798
Decreases	-2,014	-62
Transfers between asset groups	658	
Exchange rate differences	6	
Acquisition cost at 31 Dec.	29,324	25,546
Accumulated amortisation at 1 Jan.	-17,079	-14,520
Disposals	-3,090	-2,559
Impairment charge		
Decreases	1,178	
Translation differences		-2
Accumulated amortisation at 31 Dec.	-18,991	-17,079
Book value at 1 Jan.	8,465	8,286
Book value at 31 Dec.	10,331	8,465

Advance payments and construction in progress, EUR 1,000	2006	2005
Acquisition cost at 1 Jan.	1,444	1,511
Additions	1,080	755
Transfers between asset groups	-943	-822
Decreases		
Acquisition cost at 31 Dec.	1,581	1,444
Book value at 1 Jan.	1,444	1,511
Book value at 31 Dec.	1,581	1,444

Finance lease arrangements	2006	2005
Buildings		
Acquisition cost at 1 Jan.	1 677	1,677
Additions		
Acquisition cost at 31 Dec.	1 677	1,677
Accumulated amortisation at 1 Jan.	320	160
Disposals	160	160
Accumulated amortisation at 31 Dec.	479	320
Book value at 1 Jan.	1 358	1,517
Book value at 31 Dec.	1 198	1,358

Finance lease arrangements	2006	2005
Machinery and equipment		
Acquisition cost at 1 Jan.	1,775	0
Additions		1,775
Decreases	-15	
Exchange rate differences		
Acquisition cost at 31 Dec.	1,760	1,775
Accumulated amortisation at 1 Jan.	-172	0
Disposals	-225	172
Impairment charge and write-downs	-400	
Decreases	11	
Exchange rate differences		
Accumulated amortisation at 31 Dec.	-786	172
Book value at 1 Jan.	1,603	0
Book value at 31 Dec.	973	1,603

The Group has two factory properties that are for sale and whose production has been transferred to the Group's other properties. These are located in Clacton, Great Britain and Mäntyharju, Finland. They are recorded in available for sale non-current property items and their balance sheet value is EUR 748 thousand. The sale of these properties is expected to take place in the first half of 2007. Of the held-for-sale non-current property items EUR 188 thousand is allocated to the Sport Division segment and EUR 560 thousand to the Industry Division segment.

15. OTHER NON-CURRENT ASSETS

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

EUR 1,000	2006	2005
Book value at 1 Jan.	103	100
Decreases	-31	
Change in fair value	4	3
Book value at 31 Dec.	76	103

16. INVENTORIES

EUR 1,000	2006	2005
Raw materials	9,143	7,007
Work in progress	1,698	2,264
Finished products and goods	9,134	6,090
Total inventories	**19,975**	**15,361**

During the 2006 financial year an expense of EUR 2,451 thousand was recognised to reduce the book value of inventories to their net realisable value (EUR 103 thousand in 2005).

17. TRADE AND OTHER RECEIVABLES

EUR 1,000	2006	2005
Trade receivables	16,936	10,161
Deferred income	2,946	1,333
Other receivables	813	663
Total receivables	**20,695**	**12,157**

During the 2006 financial year credit losses of EUR 120 thousand were recorded (EUR 446 thousand in 2005).

18. CASH AND CASH EQUIVALENTS

Cash assets consist of cash-in-hand and bank reserves amounting to EUR 6,199 (4,454) thousand. Cash equivalents consist of short-term interest-bearing deposits amounting to EUR 0 (1,324) thousand.

19. TRADE AND OTHER NON-INTEREST-BEARING LIABILITIES

EUR 1,000	2006	2005
Trade payables	15,108	6,513
Accrued expenses	4,363	3,840
Advance payments	478	562
Other non-interest-bearing liabilities	2,490	1,369
Total	**22,438**	**12,284**

20. INTEREST-BEARING LIABILITIES

Non-current interest-bearing liabilities, EUR 1,000	2006 Book values	2005 Book values
Loans from financial institutions	23,153	6,752
Pension loans	260	160
Finance lease liabilities	2,315	2,699
Other	25	
Total	**25,752**	**9,611**

Current interest-bearing liabilities, EUR 1,000	2006	2005
Short-term loans from financial institutions	5,933	1,995
Current portion of long-term debt (repayments)	1,620	1,976
Finance lease liabilities	381	375
Total	**7,934**	**4,346**

Maturity of non-current interest-bearing liabilities, EUR 1,000	2006	2005
2006		1,976
2007	1,620	1,585
2008	4,819	1,215
2009	4,819	1,215
2010	4,381	778
2011	4,381	
2012+	9,778	1,944
Total	**24,798**	**8,715**

Maturity of finance lease liabilities, EUR 1,000	2006	2005
Finance lease liabilities – total value of minimum lease payments		
Not later than 1 year	444	444
1-5 years	1,766	1,775
Later than 5 years		435
Finance lease liabilities – present value of minimum lease payments		
Not later than 1 year	375	375
1-5 years	1,618	1,582
Later than 5 years		411
Future finance charges	217	286
Total finance lease liabilities	**2,695**	**3,074**

Among current liabilities, EUR 5,527 thousand has been converted to fixed interest rates thorough interest rate swap agreements.

21. DEFERRED INCOME TAXES

Deferred tax	1.1.2006	Recognised in income statement	Recognised in share-holders' equity	Exchange rate differences	31.12.2006
Intercompany profit in inventory	462	17			479
Losses	302	1,143			1,445
Other temporary differences	305	642			947
Offset with deferred tax liabilities					-671
Other temporary differences					
Net deferred tax assets	**1,070**				**2,200**

Deferred tax	1.1.2006	Recognised in income statement	Recognised in share-holders' equity	Exchange rate differences	31.12.2006
Accumulated depreciation	22	-22			
Other temporary differences	385	1,377			1,762
Offset with deferred tax assets					- 671
Net deferred tax liabilities	**407**				**1,091**

The Group had taxable net losses on 31 December 2006 of EUR 5,425 thousand, of which the company has recorded deferred tax assets of EUR 1,445 thousand.

22. 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 unfavourable 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 exchange 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 Swedish krona (SEK). Foreign exchange risks are generated by commercial transactions, from monetary items in the balance sheet 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 operating currency or currencies generally in use. The currency flows of subsidiaries are protected on a per company basis against the basic currency of each company. The operating units are responsible for protecting against their own foreign exchange risks.

Currency positions are assessed at their net amount in each currency generally for the following 12-month period. Currency flows are protected by forward agreements and currency options.

Interest rate risk
The Group's currency-denominated borrowings are in the domestic currencies of Group companies. The nominal values of interest-bearing liabilities on 31 December 2006 were divided to the currencies as follows:

Currency	Amount EUR 1,000	%
EUR	32,298	95.9%
GBP	25	0.1%
AUD	994	3.0%
USD	370	1.1%
Total	**33,686**	**100.0%**

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.

Liquidity and funding risk
The Group aims to ensure adequate liquidity under all circumstances and to optimise the use of liquid assets in financing business operations. In addition, the objective is to minimise net interest costs and bank charges. Cash reserves are invested only in objects that can be realised quickly. In addition to cash reserves and interest rate investments, the Group had unused credit limits on 31 December 2006 amounting to EUR 10.6 million.

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.

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 fulfil 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 2006 financial year, the Group's only counterparties were financial institutions.

23. 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 (TEL) according to which benefits are directly linked to the employee's earnings. The TEL pension scheme is mainly arranged with insurance companies. The disability share of the TEL pension scheme is recognised as a defined benefit scheme. As a result of changes to the Finnish employee pension scheme, disability insurance is recognised as a contribution scheme from the beginning of 2006. Accordingly, EUR 43 thousand of pension obligations were eliminated in 2005.

Pension schemes elsewhere than in Finland include both defined benefit and defined contribution pension schemes. Defined benefit pension schemes are not significant.

Amounts recognised in the income statement, EUR 1,000	2006	2005
Service cost for the financial year	2,319	2,228
Differences in benefit schemes	100	-82
Total included in personnel expenses	**2,419**	**2,146**

Amounts recognised in the balance sheet, EUR 1,000	2006	2005
At the beginning of financial period	160	222
Pension expenses in the balance sheet	100	-82
At the end of financial period	260	160

24. PROVISIONS

The Group has no provisions.

25. 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	2006 Net fair value	2006 Nominal value	2005 Net fair value	2005 Nominal value
Trade and other receivables	20,695	20,695	12,157	12,157
Cash and cash equivalents	6,199	6,199	5,778	5,778
Interest rate swap agreements	5	860	-9	1,748
Purchased interest-rate options	6	4,667		
Forward contracts	-14	8,269		
Purchased currency options	-12	3,086		
Sold currency options	-4	1,922		
Bank loans		24,738		8,747
Finance leasing		2,696		3,074
Non-current loan facilities	5,933	5,933	1,995	1,995
Trade and other payables	22,438	22,438	12,284	12,284

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

26. CONTINGENT LIABILITIES

EUR 1,000	2006	2005
Commitments on own behalf		
Mortgages	2,953	2,953
Guarantees	12,500	12,500
Guarantees on behalf of others		
Not later than one year	850	216
1-5 years	2,565	263
Later than 5 years		
Other liabilities	**191**	**66**

27. SHARE CAPITAL

EUR 1,000	Number of shares (1,000)	Share capital	Share premium	Total
1 Jan. 2005	5,521	1,932	3,390	5,322
Exercise of stock options before share split	94	20	424	444
Share split	5,615			
Share issue		56	-56	
Exercise of stock options	269	62	1,384	1,436
31 Dec. 2005	11,499	2,070	5,142	7,212
Share issue		71	3,063	3,134
Transfer from retained earnings				
Exercise of stock options				
31 Dec. 2006	11,897	2,141	8,492	10,633

Under the articles of association of the Company, the authorised 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 6 April 2006 the Annual General Meeting authorised the Board to increase the share capital by one or more rights issues in such a way that the company's share capital may be increased by a maximum of EUR 100,000, which represents approximately 5 percent of the company's share capital. This authorisation has not been exercised during the year.

On 6 April 2006 the Annual General Meeting authorised the Board to acquire the Company's own shares using funds available for distribution of profits so that the total accounting per value of the own shares held by the Company or its subsidiary organizations, or the number of votes they carry after the acquisition, corresponds to no more than five (5) per cent of the Company's total share capital or the total number of votes they carry, i.e. a maximum of 590,032 shares. The Annual General Meeting authorized the Board to resolve to convey the Company's own shares so that the authorization covers all such own shares of the Company that are acquired on the basis of the acquisition authorization granted to the Board. The authorizations are valid until the next Annual General Meeting. These authorisations have not been exercised during the year

Following the balance sheet date the Board of Directors has proposed that a dividend of EUR 0.20 per share be distributed.

28. OPTION PROGRAMMES

On 28 March 2001 the Annual General Meeting decided to issue option rights to the key personnel of the Exel Group and to Exel Oyj's wholly owned subsidiary. The number of option rights is 370,000, of which half is marked with the letter A and half with the letter B. The subscription period for this option programme ended on 30 April 2006.

The 2001 option programme and its principal terms	2001 A	2001 B
Number of warrants	185,000	185,000
Number of shares subscribed *)	370,000	370,000
Number of shares subscribed at 31 Dec. 2006	338,000	286,500
Warrants not distributed, or returned	13,500	36,000
Number of shares not subscribed on the basis of warrants	5,000	11,500
Subscription price, EUR	10.77**)	10.27***)
Subscription period	1.6.2002–30.4.2006	1.10.2003–30.4.2006

The A warrants related to Exel Oyj's warrant programme have been quoted on the Main List of the Helsinki Stock Exchange from 7 October 2002 and B warrants from 27 October 2003.

*) Numbers after share split
**) The subscription price of the shares will be reduced by the amount of dividend per share distributed after 30 April 2001 and before subscription on the record date of each dividend distribution.
***) The subscription price of the shares will be reduced by the amount of dividend distributed after 31 October 2001 and before subscription on the record date of each dividend distribution.

29. DISTRIBUTABLE FUNDS, 31 DEC.

The parent company's distributable funds on 31 December 2006 were EUR 15,620 thousand.

30. CASH FLOW FROM BUSINESS OPERATIONS

Adjustments to the result for the financial year	2006	2005
Depreciation, impairment charges and write-offs	6,968	3,584
Taxes	52	3,144
Financial expenses	1,410	506
Financial income	-343	-164
Other adjustments	1,243	-135
Total	**9,330**	**6,935**

31. RELATED PARTY TRANSACTIONS

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

Name of subsidiary	Domicile	Group share of holding
Exel Sports Oy	Finland	100%
Exel GmbH	Germany	100%
Exel Composites N.V.	Belgium	100%
Exel Composites GmbH	Austria	100%
Exel USA, Inc.	USA	100%
International Gateway AB	Sweden	100%
Exel Composites (Nanjing) Ltd	China	100%
Exel Composite Materials (Shenzhen) Ltd	China	100%
Nordic Sports Products (Beijing) Ltd	China	80%
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 (Clacton) Ltd	UK	100%
Pacific Composites Ltd	New Zealand	100%
Pro Stick Oy	Finland	100%

Management remuneration

Senior management salaries, fees and bonuses, EUR 1,000	2006	2005
President & CEO	307	262
Members of the Board of Directors	119	142
Pension costs in the income statement	125	141
Total	551	545

Salaries and fees per person:	EUR 1,000
Ari Jokelainen, President & CEO	269
Göran Jönsson, President & CEO	38
Ove Mattsson, Chairman of the Board	34
Members of the Board	
Torgny Eriksson	4
Kari Haavisto	20
Peter Hofvenstam	20
Vesa Kainu	20
Esa Karppinen	19
Matti Virtaala	4

32. EVENTS AFTER THE BALANCE SHEET DATE

In January 2007 Exel Sports Oy's Managing Director Mika Sulin announced his resignation. Aki Karihtala, Senior Vice President of Exel's Sport Division, was appointed Exel Sports' Managing Director as of 1 March 2007.

	Notes	1.1.–31.12.2006	1.1.–31.12.2005
NET SALES	1,16	53 303	59 081
Increase(+)/Decrease(-) in inventories of finished goods and work in progress		-771	215
Production for own use			74
Other operating income		181	137
Materials and services		-21 064	-21 091
External services		-275	-312
Personnel operating expenses	2	-11 709	-12 258
Depreciation and write-down	3	-2 607	-2 341
Other operating expenses	4	-10 833	-10 801
OPERATING PROFIT	16	6 225	12 705
Financial income and expenses	5	-241	189
PROFIT BEFORE EXTRAORDINARY ITEMS		5 985	12 894
Group subsidy	6	-3 500	
PROFIT BEFORE APPROPRIATIONS AND TAXES		2 485	12 894
Direct taxes	7	-1 167	-3462
PROFIT FOR THE PERIOD		**1 317**	**9 432**

Parent company Balance sheet, EUR 1,000

	Notes	31 Dec. 2006	31 Dec. 2005
ASSETS			
NON-CURRENT ASSETS	8		
Intangible assets			
Intangible rights		44	76
Goodwill		0	689
Other capitalized expenditure		385	1,329
Tangible assets			
Land and water		123	123
Buildings		2,172	2,402
Machinery and equipment		3,036	3,747
Construction in progress		781	687
		6,112	6,959
Investments			
Holdings in Group companies		11,633	5,680
Other shares and holdings		61	93
		11,694	5,773
TOTAL NON-CURRENT ASSETS		**18,190**	**14,061**
CURRENT ASSETS			
Inventories			
Raw materials and consumables		4,169	4,464
Work in progress		1,476	2,116
Finished products		1,709	1,839
		7,353	8,419
Current receivables	10		
Trade receivables		2,658	4,144
Receivables from Group companies		25,776	12,501
Other receivables		116	176
Prepaid expenses and accrued income		936	105
		29,486	16,925
Other liquid assets			1,322
Cash in hand and at bank		8,995	1,216
TOTAL CURRENT ASSETS		**64,024**	**41,944**

	Notes	31 Dec. 2006	31 Dec. 2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
EQUITY	11		
Share capital		2,141	2,070
Increase in share capital			287
Premium fund		8,488	5,137
Retained earnings		14,302	9,591
Profit for the financial year		1,317	9,432
TOTAL EQUITY APPROPRIATIONS		**26,249**	**26,517**
DIFFERENCE BETWEEN TOTAL AND PLANNED DEPRECIATIONS			
PROVISIONS			
LIABILITIES			
Non-current liabilities	12		
Loans from financial institutions		23,153	6,729
Other liabilities			23
		23,153	6,752
Current liabilities	13		
Loans from financial institutions		4,599	1,988
Trade payables		64	47
Accounts payable		3,240	3,213
Liabilities to Group companies		358	125
Other liabilities		489	343
Accrued liabilities and deferred income		5,873	2,958
TOTAL LIABILITIES		**14,623**	**8,675**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**64,024**	**41,944**

Parent company Funds statement, EUR 1,000

	2006	2005
Cash flow from business operations		
Profit for the year	1,317	9,432
Profit for the year adjustments	7,767	5,613
Change in net working capital	-9,503	-5,775
Interest paid and other financial expenses	-1,304	-319
Interest received	382	502
Income taxes paid	-2,536	-4,363
Cash flow from business operations	-3,877	5,090
Net cash flow from investments		
Acquisitions	-5,952	
Investments in property, plant and equipment (PPE) and tangible assets	-1,140	-1,958
Income from surrender of tangible and intangible assets		
Proceeds from sale of PPE and intangible assets		
Net cash flow from investments	**-7,092**	**-1,958**
Cash flow before financing	**-10,969**	**3,132**
Cash flow		
Rights issue	3,134	1,360
Withdrawals of non-current loans	18,000	2,000
Repayments of non-current loans	-1,988	-1,951
Net withdrawals of/repayment of current loans	3,000	-2,000
Dividend paid	-4,720	-3,931
Cash flow from financing	**17,426**	**-4,522**
Change in liquid funds	**6,457**	**-1,390**
Liquid funds on January 1	2,538	3,928
Liquid funds on December 31	**8,995**	**2,538**

1. NET SALES

By division, EUR 1,000	2006	2005
Sport Division	17,858	24,225
Industry Division	35,445	34,856
Total	**53,303**	**59,081**

By market area	2006	2005
Nordic Countries	24,442	26,265
Other European countries	24,910	28,320
Other countries	3,952	4,496
Total	**53,303**	**59,080**

2. PERSONNEL EXPENSES

Management salaries and remunerations, EUR 1,000	2006	2005
President	307	262
Members of the Board	119	142
Total	**426**	**404**

Average personnel employed by the Group and the parent company	2006	2005
Salaried employees	64	68¨
Non-salaried employees	213	232
Total	**277**	**300**

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

Goodwill from the parent company's acquisitions and the purchase of Fiberspar Inc. Performance Products are depreciated over 10 years, which is the estimated income expectation period. Goodwill has been written down by EUR 496 thousand.

Planned depreciation, amortisation and impairment, EUR 1,000	2006	2005
Intangible rights	24	36
Goodwill	193	236
Other capitalized expenditure	265	324
Buildings	266	281
Machinery and equipment	1,363	1,464
Write-downs of non-current assets	496	0
Total	**2,607**	**2,341**

4. OTHER OPERATING EXPENSES

EUR 1,000	2006	2005
Rents	1,204	597
Marketing expenses	364	1,052
Other expenses	9,265	9,152
Total	**10,833**	**10,801**

5. FINANCIAL INCOME AND EXPENSES

EUR 1,000	2006	2005
Other interest and financial income		
From Group companies	1,178	462
From others	139	54
Total	**1,317**	**516**
Interest and other financial expenses		
To others	-1,558	-327
Total financial income and expenses	**-241**	**189**

6. NON-RECURRING ITEMS

EUR 1,000	2006	2005
Group subsidy	3,500	0

7. DIRECT TAXES

EUR 1,000	2006	2005
Income tax on actual operations	1,167	3,462

8. INTANGIBLE AND TANGIBLE RIGHTS

EUR 1,000	2006	2005
Intangible rights		
Acquisition cost Jan. 1	547	699
Increase 1.1.–31.12.	0	6
Decrease 1.1.–31.12.	-20	-158
Acquisition cost Dec. 31	527	547
Accumulated planned depreciation Jan. 1	-471	-435
Planned depreciation 1.1.–31.12.	-24	-36
Planned depreciation of decrease 1.1.–31.12.	12	0
Accumulated planned depreciation Dec. 31	-483	-471
Book value Dec. 31	44	76
Goodwill		
Acquisition cost Jan. 1	3,019	3,141
Increase 1.1.–31.12.	0	0
Decrease 1.1.–31.12.	0	-122
Acquisition cost Dec. 31	3,019	3,019
Accumulated planned depreciation Jan. 1	-2,331	-2,095
Planned depreciation 1.1.–31.12.	-193	-236
Impraiment charge	-496	0
Accumulated planned depreciation Dec. 31	-3,020	-2,331
Book value Dec. 31	0	688
Capitalized expenditure		
Acquisition cost Jan. 1	2,128	1,874
Increase 1.1.–31.12.	77	254
Decrease 1.1.–31.12.	-104	0
Acquisition cost Dec. 31	2,101	2,128
Accumulated planned depreciation Jan. 1	-1,563	-1,239
Planned depreciation 1.1.–31.12.	-265	-324
Planned depreciation of decrease 1.1.–31.12.	68	0
Accumulated planned depreciation Dec. 31	-1,760	-1,563
Book value Dec. 31	341	565

EUR 1,000	2006	2005
Land and water		
Acquisition cost Jan. 1	123	123
Increase 1.1.-31.12.	0	0
Acquisition cost Dec. 31	123	123
Book value Dec. 31	123	123
Buildings		
Acquisition cost Jan. 1	4,527	4,147
Increase 1.1.-31.12.	55	380
Decrease 1.1.-31.12.	-33	0
Acquisition cost Dec. 31	4,549	4,527
Accumulated planned depreciation Jan. 1	-2,124	-1,842
Planned depreciation 1.1.–31.12.	-266	-282
Planned depreciation of decrease 1.1.–31.12.	14	0
Accumulated planned depreciation Dec. 31	-2,376	-2,124
Book value Dec. 31	2,172	2,402
Machinery and equipment		
Acquisition cost Jan. 1	17,420	17,304
Increase 1.1.–31.12.	830	1,103
Decrease 1.1.–31.12.	-933	-987
Acquisition cost Dec. 31	17,317	17,420
Accumulated planned depreciation Jan. 1	-13,673	-12,315
Planned depreciation 1.1.–31.12.	-1,363	-1,462
Planned depreciation of decrease 1.1.–31.12.	755	104
Accumulated planned depreciation Dec. 31	-14,281	-13,673
Book value Dec. 31	3,036	3,747
Undepreciated acquisition cost of production machinery and equipment	2,867	3,453
Shares		
Group companies		
Acquisition cost Jan. 1	5,680	1,282
Increase Dec. 31	5,953	4,398
Decrease Dec. 31		
Acquisition cost Dec. 31	11,633	5,680
Other shares and holdings		
Acquisition cost Jan. 1	93	93
Decrease Dec. 31	-32	0
Acquisition cost Dec. 31	61	93

9. COMPANIES OWNED BY PARENT COMPANY

SHARES IN SUBSIDIARIES

Owned by the parent company

Name of company	Proportion owned %
Exel Sports Oy, Finland	100
Exel GmbH, Germany	100
Exel Composites N.V., Belgium	100
Exel Composites GmbH, Austria	100
Exel USA Inc., USA	100
International Gateway AB, Sweden	100
Exel Composites (Nanjing) Ltd, China	100
Exel Composites Materials (Shenzhen) Ltd, China	100
Nordic Sports Products (Beijing) Ltd , China	80
Pacific Composites Pty. Ltd, Australia	100
Pacific Composites Ltd, Australia	100
Pacific Composites (Europe) Ltd, UK	100
Fibreforce Composites Ltd, UK	100
Pacific Composites (Clacton) Ltd, UK	100
Pacific Composites Ltd, New Zealand	100
Pro Stick Oy, Finland	100

10. RECEIVABLES

Current receivables, EUR 1,000	2006	2005
Receivables from Group companies		
Trade receivables	2,231	2,810
Loan receivables	22,260	9,280
Prepaid expenses and accrued income	1,286	411
Total	25,777	12,501
Receivables from others		
Trade receivables	2,658	4,144
Other receivables	116	176
Prepaid expenses and accrued income	936	105
Total	3,709	4,424
Total current receivables	**29,486**	**16,925**

Deferred tax assets amounting to EUR 374 (107) thousand have not been booked from cumulative depreciation exceeding the maximum tax depreciations by EUR 1.4 (0.412) million.

11. EQUITY

EUR 1,000	2006	2005
Share capital on Jan. 1	2,070	1,932
Increase in share capital	72	81
Transfer from premium fund	0	56
Share capital Dec. 31	**2,141**	**2,070**
Share issue Jan. 1	287	817
Increase	3,157	1,360
Transfer to share capital and premium fund	-3,445	-1,890
Share issue Dec. 31	0	287
Premium fund Jan. 1	5,137	3,385
Increase in share capital	3,350	1,808
Transfer to share capital	0	-56
Premium fund Dec. 31	**8,488**	**5,137**
Premium fund Dec. 31	19,023	13,521
Dividend distributed	-4,720	-3,930
Retained earnings	**14,302**	**9,591**
Profit for the financial year	**1,317**	**9,432**
Total equity	**26,249**	**26,517**

The 71,000 shares related to the warrant programme 2001 targeted at Exel's key personnel (53,600 shares with option rights and 17,400 shares with B option rights) were entered in the Trade Register on 2 February 2006. A total of EUR 287,460 was paid for the shares, and EUR 274,680 of this was entered in the premium fund. As a result of the subscriptions, Exel's share capital rose by EUR 22,780.

The share capital of Exel Oyj has been increased by EUR 41,533 which was registered on 5 April 2006. The increase in the share capital was subscribed by Lemarne Corporation Ltd. and it is part of the payment of the purchase price of Pacific Composites Pty. Ltd. The increase in the share capital was carried out by virtue of authorization given by the Annual General Meeting. As a result, Exel Oyj's share capital increased by EUR 41,533.74 and EUR 2,747,434.34 was booked in the premium fund. The 96,200 shares related to the warrant programme 2001 targeted at Exel's key personnel (50,400 shares with A option rights and 45,800 shares with B option rights) were entered in the Trade Register on 22 May 2006. A total of EUR 345,452 was paid for the shares, and EUR 328,136 of this was entered in the premium fund. As a result of the subscriptions, Exel's share capital rose by EUR 17,316.

The equivalent book value of the shares was EUR 0.35 until 20 April 2005, and EUR 0.18 since 21 April 2005. There is only one type of share.

Calculation of funds distributable as profit Dec. 31, EUR 1,000	2006	2005
Retained earnings	14,302	9,591
Profit for the financial year	1,317	9,432
Total	15,620	19,023

12. NON-CURRENT LIABILITIES

Liabilities to others, EUR 1,000	2006	2005
Loans from financial institutions	23,153	6,729
Other non-current liabilities	0	23
Total non-current liabilities	23,153	6,752
Liabilities falling due in a period longer than five years	**4,767**	**1,944**

13. CURRENT LIABILITIES

EUR 1,000	2006	2005
Liabilities to Group companies		
Trade payables	358	125
Accrued liabilities and deferred income	3,500	0
Total	**3,858**	**125**
Liabilities to others		
Loans from financial institutions	4,599	1,988
Advance payments	64	47
Trade payables	3,240	3,213
Other liabilities	488	343
Accrued liabilities and deferred income	2,373	2,958
Total	**10,765**	**8,550**
Total current liabilities	**14,623**	**8,675**
Breakdown of accrued liabilities and deferred income		
Salaries, wages and holiday pay, including social security expenses	1,452	1,806
Deferred tax liabilities	0	684
Other accrued liabilities and deferred income	921	469
Total	**2,373**	**2,958**

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 2007–2009.

	Face value	Fair market value
Interest swaps(NPV)		
Interest swaps	860	5
Purchased interest rate options	4,667	6
Foreign exchange forward contracts	8,269	-14
Purchased currency options	1,539	2
Sold currency options	1,154	-14

	Face value	Fair market value
Liabilities for which a corporate mortgage and real estate mortgages have been provided as collateral		
Financial institution loans	27,729	8,665
Mortgages given on land and buildings	2,953	2,953
Corporate mortgage given	12,500	12,500
Collateral for Group companies		
Credit limit guarantee	358	383

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

15. LEASING, RENTAL AND OTHER LIABILITIES

EUR 1,000	2006	2005
Leasing liabilities		
Falling due in 2007	361	406
Falling due later	1,436	1,665
Rental liabilities		
Falling due in 2006	195	195
Falling due later	958	1,153
Other liabilities	192	66

16. DISTRIBUTION OF NET SALES, OPERATING PROFIT AND PERSONNEL BY DIVISION

Parent company	Sport	Industry	Total
Net sales			
2006	17,858	35,445	53,303
2005	24,225	34,856	59,081
Operating profit			
2006	-1,673	7,898	6,225
2005	4,478	8,226	12,705
Personnel on Dec. 31			
2006	122	155	277
2005	140	139	279

17. SHARE OWNERSHIP

Distribution of share ownership on 31 December 2006	%
Private companies	16.0
Financial and insurance institutions	39,157.0
Public sector entities	14.0
Non-profit organizations	39,145.0
Households	39,188.0
Foreign	39,233.0
Of which, nominee registration	1.6

Distribution of share ownership on 31 December 2006

Shares	Number of share-holders	Percentage of share-holders	Total number of shares	Percentage of shares %
1–1,000	1,844	83.93	614,749	5.17
1,001–10,000	291	13.25	856,948	7.20
10,001–50,000	31	1.41	780,686	6.56
over 50,000	31	1.41	9,644,460	81.07

18. SHAREHOLDERS

Information on shareholders on 29 December 2006

Shareholder	Number of shares	Precentage of shares and votes
Nordstjernan AB	3,496,506	29.4
Ilmarinen Mutual Pension Insurance Company	806,986	6.8
Varma Mutual Pension Insurance Company	513,600	4.3
Veikko Laine Oy	418,800	3.5
Berling Capital Oy	412,000	3.5
OP-Suomi Small Cap Investment Fund	360,900	3.0
Ulkomarkkinat	346,600	2.9
Suutarinen Matti	294,400	2.5
Fondita Nordic Small Cap Investment Fund	280,000	2.4
ABN AMRO Finland Investment Fund	257,058	2.2
Nominee registration	189,391	1.6
Other	4,520,602	38.0
Total	**11,896,843**	**100.0**

19. MANAGEMENT INTERESTS

The aggregate holding of the members of the Board of Directors and the President was 442,000 shares on 31 December 2006. This accounts for 3.7% of corporate shares and 4.9% of the votes carried by all shares. The members of the Board of Directors and the President do not have any unsubscribed option rights.

20. SHARE ISSUE AND OPTION PROGRAMMES

On 6 april 2006 the Annual General Meeting authorized the Board to decide to increase the share capital by a maximum of EUR 100,000, which represents some 5% of the companys's total share capital, by one or more new share issues.

The Annual General Meeting authorized the Board of Directors to acquire the Company's own shares using funds available or distribution of profits so that the total accounting par value of the own shares held by the Company or its subsidiary organizations, or the number of votes they carry, corresponds to no more than five (5) per cent of the Company's total number of votes they carry. Accordingly, the Company's own shares can be acquired to a maximum total quantity of 590,032. The Annual General Meeting further authorized the Board to resolve to convey the Company's own shares so that the authorization covers all such own shares of the Company that are acquired on the basis of the acquisition authorization granted to the Board of Directors. The authorizations are valid until the next Annual General Meeting. No authorization to acquire or convey own shares was used during the year.

The 2001 option programme's principal terms	A2001	B2001
Number of warrants	185,000	185,000
Number of shares to be subscribed	185,000	185,000
Maximum increase in share capital EUR	64,750	64,750
Number of shares subscribed on 31 Dec. 2006	143,800	120,350
Options not distributed or returned	13,500	36,000
Shares not subscribed on the basis of options	27,700	28,550
Number of shares not subscribed on the basis of options	55,400	57,100
Maximum increase in share capital EUR	9,972	10,278
Subscription price EUR	4.11 *)	3.86 **)
Subscription period	1.6.2002–30.4.2006	1.10.2003–30.4.2006

The A warrants related to Exel Oyj's warrant programme 2001 have been quoted on Helsinki Stock Exchange Main List from 7 October 2002 and B warrants from 27 October 2003.

*) The subscription price of the shares will be reduced by the amount of dividend pre share distributed after 30 April 2001 and before subscription, on the record date of each dividend distribution.

**) The subscription price of the shares will be reduced by the amount of dividend distributed after 31 October 2001 and before subscription, on the record date of each dividend distribution.

21. SHARE PRICE AND TRADING

Share price (EUR)	2002	2003	2004	2005	2006
Average price	8.00	8.40	18.04	12.73	12.86
Lowest price	5.25	5.50	11.75	11.35	10.50
Highest price	10.05	12.95	24.00	14.80	15.13
Share price at end of financial year	6.38	11.90	23.00	13.05	13.60
Market capitalization, EUR million	33.8	63.6	127.0	150	161.80
Share trading					
Number of shares traded	686,996	1,435,573	3,962,470	4,114,242	5,172,938
% of total	13.1	27.1	73.2	35.7	43.5
Number of shares adjusted for share issues					
Average number	5,261,549	5,300,711	5,412,764	11,549,554	11,846,725
Number at end of financial year	5,294,900	5,343,100	5,520,800	11,498,900	11,896,843

Exel Oyj's share was quoted on Helsinki Stock Exchange I List from 19 October 1998 to 1 May 2000. As from 2 May 20 Exel Oyj's share has been quoted on Helsinki Stock Exchange Main List. Exel Oyj's share was split on 21 April 2005.

22. KEY INCICATORS

Key indicators illustrating financial trends
Figures given in EUR 1,000 unless otherwise stated

	2002	2003	2004	2005	2006
Net sales	51,203	57,281	83,857	91,288	112,395
Operating profit	3,802	5,345	13,702	12,388	386
% of net sales	7.4	9.3	16.3	13.6	0.3
Profit before extraordinary items	3,147	4,910	13,236	12,046	-681
% of net sales	6.1	8.6	15.8	13.2	-0.6
Profit before provisions and income taxes	3,147	4,910	13,236	12,046	-681
% of net sales	6.1	8.6	15.8	13.2	-0.6
Total assets	31,807	34,147	46,253	54,621	81,924
Return on equity, %	15.2	20.8	47.8	37.3	-2.9
Return on investment, %	14.3	20.8	45.2	34.0	1.2
Solvency ratio, %	47.2	51.7	44.9	50.0	29.9
Net gearing, %	55.3	29.4	36.0	30.2	112.8
Gross investment in fixed assets	2,014	2,519	5,803	4,119	19,863
% of net sales	3.9	4.4	6.9	4.5	17.7
R&D expenses	1,113	1,707	1,956	2,323	2,169
% of net sales	2.2	3.0	2.3	2.5	1.9
Average personnel	374	355	441	467	600
Personnel at year end	359	355	419	466	555
Share data					
Earnings per share (EPS), EUR	0.42	0.64	0.84	0.78	-0.06
Adjusted earnings per share (EPS), EUR*		0.62	0.80	0.76	-0.06
Equity per share, EUR	2.82	3.26	1.84	2.34	2.05
Dividend per share, EUR	0.20	1.30	0.35	0.40	0.20
Payout ratio, %	47.3	204.3	41.5	53.0	-322.70
Effective yield of shares, %	3.13	10.92	3.04	3.07	1.47
Price/earnings (P/E), %	15.09	18.70	13.64	16.65	-219.41

*Adjusted for the dilution of option rights

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 %

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

Gearing %

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

Earnings per share (EPS) EUR

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

Equity per share EUR

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

Dividend per share EUR

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

Payout ratio %

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

Effective yield of shares %

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

Price/earnings (P/E) %

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

Exel Oyj's distributable funds are EUR 15,619,963.74 of which profit for the financial period is EUR 1,317,494.26.

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

- a dividend of EUR 0.20 per share	EUR 2,379,328.60
- carried over as equity	EUR 13,240,635.14
	EUR 15,619,963.74

Vantaa, 22 February 2007

Ove Mattsson
Chairman

Kari Haavisto

Peter Hofvenstam

Vesa Kainu

Esa Karppinen

Göran Jönsson
President

The above financial statements and the report of the Board of Directors have been prepared in accordance with generally accepted accounting principles in Finland. Our auditors´ report has been issued today.

Vantaa, 2 March 2007

PricewaterhouseCoopers Oy
Authorized Public Accountants

Christian Savtschenko-Alexandroff
Authorized Public Accountant

Johan Kronberg
Authorized Public Accountant

To the shareholders of Exel Oyj

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Exel Oyj for the period January 1–December 31, 2006. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report of the Board of Directors and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies Act.

Consolidated financial statements
In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration
In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

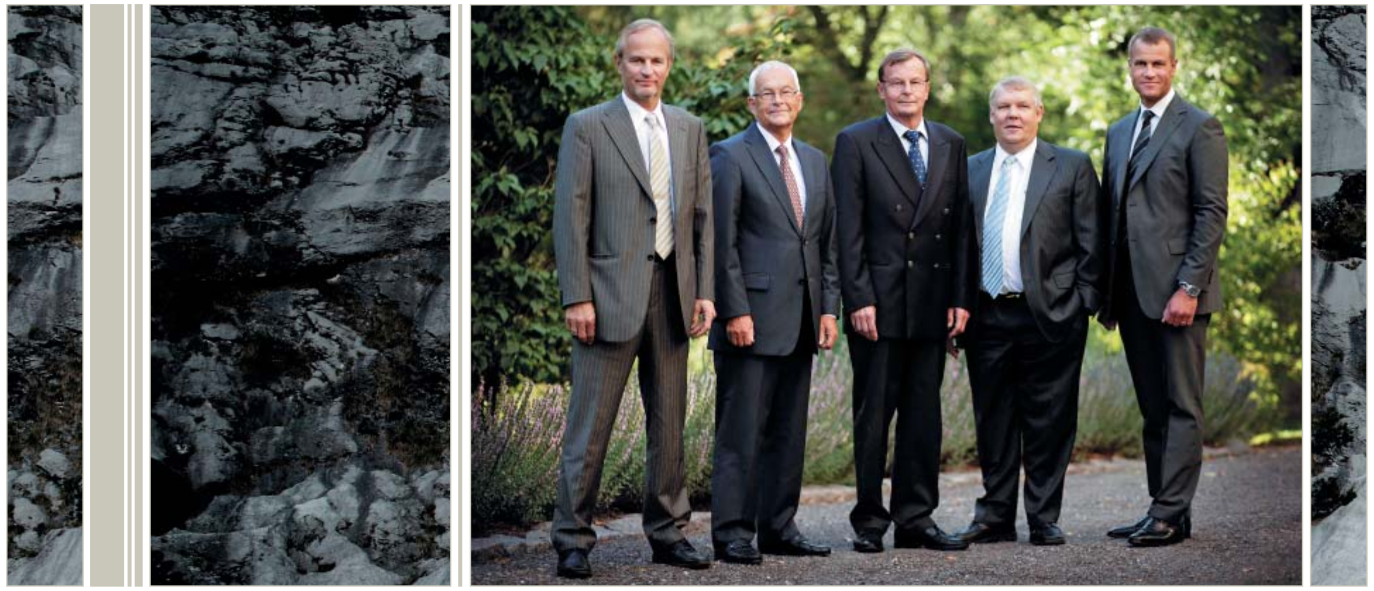
The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Managing Director can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies Act.

Helsinki, 2nd of March 2007

PricewaterhouseCoopers Oy
Authorised Public Accountants

Christian Savtschenko-Alexandroff
Authorised Public Accountant

Johan Kronberg
Authorised Public Accountant



From left: Esa Karppinen, Ove Mattsson,Kari Haavisto, Vesa Kainu and Peter Hofvenstam.

Board of Directors

Chairman **Ove Mattsson**, born 1940
Docent, Ph.D. (Chem.)
Management Consultant
On Exel's Board since 2003
No Exel holdings.

Work experience:
Member of the Board of Management, Akzo Nobel
COO, Akzo Nobel Coatings
CEO, Nobel Industries AB
Managing Director, Casco Nobel AB

Chairman of the Board, Aromatic AB
Chairman of the Board, AB Geveko
Chairman of the Board, XCounter AB
Member of the Board, Arctic Island Ltd
Member of the Board, Biotage AB
Member of the Board, Kemira Oyj
Member of the Board, Mydata Automation AB

Kari Haavisto, born 1941
Lc.Sc. (Econ.)
On Exel's Board since 2000
Holdings: 30,000 Exel shares.

Work experience:
CFO, Metsäliitto Group
Executive Vice President, Metsä-Serla Plc
Group Controller, Oy Nokia Ab

Vice Chairman of the Board, Suominen Corporation
Member of the Board, Aspo Plc
Member of the Board, EVLI Bank Plc

Peter Hofvenstam, born 1965
M.Sc. (Econ.)
Vice President, Nordstjernan AB
On Exel's Board since 2001
No Exel holdings.

Work experience:
Partner, E. Öhman J:or Fondkommission AB
CFO, AB Aritmos
Financial Analyst, Proventus AB

Chairman of the Board, Ramirent Plc.
Member of the Board in various subsidiaries in Nordstjernan Group

Vesa Kainu, born 1947
B.Sc. (Eng.)
Managing Director, Metso Ventures
Member of Metso Executive Board
On Exel's Board since 2000
No Exel holdings.

Work experience:
Executive Vice President, Metso Minerals Oy
Executive Vice President, Metso Paper, Inc.
President, Metso Paper, Inc. Services

Member of the Board, Tamfelt Group

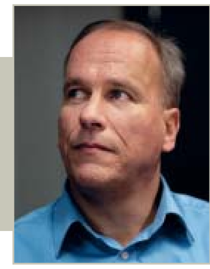
Esa Karppinen, born 1952
LL.M.
CEO, Berling Capital Ltd.
On Exel's Board since 2005
Holdings: 412,000 Exel shares.

Work experience:
Vice President and CFO, Expaco Ab

Chairman of the Board, Amanda Capital Plc
Member of the Board, Aspo Plc


Göran Jönsson


Vesa Korpimies


Jukka Juselius


Aki Karihtala


Ilkka Silvanto


Mika Sulin

Exel Oyj Management Group

Göran Jönsson, born 1947
M.Sc. (Econ.)
President & CEO
Employed by the company since 2006
No Exel holdings.

Areas of responsibility
- Creating added value for the Group and its owners
- Managing and developing the Group's business operations to achieve profitable growth
- Developing the corporate strategy
- Implementing the Board of Directors' decisions
- Developing and maintaining a well-functioning organisation
- Key customer and investor relationships
- Other responsibilities of the President & CEO

Work experience:
Senior Partners, Partner
General Manager of Industrial Coatings, AkzoNobel
President & CEO, Nobel Coatings, Nobel Industries

Vesa Korpimies, born 1962
M.Sc. (Econ.)
Executive Vice President, Director of the Industry Division
Employed by the company since 1987
Holdings: 73,800 Exel shares.

Areas of responsibility:
- Managing and developing the Industry Division's business operations
- Developing Industry's strategy
- Ensuring the profitability of business operations
- Searching for new market areas

Jukka Juselius, born 1953
M.Sc. (Polymer Chem.)
Senior Vice President, R&D
Employed by the company since 1998
Holdings: 2,000 Exel shares

Areas of responsibility:
- Raw material and technology development
- Responsibility for immaterial rights
- Responsibility for the maintenance and development of quality and environmental systems

Work experience:
R&D Director, Neste Composite Materials
R&D Director, Ahlström Oy Eurapak
R&D Director, Wihuri Oy Wipak

Aki Karihtala, born 1961
Commercial College Graduate
Senior Vice President, Sport Division
Employed by the company since 1986
Holdings: 24,360 Exel shares.

Areas of responsibility:
- Developing the Sport Division's strategy
- Developing Nordic Walking business
- Expanding Nordic Walking business internationally
- Sport Division's collection development

Ilkka Silvanto, born 1951
M.Sc. (Econ.), Master of Laws
Senior Vice President, CFO and Administrative Director
Employed by the company since 2004
Holdings: 400 Exel shares.

Areas of responsibility:
- Controlling and finance functions
- Administration and legal matters
- Maintenance and development of IT systems
- Secretary to the company's Board of Directors

Work experience:
CFO, Finnforest Oyj
Director Finance and Controlling, Metsä-Serla, Mechanical Wood Industry
Controller, Huhtamäki Oy Marli

Mika Sulin, born 1958
Commercial College Graduate
Managing Director, Exel Sports Oy
Employed by the company since 2005–resigned in Feb. 2007
No Exel holdings.

Areas of responsibility:
- Managing and developing the business operations of the Sport Division
- Developing and implementing the Sport Division's strategy
- Responsible for the profitability of business operations
- Key customer relationships

Work experience:
Managing Partner, JHC Arena Holding Oy
Managing Director, Hartwall-Areena
Managing Director, Nike Nordic Countries

Member of the Board, Finnish Ice Hockey Association
Member of the Board, Infront Nordic Oy
Member of the Board, Jokerit HC Oy
Member of the Board, OBH Nordica Finland Oy
Member of the Board, Vierumäki Country Club Oy

Managing Directors of Subsidiaries


Eric Moussiaux
Exel Composites N.V.


Eduard Hejl
Exel Composites GmbH


Harald Bierbaumer
Exel GmbH
Until 31 March 2007


Grant Pearce
Pacific Composites Pty. Ltd.


Callum Gough
Fibreforce Composites Ltd.


Danchen Zhou
Pacific Composites (Nanjing) Co., Ltd.


Mika Sulin
Exel Sports Oy
Until 28 Feb. 2007


Joacim Bergström
International Gateway AB


Melissa Cook
Exel USA, Inc.
Until 28 Feb. 2007


Sam Xiao
Nordic Sports Products (Beijing) Ltd.

Exel's corporate governance principles
Exel's corporate governance complies with the Finnish Companies Act, the legislation covering the securities markets and other official regulations related to the governance of public joint stock companies. The principles set out here complement the applicable legislation. Furthermore, Exel follows the recommendations issued by Helsinki Stock Exchange, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers on the governance of listed companies.

Annual General Meeting
The highest decision-making power in the company is exercised by shareholders at the Annual General Meeting. The Annual General Meeting (AGM) shall consider matters presented for its attention in the Articles of Association, including approving the financial statements, deciding on the distribution of dividends, amending the Articles of Association and electing the members of the Board of Directors and the auditors. The AGM also confirms the remuneration paid to members of the Board. The AGM is convened by the Board of Directors and held annually either in Mäntyharju or Helsinki, on a date before the end of June, as determined by the Board. The AGM invitation is published no earlier than two months and no later than 17 days before the AGM, in newspapers designated by the Board.

Shareholders must notify the company of their intention to attend the AGM at the latest on the day given in the notice of the AGM, which may be no earlier than ten days before the meeting.

Board of Directors
Composition and term
The Board comprises at least three and no more than eight full members, elected by the Annual General Meeting for one year at a time. The AGM nominates one member of the Board to serve as Chairman.

At its meeting on 26 April 2004, Exel's Board of Directors confirmed written rules of procedure that specify the Board's duties, matters to be handled, meeting practice and decision-making process. The rules of procedure are reviewed and updated annually in the first meeting following the election of the Board in the AGM.

Board meetings are attended by the President and CFO, who acts as the meeting secretary.

At least two of the members of the Board shall be independent of major shareholders, and a majority of the Board shall be independent of the Company.

Duties
The Board of Directors is responsible for the management of the company and the proper organisation of its activities in accordance with the Finnish Companies Act and the company's Articles of Association. The Board's principal duties include confirmation of the corporate strategy and budget by function, and decisions on funding agreements, major investments and the purchase or sale of assets. The Board draws up interim reports, the financial statements and the report on operations, appoints the President and the Deputy Managing Director and decides on the President's salary. The Board monitors the company's financial position with the help of information provided by the Management Group.

The Board shall review yearly its work and working practices at the first meeting following the AGM.

The Board shall, at the first meeting following the AGM, estimate the independence of each member of the Board.

Meetings, remuneration and other benefits
The Board of Directors convenes approximately 10 times a year. The AGM shall determine the remuneration of the Board members.

Evaluation of independence
Exel's Board of Directors has evaluated the Board members' independence of the company in accordance with item 18 of the Corporate Governance Recommendation. The members of the Board are considered to be independent of the company. Ove Mattsson, Kari Haavisto and Vesa Kainu are independent of the significant shareholders. Peter Hofvenstam and Esa Karppinen are not independent of the major shareholders as the former is Vice President of Nordstjernan AB and the latter the Managing Director of Berling Capital Oy.

2006
Exel's Annual General Meeting held on 4 April 2006 elected Kari Haavisto, Peter Hofvenstam, Vesa Kainu, Esa Karppinen and Ove Mattsson to the Board of Directors. Ove Mattsson was re-elected as Chairman of the Board. Torgny Eriksson and Matti Virtaala resigned from the Board of Directors at the Annual General Meeting.

The Board convened 13 times in 2006 and the average attendance rate at these meetings was 93%.

Based on a decision made at the AGM, the monthly and meeting fees paid in 2006 to the Board members were:

Annual fee for the Chairman EUR 26,000
Annual fee for each Board member EUR 11,500
Remuneration per meeting EUR 1,000 per capita

Remuneration paid to the Board members in 2006 for their duties in the Group totalled EUR 119 thousand. Board members are also entitled to per diem allowances and travel allowances in accordance with Exel's general travelling compensation regulations.

Exel has no such incentive programme by which the company rewards the Board members with option rights or company shares.

Board of Directors' committees
The Board has set up among its members two permanent committees, a Compensation Committee and a Nomination Committee, which are supervised by the Board.

The Compensation Committee comprises the Chairman of the Board and two other board members. The task of the committee is to analyse the competitiveness of Exel's internal rewarding and incentive programmes and to prepare proposals to the Board concerning the President's salary and other benefits.

In addition, the Compensation Committee carries out annually in February-March an evaluation of the President's competitive total compensation compared to similar tasks on the market. The Compensation Committee draws up a proposal of the compensation to the Board of Directors. The President presents a proposal of Group Management of a competitive compensation to the members of the Group Management annually in February-March. The Compensation Committee handles the proposal and proposes it as is or amended to the Board of Directors, which then makes a decision on the matter.

The Nomination Committee comprises the Chairman of the Board and the persons selected by the four largest shareholders (as of the shareholder register situation on 15 November preceding the Annual General Meeting).

2006
In 2006 the Compensation Committee included Ove Mattsson, Peter Hofvenstam and Vesa Kainu. In 2006 the Committee met 6 times to prepare the Company's future incentive programmes.

In 2006 the Nomination Committee included Tomas Billing as Chairman (Nordstjernan AB), Mikko Koivusalo (Varma Mutual Pension Insurance Company), Pertti Laine (Veikko Laine Oy) and Mikko Mursula (Ilmarinen Mutual Pension Insurance Company) and Ove Mattsson. In 2006 the Committee met once.

President and Management Group
The President is appointed by the Board to run the company on a day-to-day basis in compliance with existing laws and regulations, as well as instructions and decisions given by the Board. The areas of responsibility of the President & CEO include, in addition to the above mentioned legal requirements, and implementing the Board's decisions, specifically also securing growth of the business, acquisitions and strategic projects, the increase in shareholder value, profitability and efficiency of operations, and in-

vestments within the limits defined by the Board.

The President has a managing director contract that defines the responsibilities, powers, remuneration and termination procedure applying to the position. The President has no separate pension agreement.

The President is aided by the Management Group and is also a member of it. The Management Group includes, in addition to the President, the Executive Vice President, the Senior Vice President of the Sport Division, the Senior Vice President & CFO, the Senior Vice President of R&D, and the Managing Director of Exel Sports Oy. The President chooses the members of the Management Group and directs its activities. The Group meets 6 to 10 times a year. Its duties include, in addition to daily running of the business and development of all areas of the business, also drawing up business and strategic plans and implementing them.

2006
Göran Jönsson, M.Sc. (Econ.) is Exel's President and CEO. He was appointed on 20 November 2006. Until then Ari Jokelainen, M.Sc. (Econ.) was Exel's President and CEO.

Salaries, bonuses and fringe benefits
From 20 November to 31 December 2006, the salaries, bonuses and fringe benefits paid to Göran Jönsson, President, totalled EUR 38 thousand. In addition to salary in money he has a phone benefit.

Long-term incentive programme
The company ran an options system functioning as an incentive for key staff, and comprising two programmes. The first consisted of a warrant bond repaid in a single sum in October 2001. A total of 284 bonds at EUR 168.19 were issued, each with 1,000 warrants, 500 of them marked with the letter A and 500 with the letter B.

The second options programme comprised 370,000 stock options, of which 185,000 were A stock options and 185,000 B stock options. These stock options have been issued to the Group's key personnel and Exel Oyj's fully owned subsidiary. The subscription period for all the options ended on 30 April 2006.

According to a new share-based incentive system that Exel's Board of Directors decided to launch in 2004, the Board decides every year to pay out a certain sum to key staff on the basis of targets set and met. The rewarded employee is obliged to buy Exel Oyj shares with the incentive bonus plus a 20% contribution from him or herself, and retain ownership for a minimum period of two years.

Auditors and audit system
The company has two auditors elected by the Annual General Meeting for an indefinite period. At least one of these auditors must be an Authorised Public Accountant approved by the Central Chamber of Commerce.

Ultimate responsibility for accounting and financial management lies with the Board. The auditors give a statutory report to the shareholders in connection with the closing of the company accounts each year. The purpose of the auditing process throughout the year is to ensure that the financial statements give a true and fair view of the Group's financial performance and status during the financial year. Foreign subsidiaries are included in the yearly audit programmes.

The Board meets the auditors at least once a year.

Apart from this, the auditors carry out supervisory audits as they deem necessary and as agreed on with the company.

2006
The 2006 AGM elected two auditors for the company: Authorised Public Accountants PricewaterhouseCoopers Oy, with APA Christian Savtschenko-Alexandroff as principal auditor and APA Johan Kronberg as deputy auditor. The fees paid to the auditors in Finland totalled EUR 314 thousand in 2006.

Financial reporting and control of the Group
Implementation and control of financial and other business targets are monitored through Group-wide financial reporting, and through constant management meetings in each of the business units. The financial reports include actual results, plans and up-to-date forecasts for the current year. The management meeting business reviews include financial reports, follow-up of business plans, monitoring of new plans, follow-up of internal and external projects, quality and personnel issues.

Risk management
The central short-tem goal of Exel is to distinctly improve the profitability and competitiveness and to secure the financial position of business demands. The primary task of Exel's enterprise risk management concept is to support the realisation 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 realisation of the goals, threats and opportunities affecting the company operations.

The task of Exel's risk management is also to support in adapting to the changes in business and risk environment.

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

The business units and the corporate functions identify and assess their risks.

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.

Exel only considers taking risks after careful assessment of the risk in relation to its gain. The aim of risk management is to systematically identify and evaluate risks and to manage them in a cost-effective way by:
- Ensuring that all identified risks affecting personnel, customers, products, reputation, property, intellectual property and operation are always managed as required by law and otherwise in accordance to best knowledge and justifiable taking into consideration the prevailing financial situation.
- Fulfilling the expectations of stakeholders (owners, customers, personnel, suppliers and the community)
- Securing the management of the total risk exposure and minimising the total risk
- Secure continuous operation without interruptions
- Promoting the effective utilisation of possibilities and profit potentials

Exel's Board of Directors has confirmed this risk management policy. The risk management policy is reviewed annually to ensure that it corresponds to the current conditions and changes that have occurred in the business environment.

In 2006 Exel identified and made the assessment of the risks. The risks affecting our business activities can be categorised as: strategic, operational, finance and hazard risks; they can result from factors both external and internal to the organisation. Some specific risks can have both external and internal drivers. Strategic and operational business risks are reviewed on unit, division and group level.

Strategic risks
Regarding strategic risks Exel is exposed to market situation and consumer behaviour especially in consumer goods market where sporting goods are sold. The key raw materials, especially carbon fibre, 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.

Operational risks
In the operations the risks are identified in raw material price fluctuation in absolute terms as well as in relation to competing materials. The poor availability of skilled employees may locally impact in the quality and productivity of the business. The protection of self-developed own technology is important and the risk of IPR violations is exceeding when the business is enlarging globally. Also the importance and risks related to the suppliers and sub-contractors have grown.

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

Currency risk
Most invoicing and purchases are carried out in euros. Possible changes in the exchange rates of the USD, GBP, AUD and SEK may affect the Company's result. The company seeks to hedge itself against exchange rate risks by means of currency clauses in purchase and sales agreements, as well as hedging instruments.

Interest rate risk
Exel's financing policy involves using a small number of banks as partners to secure its long-term needs for borrowed capital. Exel's liquidity is based on long-term financial arrangements and on short-term financial products, such as lines of credit and credit accounts. To balance interest rate risk the Company strives to use both changing and fixed interest loans. Additionally, the Company uses interest swap agreements.

Credit risk
Exel is exposed to credit risk mainly through accounts receivable. The company has a global customer base, and there are no significant risk concentrations. Exel normally uses credit insurance.

Hazard risks
Hazard risks include occupational health and safety-related risks, personnel security risks, environmental risks, fire and other disasters, natural events and security risks. Exel has taken measures against these risks by using safety guidelines, certification principles, rescue planning and security instructions. The materialization of risks has been taken into account in the insurance policies.

Internal control, risk management and internal audit
The Board is responsible for the Company's internal control.

The Management Group of the Company has adopted the risk management guidelines based on the principles approved by the Board. The divisions are responsible for implementing risk management and identification of risks. The Management Group monitors the development of risks and risk concentrations.

Risks relative to assets, interruption and liability risks arising from business operations have been provided for with appropriate insurances.

Insider regulations
On 1 March 2000 Exel adopted insider regulations complying with the general insider trading guidelines issued by the Helsinki Stock Exchange. The Board of Directors has further confirmed insider regulations for Exel that give instructions for permanent and project-specific insiders, and defined the administrative organisation and procedures regarding insiders.

Exel's statutory insiders include the members of the Board and the Management Group. Exel's insider register is maintained by the Finnish Central Securities Depository. Ownership data on insiders is available from HEXGate and Exel's website at www.exel.net.

Trading by permanent insiders in securities issued by the company is forbidden 14 days before interim reports and financial statement bulletins are issued.

Exel's insider register has been available on the Company's website since 1 July 2006.

Principles of investor relations
Exel continually produces correct and up-to-date information for the markets as a basis for the formation of Exel's share price. The aim is to make Exel's activities better known, to profile the company and to increase the attraction of Exel as an investment target.

Exel follows the principle of impartiality and publishes all investor information on its website in Finnish and English. Exel publishes a printed annual report in Finnish and English. Financial statements and three interim reports are published in Finnish and English on the company's website. A printed copy of the interim reports can be ordered from Exel's Corporate Communications. Stock exchange releases and annual/interim reports can be obtained by joining Exel's mailing list on the company's website.

Exel arranges briefing sessions for analysts and the media at the time of announcing interim reports and significant news. Exel observes a two-week silent period before publishing information on its results. At other times, the enquiries of analysts and investors are answered by phone or email, or at investor meetings.

Exel's communications policy
The purpose of Exel's communications is to promote the business of the Group by taking the initiative in providing stakeholders and other interest groups with correct information on the Group's goals and operations. The communications of the Group shall be self-initiated, logical and systematic. The responsibility for Group Communications lies with the President and the Communications Manager, and the members of the Management Group, each in his respective field. The responsibility for communications in the subsidiaries lies with the Managing Directors. Exel's Corporate Communications unit, who reports to the President, produces communications material including stock exchange releases.

Vocabulary

Antenna profile – The framework structure for antennas of wireless data networks, inside which the actual antenna will be placed. The profile protects the antenna from the weather, acts as the framework for the antenna and allows free radio wave propagation.

Composite – A general term for all combinations of two or several materials in which they act together without dissolving or blending with each other. Plastic composites are one of the key sub-groups of composites. Composites consisting of strong fibres and plastic substances are called (glassfibre) reinforced plastic, which is an extremely lightweight and particularly strong material. Composite is used in structures requiring high strength and lightness, typical examples including aircraft and boat structures. Composites are highly durable in sunlight, ultraviolet radiation and temperature variations, and they are very impact resistant and tolerate mechanical wear well. In addition, composite is recyclable.

Doctor blade – Product used in the control of paper web and maintenance of paper machine rolls.

ECRC (European Composite Recycling Services Company) – A company which aims at developing new applications to utilize composite waste and influencing European legislation as a part of the European composite industry

Glide Path Tower – Part of the Instrument Landing System with which aircrafts can be guided for landing during poor visibility

Lattice mast – A composite product patented by Exel used mostly as support structure for airport approach lighting masts.

Profile – A composite product structure produced with the pultrusion method, custom-made for each customer.

Pull-Winding – A continuously working production method developed by Exel, combining the pultrusion and reeling methods.

Pultruder – A company manufacturing products with pultrusion technology.

Pultrusion – Pultrusion refers to pulling plastic raw material through a preformer. This production method is particularly suitable for tubes, profiles etc. reinforced with continuous fibres, involving pulling of impregnated fibres via preformers providing the form as, simultaneously, the plastic is hardened with heat (thermoset) or cooled until solid (thermoplast).

Responsible Care – The chemical industry's self-initiated worldwide environmental and safety programme.

Select niche market – a narrow market segment; specialisation in carefully selected narrow special areas where the aim is to become market leader

Annual General Meeting
The Annual General Meeting of Exel Oyj will be held on Thursday 19 April 2007 at 10.00 a.m. at Adams Hall, Erottajankatu 15–17, Helsinki, Finland.

The right to attend the Annual General Meeting is vested in a shareholder who is registered on Thursday, 5 April 2007 in the Company's shareholder register maintained by the Finnish Central Securities Ltd.

Shareholders who hold their shares under the name of a nominee can prior to the Annual General Meeting be temporarily registered in the register of shareholders of the Company to allow attendance at the Annual General Meeting. Registration must have been effected 5 April 2007 at the latest.

Shareholders who intend to participate in the meeting shall notify the Company of their intention to participate no later than at 4.00 p.m. on 12 April 2007, either by mail address to Exel Plc/ Merja Mäkinen, PB 29, 52701 Mäntyharju, Finland or by telephone to +358 20 7541 221/Merja Mäkinen or by fax to +358 20 7541 202 or by e-mail to merja.makinen@exel.fi. Written notices of participation must be received by the deadline for notification. Eventual powers of attorneys are requested to be sent together with notification of participation.

Dividend
The Board of Directors has decided to propose to the Annual General Meeting that a dividend of EUR 0.20 per share be paid for 2006. Shareholders registered on the list of shareholders maintained by the Finnish Central Securities Depository on the record date of 24 April 2007 are entitled to a dividend, which will be paid on 2 May 2007.

Changes of address
We request shareholders to send information on any changes of address or personal data to the book-entry register maintaining their account.

Financial reports 2007
In addition to this Annual Report for 2006, Exel will issue three interim reports during the year: on 25 May, 25 July and 30 October 2007. The annual report, interim reports and stock exchange releases will be available in Finnish and English on the Internet at www.exel.net. Interim reports will not be available in print, but paper copies can be ordered from Exel's Corporate Communications. Stock exchange releases, annual and interim reports can be obtained by joining our mailing lists on the Exel website.

Financial reports are also available by order from Exel's Corporate Communications:

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