

## EXEL COMPOSITES PLC'S INTERIM REPORT FOR JANUARY 1 – MARCH 31, 2014

## Q1 in brief:

- Net sales increased to 17.8 MEUR, up by 5.4 per cent from previous year (Q1/2013:16.9 MEUR)
- Operating profit was 1.9 (0.7) MEUR, up by 184 per cent from previous year
- Operating profit margin was 10.6 (3.9) per cent of net sales
- Net operative cash flow was positive at +0.6 (+0.7) MEUR
- Fully diluted earnings per share were 0.09 (0.05) EUR

**Near-term outlook**

The market has stabilized but remains challenging. Uncertainties relating to general growth prospects in the economy continue. Some positive signs can be seen especially in the laminate and demanding carbon tube markets. The Company invests in growth by reinforcing the organization, especially in sales and operations development. The Company will monitor the general market development and react with additional measures if needed. The Company is well-positioned to grow profitably when the markets recover.

**President and CEO Riku Kytömäki:**

Exel Composites' net sales for the first quarter increased by 5.4 per cent from the corresponding period in 2013 from EUR 16.9 million to EUR 17.8 million. Our order backlog improved to EUR 14.3 million in the first quarter of 2014 from EUR 10.5 million in the last quarter of 2013, corresponding to a 36 per cent increase.

In some markets, such as cleaning and maintenance, machine industry and general industries, we started to see early signs of improvement, but generally the market remains challenging.

Exel Composites' operating profit nearly tripled from EUR 0.7 million to EUR 1.9 million due to our efficiency improvement and better cost control. We continued to develop the Group's operations in order to further enhance productivity and synergies across the units.

**CONSOLIDATED KEY FIGURES, EUR million**  
 (unaudited)

	1.1. – 31.3. 2014	1.1.– 31.3. 2013	Change, %	1.1. – 31.12. 2013
Net sales	17.8	16.9	5.4	69.3
Operating profit	1.9	0.7	183.8	4.8
% of net sales	10.6	3.9		7.0
Cash flow from operations	0.6	0.7		7.8
Capital expenditure	0.7	0.6		2.8
Return on capital employed, %	21.1	7.1		13.0
Net gearing, %	14.1	-4.0		15.0
Earnings per share, EUR	0.09	0.05		0.26

### Market environment

Market demand increased in the cleaning and maintenance, machine industry and general industries compared to the corresponding period in 2013. Market demand decreased in the electrical industry and sports and leisure industry compared to the corresponding period in 2013.

### Order intake and order backlog

Order intake increased in the first quarter by 18.5 per cent to EUR 21.8 (18.4) million on the corresponding period in 2013.

The Group's order backlog increased to EUR 14.3 (11.8) million on 31 March 2014. The order backlog improved by 36 per cent from EUR 10.5 million in the last quarter of 2013.

### Sales review January-March 2014

Group net sales increased 5.4 per cent to EUR 17.8 (16.9) million on the corresponding period in 2013.

Net sales increased in the largest region, Europe, by 13.4 per cent compared to the corresponding period in 2013. The APAC region declined by 30.7 per cent. The decline in APAC was mainly related to the Australian market, where the decline was partly due to a one-off project recorded in the first quarter of 2013.

Sales of Industrial applications increased to EUR 9.8 million from EUR 9.5 million in the corresponding period in 2013. Sales increased especially to the machine, transportation and energy industries.

Sales of Construction and Infrastructure applications in the first quarter of 2014 decreased by 4.7 per cent compared to the corresponding period in 2013. The decrease was due to a one-off project recorded in the first quarter of 2013 in the Australian unit.

Sales of Other applications grew by 28.0 per cent compared to the corresponding period in 2013. Sales increased in the cleaning and maintenance market applications, but decreased in the general industries market applications. Sports and leisure market applications were stable.

### Net sales by Region

MEUR	I/2014	I/2013	Change, %	I-IV 2013
Europe	15.1	13.4	13.2	56.0
APAC	2.0	2.8	-30.7	10.6
Rest of world	0.7	0.7	2.4	2.7
Total	17.8	16.9	5.4	69.3

### Sales by Customer Industry

MEUR	I/2014	I/2013	Change, %	I-IV 2013
Construction and infrastructure	4.1	4.3	-4.7	15.8
Industrial applications	9.8	9.5	2.8	40.7
Other applications	3.9	3.0	28.0	12.8
Total	17.8	16.9	5.4	69.3

## **Financial performance**

The Group's operating profit continued to develop positively in the first quarter of 2014 thanks to efficiency improvement, lower material spend, and better cost control. The Group's operating profit in the first quarter of 2014 was EUR 1.9 (0.7) million or 10.6 (3.9) per cent of net sales.

The turnaround measures in Australia, including change in the operating model and transfer of Brisbane unit to Melbourne, have been completed but have not yet resulted in satisfactory profitability. The focus is on generating more sales.

The Group's net financial expenses during the period under review were EUR 0.2 (0.0) million. The Group's profit before taxes was EUR 1.7 (0.7) million and profit after taxes EUR 1.1 (0.6) million.

## **Financial position**

Net cash flow from operating activities was positive at EUR +0.6 (+0.7) million due to improved operating profit. However, working capital increased in the review period. Cash flow before financing, but after capital expenditure, amounted to EUR 0.0 (0.1) million. The capital expenditure on fixed assets amounted to EUR 0.7 (0.6) million. Capital expenditure was financed with cash flow from business operations. Long-term loans were installed by EUR 0.7 million. At the end of the period under review, the Group's liquid assets stood at EUR 9.6 (8.5) million.

The Group's consolidated total assets at the end of the review period were EUR 51.4 (53.3) million. Interest-bearing liabilities amounted to EUR 13.1 (7.3) million. Net interest-bearing liabilities were EUR 3.4 (-1.1) million.

Equity at the end of the first quarter of 2014 was EUR 24.4 (28.7) million and equity ratio 47.5 (54.0) per cent. The net gearing ratio was 14.1 (-4.0) per cent.

## **Business development and strategy implementation**

Exel Composites is revisiting its strategy. The new strategy will target boosting profitable growth in the future. The new strategy is expected to be disclosed during the second half of 2014.

Strategic improvement projects are being continued. In 2014 focus is on improving production speed and yield. Advanced laminates production is in the ramp up phase at the Mäntyharju factory.

## **Research and development**

Exel Composites has continued to develop several new customer-specific applications during the period under review, especially to the building and construction, machine industry, and transportation industry markets.

Product and technology development costs totaled EUR 0.4 (0.3) million, representing 2.3 (1.9) per cent of net sales. The main projects were connected with the development of new products and customer applications.

## **Shares and share performance**

At the end of March 2014, Exel Composites' share capital was EUR 2,141,431.74 and the number of shares was 11,896,843 each having the counter-book value of EUR 0.18. There were no changes in the share capital during the review period. There is only one class of shares and all shares are freely assignable under Finnish law. Exel Composites' share is listed in the Small Cap segment of the NASDAQ OMX Helsinki Ltd. in the Industrials sector.

Exel Composites did not hold any of its own shares during the period under review.

During the period under review the highest share price quoted was EUR 6.28 (6.50) and the lowest EUR 5.56 (5.70). The share price closed at EUR 5.78 (5.80). The average share price during the period under review was EUR 5.98 (6.16).

A total of 1,706,213 (198,853) shares were traded during the reporting period, which represents 14.3 (1.7) per cent of the average number of shares. Based on the closing price on 31 March 2014, Exel Composites' market capitalization was EUR 68.8 (69.0) million.

### **Shareholders and disclosures**

Exel Composites had a total of 2,712 (2,795) shareholders on 31 March 2014. Information on Exel Composites' shareholders is available on the Company website at [www.exelcomposites.com](http://www.exelcomposites.com).

Exel Composites received two flagging announcements during the period under review.

On 13 February 2014 Exel Composites received a flagging announcement according to which the holding of Nordstjernan AB had fallen under 15 per cent of the voting rights and share capital in Exel Composites Plc. Through share transactions concluded on 13 February 2014, the holding of Nordstjernan AB decreased from 2,656,506 shares (22.3 per cent) to 1,656,506 shares, representing 13.9 per cent of the shares and voting rights of the Company.

On 14 February 2014 Exel Composites received a flagging announcement according to which the holding of Lannebo Fonder AB had exceeded 5 per cent of the voting rights and share capital in Exel Composites Plc. Through share transactions concluded on 13 February 2014, the holding of Lannebo Fonder AB rose to 1,000,000 shares, representing 8.4 per cent of the shares and voting rights of the Company.

### **Decisions of the 2014 Annual General Meeting**

Exel Composites' Annual General Meeting ("AGM") was held on 27 March 2014. The financial accounts of the Group were approved and the members of the Board of Directors and the President were discharged from their liabilities for the financial year 2013. The AGM approved the Board's proposal not to distribute any dividend for the financial period that ended on 31 December 2013.

The Annual General Meeting authorized the Board of Directors to acquire the Company's own shares by using unrestricted equity. The maximum amount to be acquired is 600,000 shares. The authorization is valid until 30 June 2015.

The AGM elected to the Board of Directors five members based on the proposal by the Nomination Board. The following members of the Board of Directors were re-elected: Heikki Hiltunen, Peter Hofvenstam, Göran Jönsson and Reima Kerttula. Kerstin Lindell was elected as new member of the Board of Directors. The term of office of the Board members continues until the end of next Annual General Meeting. At the formative meeting of the Board of Directors held after the Annual General Meeting, the Board of Directors elected from among its members Peter Hofvenstam as its Chairman.

The AGM decided that the annual remuneration for the Board members be unchanged, i.e. the Chairman of the Board of Directors be paid a yearly remuneration of EUR 34,000 and additionally EUR 1,500 for attendance at Board and committee meetings and other similar Board assignments and the other Board members be paid a yearly remuneration of EUR 16,000 and additionally EUR 1,000 for attendance at Board and committee meetings and other similar Board assignments and that travel expenses and other out-of-pocket expenses arising from the Board work be compensated in accordance with the Company's established practice and travel rules. Out of the yearly remuneration 60 per cent will be paid in cash and 40 per cent in Exel Composites Plc shares, which were acquired directly for and on behalf of the members of the Board of Directors during 2 April – 10 April 2014 from the stock exchange in amounts corresponding to EUR 13,600 for the Chairman and EUR 6,400 for each of the other members.

### **Management**

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

program.

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

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

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

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

Exel Composites' permanent public insiders include Exel Composites' Board members, the President and CEO and the members of the Group Management Team. No significant related-party transactions were conducted by the Group or the permanent insiders during the period under review.

### **Organization and personnel**

The number of employees on 31 March 2014 was 421 (436), of whom 202 (209) worked in Finland and 219 (227) in other countries. The average number of personnel during the first quarter of 2014 was 418 (439).

### **Health, safety and environment**

Special attention will be given to occupational health and safety issues in 2014. The Nanjing unit in China achieved the Health and Safety standard ISO 18001 in 2013. It is our intention to roll out this certification over all sites.

### **Risks and uncertainties**

The most significant near-term business risks are related to the general economic development, government regulations and financial crisis in the Euro area as well as to market demand. Continuing low demand in certain markets or regions may require further corrective actions which can have an impact on the profitability. The possible uncertainties in the Russian market will have limited impact on Exel Composites.

Raw material prices, energy cost and other cost increases may continue to put pressure on profitability. The possible new European Community's anti-dumping tariffs on Chinese glass fiber may have a negative effect on the result in terms of increased raw material prices. Currency rate changes, price competition and alternative competing materials may also have a negative effect on the result. The availability and cost of financing may continue to have an effect on the demand and increase the risk of credit losses.

### **Near-term outlook**

The market has stabilized but remains challenging. Uncertainties relating to general growth prospects in the economy continue. Some positive signs can be seen especially in the laminate and demanding carbon tube markets. The Company invests in growth by reinforcing the organization, especially in sales and operations development. The Company will monitor the general market development and react with additional measures if needed. The Company is well-positioned to grow profitably when the markets recover.

Vantaa, 7 May 2014

Board of Directors of Exel Composites Plc

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## Distribution

NASDAQ OMX Helsinki Ltd.  
Main news media  
[www.exelcomposites.com](http://www.exelcomposites.com)

## Press conference

Exel Composites will hold an analyst and press conference regarding the interim report today Wednesday 7 May 2014 at 12.30 p.m. in the Talisman Cabinet of the Scandic Hotel Marski at the address of Mannerheimintie 10, Helsinki, Finland.

## Exel Composites in brief

*Exel Composites ([www.exelcomposites.com](http://www.exelcomposites.com)) is a technology company which designs, manufactures and markets composite profiles and tubes for industrial applications. The Group is the leading composite profile manufacturer in the world and concentrates on growing niche segments.*

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

*Exel Composites Plc share is listed in the Small Cap segment of NASDAQ OMX Helsinki Ltd.*

## Summary of Financial Statements and notes to the Financial Statements 1 January – 31 March 2014

### Accounting principles:

This interim report has been prepared in accordance with IAS 34, Interim Financial Reporting. The same accounting policies have been followed as in the previous Financial Statements. Key indicator calculations remain unchanged and have been presented in the 2013 Financial Statements.

Preparation of financial statements in accordance with the IFRS standards requires Exel Composites' management to make estimates and assumptions that have an effect on the amount of assets and liabilities on the balance sheet at the closing date as well as the amounts of income and expenses for the financial period. In addition, the management must exercise its judgement regarding the application of accounting policies. Since the estimates and assumptions are based on the views at the date of the Interim Report, they include risks and uncertainties. The actual results may differ from the estimates and assumptions.

The amounts presented in the income statement and balance sheet are Group figures. The amounts presented in the release are rounded, so the sum of individual figures may differ from the sum reported. The Interim Report is unaudited.

## CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

EUR thousand	1.1. – 31.3. 2014	1.1. – 31.3. 2013	Change, %	1.1. – 31.12. 2013
Net sales	17,811	16,897	5.4	69,290
Materials and services	-5,976	-6,430	7.1	-26,037
Employee benefit expenses	-5,393	-5,309	-1.6	-21,128
Depreciation and impairment	-663	-673	1.5	-2,691
Other operating				

expenses	-4,089	-3,981	-2.7	-15,258
Other operating income	200	163	22.7	667
Operating profit	1,890	666	183.8	4,843
Net financial items	-229	24	-1,054.2	-286
Profit before tax	1,661	691	140.4	4,557
Income taxes	-545	-136	-300.7	-1,477
Profit/loss for the period	1,116	555	101.1	3,080
Other comprehensive income:				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Exchange differences on translating foreign operations	404	298	35.6	-2,174
Other comprehensive income, net of tax	404	298	35.6	-2,174
Total comprehensive income	1,520	853	78.2	906
Profit/loss attributable to: Equity holders of the parent company	1,116	555		3,080
Comprehensive income attributable to: Equity holders of the parent				

company	1,520	853	906
Earnings per share, diluted and undiluted, EUR	0.09	0.05	0.26

#### CONDENSED CONSOLIDATED BALANCE SHEET

EUR thousand	31.3.2014	31.3.2013	Change	31.12.2013
<b>ASSETS</b>				
Non-current assets				
Goodwill	9,621	11,179	-1,558	9,393
Other intangible assets	855	1,153	-298	921
Tangible assets	10,824	10,768	56	10,796
Deferred tax assets	690	858	-168	641
Other non-current assets	72	62	10	70
Non-current assets total	22,062	24,021	-1,958	21,821
Current assets				
Inventories	8,996	9,276	-280	7,936
Trade and other receivables	10,700	11,488	-788	9,273
Cash at bank and in hand	9,617	8,465	1,152	9,438
Current assets total	29,313	29,229	84	26,648
Total assets	51,375	53,250	-1,875	48,468
<b>EQUITY AND LIABILITIES</b>				
Shareholders' equity				
Share capital	2,141	2,141	0	2,141
Other reserves	72	45	27	72
Invested unrestricted equity fund	2,539	8,488	-5,949	2,539
Translation differences	2,568	4,636	-2,068	2,164
Retained earnings	15,924	12,874	3,050	12,844
Profit for the period	1,116	555	561	3,080
Total equity attributable to equity holders of the parent company	24,361	28,738	-4,377	22,841
Total equity	24,361	28,738	-4,377	22,841
Non-current liabilities				
Interest-bearing liabilities	1,044	2,497	-1,453	1,761
Interest-free liabilities	423	426	-3	402
Deferred tax liabilities	430	376	54	440
Current liabilities				
Interest-bearing liabilities	12,007	4,823	7,184	11,105
Trade and other non-current liabilities	13,111	16,390	-3,279	11,920
Total liabilities	27,014	24,512	2,502	25,628



Total equity and liabilities	51,375	53,250	-1,875	48,468
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#### STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EUR thousand	Share Capital	Other Reserves	Invested Unrestricted Equity Fund	Translation Differences	Retained Earnings	Total
Balance at 1 January 2013	2,141	45	8,488	4,337	16,427	31,438
Comprehensive result				298	555	853
Other items					16	16
Dividend					-3,569	-3,569
Balance at 31 March 2013	2,141	45	8,488	4,636	13,429	28,738
Balance at 1st January 2014	2,141	72	2,539	2,164	15,924	22,841
Comprehensive result				404	1,116	1,520
Other items					0	0
Dividend					0	0
Balance at 31 March 2014	2,141	72	2,539	2,568	17,040	24,361

#### CONDENSED CONSOLIDATED CASH FLOW STATEMENT

EUR thousand	1.1. – 31.3. 2014	1.1. – 31.3. 2013	Change	1.1.- 31.12. 2013
<b>Cash Flow from Operating Activities</b>				
Profit for the period	1,116	555	561	3,080
Adjustments	1,608	810	798	4,088
Change in working capital	-1,476	-371	-1,105	1,658
<b>Cash Flow Generated by Operations</b>	<b>1,248</b>	<b>994</b>	<b>254</b>	<b>8,826</b>
Interest paid	-63	-37	-26	-213
Interest received	35	3	32	39
Other financial items	-65	-25	-40	-196
Income taxes paid	-507	-236	-271	-668
<b>Net Cash Flow from Operating Activities</b>	<b>648</b>	<b>699</b>	<b>-51</b>	<b>7,788</b>
<b>Cash Flow from Investing Activities</b>				

Acquisitions	0	0	0	0
Disposal of business	0	0	0	0
Capital expenditure	-651	-610	-41	-2,767
Proceeds from sale of fixed assets	0	0	0	0
Cash Flow from Investing Activities	-651	-610	-41	-2,767
Cash Flow from Financing				
Share issue	0	0	0	0
Proceeds from long-term borrowings	0	0	0	0
Instalments of long-term borrowings	-680	-5,000	4,320	-5,000
Change in short-term loans	865	4,134	-3,269	9,700
Instalments of finance lease liabilities	-3	-3	0	-11
Additional capital repayment	0	0	0	-5,948
Dividends paid	0	0	0	-3,569
Net Cash Flow from Financing	182	-869	1,051	-4,828
Change in Liquid Funds	179	-780	959	193
Liquid funds in the beginning of period	9,438	9,245	193	9,245
Change in liquid funds	179	-780	959	193
Liquid funds at the end of period	9,617	8,465	1,152	9,438

#### QUARTERLY KEY FIGURES

EUR thousand	I/ 2014	IV/ 2013	III/ 2013	II/ 2013	I/ 2013
Net sales	17,811	17,770	17,075	17,548	16,897
Materials and services	-5,976	-6,443	-6,709	-6,455	-6,430
Employee benefit expenses	-5,393	-5,388	-4,983	-5,448	-5,309
Depreciation and impairment	-663	-683	-650	-684	-673
Operating expenses	-4,089	-4,035	-3,731	-3,510	-3,981
Other operating income	200	267	79	159	163
Operating profit	1,890	1,486	1,081	1,609	666
Net financial items	-229	9	-271	-48	24
Profit before taxes	1,661	1,495	810	1,562	691

Income taxes	-545	-705	-237	-399	-136
Profit/loss for the period	1,116	790	573	1,162	555
Earnings per share, EUR	0.09	0.07	0.05	0.10	0.05
Earnings per share, EUR, diluted	0.09	0.07	0.05	0.10	0.05
Average number of shares, undiluted, 1,000 shares	11,897	11,897	11,897	11,897	11,897
Average number of shares, diluted, 1,000 shares	11,897	11,897	11,897	11,897	11,897
Average number of personnel	418	417	427	427	436

#### COMMITMENTS AND CONTINGENCIES

EUR thousand	31.3.2014	31.3.2013
On own behalf		
Mortgages	2,783	2,783
Corporate mortgages	12,500	12,500
Lease liabilities		
- in next 12 months	795	837
- in next 1-5 years	1,309	2,213
Other commitments	6	6

#### DERIVATIVE FINANCIAL INSTRUMENTS

Nominal values EUR thousand	31.3.2014	31.3.2013
Interest rate derivatives		
Interest rate swaps	5,000	5,000
Purchased interest rate options	0	0

#### CONSOLIDATED KEY FIGURES

EUR thousand	1.1. – 31.3. 2014	1.1. – 31.3. 2013	Change, %	1.1. – 31.12. 2013
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Net sales	17,811	16,897	69,290
Operating profit	1,890	666	4,843
% of net sales	10.6	3.9	7.0
Profit before tax	1,661	691	4,557
% of net sales	9.3	4.1	6.6
Profit for the period	1,116	555	3,080
% of net sales	6.3	3.3	4.4
Shareholders' equity	24,361	28,738	22,841
Interest-bearing liabilities	13,051	7,320	12,866
Cash and cash equivalents	9,617	8,465	9,483
Net interest-bearing liabilities	3,434	-1,145	3,428
Capital employed	37,412	36,058	35,707
Return on equity, %	18.9	7.4	11.3
Return on capital employed, %	21.1	7.1	13.0
Equity ratio, %	47.5	54.0	47.2
Net gearing, %	14.1	-4.0	15.0
Capital expenditure	651	610	2,767
% of sales	3.7	3.6	4.0
Research and development costs	412	321	1,511
% of net sales	2.3	1.9	2.2
Order intake	21,759	18,358	69,784
Order backlog	14,269	11,763	10,458
Earnings per share, EUR	0.09	0.05	0.26
Earnings per share, EUR, diluted	0.09	0.05	0.26
Equity per share, EUR	2.05	2.42	1.92
Average number of shares			
- cumulative	11,897	11,897	11,897
- cumulative, diluted	11,897	11,897	11,897
Average number of employees	418	436	427