NEO Industrial

**NEO INDUSTRIAL GROUP**

**FINANCIAL STATEMENTS 2013**

CONTENTS

BOARD OF DIRECTOR´S REPORT 1/1 – 31/12/2013

The Neo Industrial Group´s net sales in 2013 were EUR 83.0 million (106.2 million in 2012). The result for the full year was EUR -1.2 million (-6.3 million).

In the Cable segment, manufacturing companies OAO Expokabel and ZAO Reka Kabel were sold in May 2013. The companies held totally 10 percent share of the net sales in the Cable segment in 2012. The transaction had a positive effect of EUR 1.0 million on the Group´s result.

Neo Industrial´s liquidity situation was tight almost whole review period. The divestment of the cable manufacturing companies in Russia improved the liquidity situation, but the working capital situation continued to be challenging due to higher-than-expected stock levels and decreased sales volume lower than expected.

At the end of the review period, the balance sheet total stood at EUR 47.2 million (62.9 million).

SEGMENTS

Cable

The Cable segment´s net sales in the review period decreased by 22 per cent from the previous year. The net sales were EUR 83.0 million (106.2 million). The sold Russian companies held totally 10 per cent share of the net sales in the Cable segment in 2012.

Demand in the Nordic countries, the main market of Reka Cables Ltd, was weaker than in the previous year. Projects were delayed in the Nordic countries as well as in Central Europe. This is also recognised as harder competition in the Baltic markets. Projects were postponed in Russia, too. On the other hand, new projects were received from other CIS countries.

Operating result was EUR 1.0 million (2.1 million) in the Cable segment.

Excluding the early part of the year, the prices of copper and aluminium, metals used as raw materials, were on lower level than in the previous year. The prices of plastics varied heavily, but were on the same level in the end of the year as a year before.

In February, Reka Cables signed a short-term financing agreement of EUR 2.0 million, which enhanced better conditions for increasing delivery capacity for the high season in spring. The short-term loan was repaid and short-term financing agreements were signed.

Demand and inventories were not met entirely. Production management was challenging while demand was decreasing. In the summer, inventories increased more than expected. On the other hand, the company could not supply deliveries sufficiently in all cases during the high season. This partly effected the sales volumes. Managing net working capital was challenging.

Investments fullfilled, EUR 1.7 million (1.3 million) were mainly related to optimizing production and maintenance.

In the Cable segment, the useful economic lives of machines and production lines were reassessed in September. The related depreciation periods were adjusted in accordance with the actual economic lifetime. The adjustment had a positive effect of EUR 0.3 million in the result of the review period.

Net sales for Nestor Cables Ltd, an associated company, were EUR 25.4 million (27.4 million). The result was slightly positive. The value of the shares of Nestor Cables is zero in the consolidated financial statements, and the consolidated figures for 2013 do not include its share of the result.

Other operations

The comparable figures for 2012 include Single Family Housing and Viscose Fibres segments in discontinued operations. Neo industrial Group divested Single Family Housing segment while writing down the value of the stocks of Finndomo Ltd in the consolidated balance sheet in 2012. Avilon Fibres Ltd and Carbatec Ltd, companies in Viscose Fibres segment, filed bankruptcy in March 2013. The effects of the bankruptcies are noticed in the financial statements 2012, in where the assets and the liabilities of the companies were written down, and the Group´s collaterals were noticed through result as liabilities in the consolidated balance sheet. Above-mentioned companies did not belong to Neo Industrial Group any longer in the end of 2013.

With Avilon Fibres´ bankruptcy estate selling its landfill site in summer 2013, the related counter-security for an environmental guarantee was eliminated from Neo Industrial´s liabilities. The provision in the financial statements 2012 covered the expenses related to the case.

## MAJOR EVENTS DURING THE FINANCIAL PERIOD

In April, Neo Industrial signed the stock sale agreement to sell the Russian cable manufacturing companies, OAO Expokabel and ZAO Reka Kabel, belonging to the Cable segment. The transaction was assured in May.

The bankruptcy estate of Kuitu Finland Ltd initiated an action against Neo Industrial in the District Court of Pirkanmaa in April. Neo Industrial is demanded to pay the purchase price of industrial premises of bankrupted Avilon Fibres as a lump sum instead of partial payments agreed earlier. More detailed information is presented in section Risks and uncertainty factors.

Mr. Harry Clayhills, Deputy Managing Director of Reka Cables Ltd since 21 August, was appointed as Managing Director of the company on 3 October.

## MAJOR EVENTS AFTER THE REVIEW PERIOD

The long negotiations relating to the breakdown at Reka Cables´ Keuruu plant in 2011 were closed with the insurance company in February 2014. The compensation was on a par with the estimation recognised (EUR 0.8 million) in the financial statements in 2011.

The financial negotiations of the Cable Segment have been concluded and a long term financing agreement was signed in March 2014. With this arrangement the Cable Segment replaces previous short term loans with long term loans and at the same time it enabled a working capital increase with EUR 2 million at a later date. Terms of the financing agreement include financial covenants for Cable Segment. In addition, the use and distribution of the funds requires consent from the financier.

The District Court of Pirkanmaa dismissed the action of the bankruptcy estate of Kuitu Finland on 17 March and ordered Kuitu Finland to repay Neo Industrial Plc for the legal expenses. The bankruptcy estate of Kuitu Finland has expressed dissatisfaction with the decision.

## FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in keeping with the International Financial Reporting Standards (IFRS). Consolidated net sales (IFRS) in 2013 were EUR 83.0 million (106.2 million in 2012). The consolidated income statement (IFRS) shows a loss of EUR 1.2 million (a loss of EUR 6.3 million).

## CONSOLIDATED FINANCIAL STATUS AND PERFORMANCE INDICATORS (IFRS)

The key figures for 2012 and 2013 are based on continuing operations. Information for 2011 has not been adjusted.

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Net sales, EUR million | 83.0 | 106.2 | 121.2 |
| Operating profit, % of nets sales | -1.2 | 0.7 | -12.9 |
| Return on equity, % | -14.6 | -59.4 | -125.5 |
| Return on investment, % | 1.7 | 1.9 | -32.1 |
| Equity ratio, % | 15.8 | 13.8 | 12.7 |
| Earnings per share, EUR | -0.20 | -1.25 | -4.60 |

## SHARE PRICE AND TRADING VOLUME

In 2013, a total of 644,870 (309,870) of Neo Industrial´s B shares were traded on NASDAQ OMX Helsinki for a total of EUR 0.6 million (0.7 million), representing 11.0 (5.3) percent of the total number of the shares. At the end of trading on 31 December 2013, the share price was EUR 0.80 (1.75), and the average share price for 2013 was EUR 0.89 (2.21). The lowest quotation in 2013 was EUR 0.50 (1.17), ant the highest quotation was EUR 1.90 (3.36). The company´s market capitalisation was valued at EUR 4.8 million (10.4) on 31 December 2013.

## GROUP STRUCTURE AND SHAREHOLDERS

Neo Industrial Plc is the parent company of the Group, which includes the Neo Industrial wholly owned subsidiaries Novalis Plc and Alnus Ltd and its subsidiaries. The parent company is domiciled in Hyvinkää.

On December 2013, Neo industrial had 11,980 shareholders (12,198). The largest shareholder, Reka Ltd, held 50.8 percent (50.8) of the shares and 65.8 percent (65.8) of the votes. Neo Industrial Plc is therefore part of the Reka Group. Reka Ltd is domiciled in Juupajoki.

At the end of the year, the combined holding of the ten largest shareholders was 59.8 percent (60.6) of the shares and 72.1 percent (72.6) of the votes.

The members of the Board, the Managing Director and the CFO directly owned and controlled a total of 2,978,643 (2,961,358) of Neo Industrial´s B shares on 31 December 2013.

## RISKS AND UNCERTAINTY FACTORS

Neo Industrial´s financial risks include currency, interest rate, commodity, liquidity, credit and investment risks. Financial risks and the related protection measures are described in more detail in notes to the financial statements. The company´s future risk factors are related to the business development of its portfolio companies. The uncertainty of the international economy and financial markets poses a risk to the Group´s financial arrangements.

The Group´s liquidity situation is tight. To assure the liquidity situation, the Group strives to negotiate adjustments to payment terms and agreements and to liquidate capital from its operations. The fluctuation of raw material prices and currencies as well as seasonal market changes present challenges in working capital management.

The Cable segment´s challenge is to ensure favourable operating conditions. To assure those conditions the Group needs to be able to renegotiate payment terms or liquidate capital from its operations in other ways. Measures are in progress to ensure operating conditions.

In the Cable segment, the most significant risks are related to market development, working capital management and fluctuations in the prices of raw materials and currencies. During considerable seasonal changes, suppliers´ terms of payment have an essential effect to the company´s ability to ensure competitive delivery times through sufficient inventories.

The bankruptcy estate of Kuitu Finland Ltd brought an action against Neo Industrial on 9 April. The action is related to the transaction of the industrial premises of Avilon Fibres, Neo Industrial´s former subsidiary and Neo Industrial guarantee on the transaction. The action demands that Neo Industrial pays the remaining amount (EUR 5.0 million) as a one-off payment plus penalty interest, legal expenses and an adjustment (EUR 309,000) based on the building cost index, contrary to the 25-year payment plan stated in the agreement. Neo Industrial considers the action to be unfounded and is seeking for agreement with the bankruptcy estate of Kuitu Finland. The provisions in Neo Industrial´s consolidated financial statements for 2012 include the discounted balance sheet value (EUR 2.7 million) of the instalments of Avilon Fibres´ industrial premises for the price remaining unpaid. In the parent company´s financial statements (FAS), the instalments are not discounted, for which reason the related provision is EUR 5.0 million. If the action is successful, the Group will have to pay the amount demanded deducted by the instalment made in 2013, in total EUR 5.1 million as a one-off payment, contrary to the 25-year payment plan stated in the sales agreement. Neo Industrial has given equivalent to this action. The District Court of Pirkanmaa dismissed the action of the bankruptcy estate of Kuitu Finland on 17 March and ordered Kuitu Finland to repay Neo Industrial Plc for the legal expenses. The bankruptcy estate of Kuitu Finland has expressed dissatisfaction with the decision.

## RESEARCH AND DEVELOPMENT

The Neo Industrial Group invested a total of EUR 0.3 million in research and product development in 2013 (0.8 million in 2012). This total was related to the Cable segment (EUR 0.4 million in 2012, when the rest related to the Viscose Fibres segment), and are recognized as costs in financial statement.

## PERSONNEL

During the financial year, the Group employed an average of 323 people (609 in 2013). In continuing operations, the total number of employees was 323 (473) on average. At the end of 2013, the Group employed 241 (643) people, of whom 237 (477) worked in the Cable segment, 4 in Group administration and none (151) in discontinuing operations. Amount of 230 people worked in the Russian operations sold in spring 2013. The Group paid a total of EUR 11.0 million (14.0 million) in performance-based salaries and fees in its continuing operations in 2013.

## ENVIRONMENT

Caring for the environment and continuous improvement are part of daily operations in Neo Industrial´s Cable segment. Reka Cables´ environmental management system is certified according to ISO 14001 standard.

## ANNUAL GENERAL MEETING

Neo Industrial´s Annual General Meeting (AGM), held in 4 April 2013, confirmed the number of the Board members at five (5) and appointed following men to the Board: Markku E. Rentto (Chair), Matti Lainema (Deputy Chair), Jukka Koskinen (new member), Taisto Riski and Raimo Valo. No debuty members were appointed.

The AGM approved the proposal that Authorised Public Accountants KPMG Ltd, with Authorised Public Accountant Lasse Holopainen as responsible auditor, be elected as the auditor of the company until the end of the 2014 AGM.

The AGM approved the 2012 financial statements and discharged the Board of Directors and CEO from liability for the year 2012. The AGM approved the Board´s proposal that no dividends be paid for 2012.

The AGM confirmed the remuneration and cost compensation principles for Board members and auditors.

As proposed by the Board, the AGM authorised the Board to decide on the acquisition of the company´s own shares with funds from unrestricted equity, to a maximum of 588,076 B shares. The proposed amount represents about 9,77 percent of all shares of the company and about 10 percent of its B shares. The Board was also authorised to decide on the acquisition of the company´s B shares through contractual trade from shareholders other than the largest one if the contractual trade includes at least 15,000 B shares and the purchase price corresponds to the market price on NASDAQ OMX Helsinki at the time of the acquisition. To purchase its own shares, the company may enter into customary derivative, share lending and other agreements in the capital market in accordance with laws and regulations. The authorisation also entitles the Board to decide on the acquisition of shares in a proportion other than that of the shares held by the shareholders (directed acquisition). The authorisations are valid until the next AGM.

As proposed by the Board, the AGM decided that the Board be authorised to decide on an issue of new B shares and a transfer of treasury B shares either against or without payment. New B shares can be issued and B shares held by the company can be transferred to shareholders in proportion to their existing holdings or by way of derogation from the shareholders´ pre-emptive right. The Board may also decide on a share issue to the company itself without payment. Moreover, the Board was authorised to issue special rights in accordance with Section 1 of Chapter 10 of the Finnish Limited Liability Companies Act that enable holders to receive new B shares or treasury B shares against payment. The Board is authorised to issue a maximum of 2,000,000 B shares, including new B shares and those held by the company as well as those issued based on special rights. The authorisations are valid for a maximum of five years from the time of the AGM´s decision.

## AUDIT COMMITTEE

The audit committee is responsible for monitoring the company´s financial situation and financial reporting. It is also responsible for evaluating internal control and risk management as well as compliance with legislation and regulations. Moreover, the committee communicates with the auditor and reviews the auditor´s reports. The audit committee reports to the Board. The members of Neo Industrial´s audit committee are Taisto Riski and Raimo Valo.

In 2013, Neo Industrial´s audit committee reviewed business risks, balance sheet values, financing, liquidity and test calculation procedures as well as the effects of various financial arrangements and structural changes on reporting. The results of earlier risk assessments were considered in guiding internal auditing measures.

CORPORATE GOVERNANCE STATEMENT

The Corporate Governance Statement of Neo Industrial Plc has been prepared in accordance with recommendation 51 of the Finnish Corporate Governance Code. Reviewed by the audit committee, the statement has been issued as a separate report. The report is available on Neo Industrial´s website at www.neoindustrial.fi. The Finnish Corporate Governance Code is available at www.cgfinland.fi.

SHARES AND SHARE CAPITAL

Neo Industrial Plc´s share capital is divided into A and B shares. At the end of 2013, its total share capital was EUR 24,082,000, and the number of shares was 6,020,360. The total number of shares includes 91,727 B shares held by Neo Industrial. The holding presents 1.5 percent of the company´s share capital and 1.1 percent of the votes. The company held no A shares. Neo Industrial Plc´s shares (NEOIV) are listed on the main list of NASDAQ OMX Helsinki.

| Company shares | 31/12/2013 | 31/12/2012 | 31/12/2011 |
|---|---|---|---|
| Company share capital (EUR) | 24,081,440 | 24,081,440 | 24,081,440 |
| A shares (20 votes per share) | 139,600 | 139,600 | 139,600 |
| B shares (1 vote per share) | 5,880,760 | 5,880,760 | 5,880,760 |
| Total | 6,020,360 | 6,020,360 | 6,020,360 |
| B shares held by the company | 91,727 | 91,727 | 91,727 |

ACQUISITION AND TRANSFER OF THE COMPANY´S OWN SHARES

In 2013, Neo Industrial did not exercise the authorisation issued by the Annual General Meeting on 4 April 2013 to transfer treasury B shares against or without payment. On 31 December 2013, the company held a total of 91,727 B shares.

DIVIDEND POLICY

Neo Industrial aims to distribute at least 30 percent of its net earnings as dividends.

DIVIDEND PROPOSAL

The parent company´s unrestricted equity stood at EUR -7,636,507.51 including the result of the review period EUR -9,911,849.42. The Board proposes to the Annual General Meeting that no dividends will be paid for 2013. No dividends were paid for 2012.

NEAR-TERM OUTLOOK

The outlook for the Cable segment weakened during 2013. On the horizon, construction is not picking up in Finland or in Sweden yet, but at least some delayed projects are believed to materialize in 2014. Additionally, grid constructors are expected to boost ground cabling projects to ensure distribution reliability. So the net sales of the Cable segment is believed to exceed the net sales in 2013 and the operating result of the Cables segment is believed to be positive.

The company will pay special attention to liquidity and funding for growth. The measures are negotiations on financing and payment terms as well as boosting inventory turnover and freeing up capital assets.

ANNUAL GENERAL MEETING 2014

Neo Industrial Plc´s Annual General Meeting will be held in Hyvinkää on 3 April 2014 at 2.00 p.m. A separate invitation was published on 12 March 2014.

Hyvinkää, 19 March 2014

Neo Industrial Plc
Board of Directors

## CONSOLIDATED INCOME STATEMENT (IFRS)

| EUR 1,000 | Note | 1/1-31/12/2013 | 1/1-31/12/2012 |
|---|---|---|---|
| **Net sales** | 5 | **83,032** | **106,234** |
| Change in inventories of finished products and production in progress | | -1,039 | 2,822 |
| Production for own use | | 35 | 32 |
| Other operating income | 6 | 1,310 | 308 |
| Materials and services | | -57,562 | -77,024 |
| Personnel expenses | 9 | -13,237 | -16,748 |
| Depreciation and impairment | 8 | -2,918 | -3,872 |
| Other operating expenses | 7 | -10,627 | -10,955 |
| | | -84,038 | -105,437 |
| **Operating result** | | **-1,006** | **796** |
| Financial income | 11 | 1,698 | 223 |
| Financial expenses | 11 | -2,440 | -7,231 |
| **Result before taxes** | | **-1,748** | **-6,211** |
| Taxes | 12 | 567 | 238 |
| **Result for the period from continuing operations** | | **-1,181** | **-5,973** |
| **Discontinued operations** | | | |
| Result for the period from discontinued operations | | 0 | -298 |
| **Result for the period** | | **-1,181** | **-6,272** |
| **Profit or loss attributable to** | | | |
| Shareholders of the parent | | -1,163 | -7,423 |
| Non-controlling interests | | -18 | 1,151 |
| | | -1,181 | -6,272 |
| Earnings per share attributable to the shareholders of the parent before and after dilution, EUR | | | |
| Continuing operations | | -0.20 | -1.00 |
| Earnings per share attributable to the shareholders of the parent before and after dilution, EUR | | | |
| Discontinued operations | | 0.00 | -0.25 |
| Earnings per share attributable to the shareholders of the parent before and after dilution, EUR | 13 | -0.20 | -1.25 |
| Number of shares | | 5,928,633 | 5,928,633 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

| | | | |
|---|---|---|---|
| **Result** | | -1,181 | -6,272 |
| **Other comprehensive items that may be subsequently reclassified to statement of income** | | | |
| Translation differences related to foreign units | | 2 | 209 |
| Translation differences recognised in result | | 1,495 | 0 |
| Total | | 1,497 | 209 |
| **Total comprehensive income** | | 316 | -6,062 |
| **Total comprehensive income attributable to** | | | |
| Shareholders of the parent | | 334 | -7,213 |
| Non-controlling interests | | -18 | 1,151 |
| | | 316 | -6,062 |

## CONSOLIDATED BALANCE SHEET (IFRS)

| EUR 1,000 | Note | 31/12/2013 | 31/12/2012 |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| Goodwill | 15 | 3,252 | 3,484 |
| Other intangible assets | 15 | 1,806 | 6,697 |
| Tangible assets | 14 | 12,281 | 18,861 |
| Receivables | | 444 | 164 |
| Derivative contracts | 25 | 0 | 9 |
| Deferred tax assets | 17 | 2,368 | 2,309 |
| **Total non-current assets** | | **20,152** | **31,523** |
| **Current assets** | | | |
| Inventories | 18 | 12,913 | 15,543 |
| Sales receivables and other receivables | 19 | 12,920 | 15,326 |
| Tax receivables from the profit | | 0 | 34 |
| Derivative contracts | 25 | 17 | 19 |
| Cash and cash equivalents | 20 | 1,224 | 504 |
| **Total current assets** | | **27,075** | **31,426** |
| **Total assets** | | **47,227** | **62,949** |
| SHAREHOLDERS' EQUITY AND LIABILITIES | | | |
| **Shareholder's equity** | | | |
| Share capital | | 24,082 | 24,082 |
| Premium fund | | 66 | 66 |
| Reserve fund | | 1,221 | 1,221 |
| Own shares | | -591 | -591 |
| Translation differences | | -6 | -1,503 |
| Retained profit | | -38,644 | -35,784 |
| Other unrestricted equity | | 21,328 | 21,328 |
| **Equity attributable to shareholders of the parent** | | **7,456** | **8,820** |
| Non-controlling interests | | 0 | -142 |
| **Total shareholders´ equity** | 21 | **7,456** | **8,677** |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 17 | 1,374 | 3,320 |
| Provisions | 22 | 3,132 | 4,474 |
| Financial liabilities | 23 | 8,109 | 9,209 |
| Other liabilities | | 6 | 6 |
| Derivative contracts | 25 | 320 | 1,346 |
| **Current liabilities** | | | |
| Tax liabilities from the profit | | 45 | 21 |
| Provisions | 22 | 200 | 50 |
| Financial liabilities | 23 | 18,413 | 23,479 |
| Accounts payable and other liabilities | 24 | 8,171 | 12,367 |
| **Total liabilities** | | **39,771** | **54,272** |
| **Shareholders´ equity and liabilities** | | **47,227** | **62,949** |

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY (IFRS)

| EUR 1,000 | Share capital | Premium fund | Reserve fund | Own shares | Translation differences | Other unrestricted equity | Retained profit | Shareholder's equity to the shareholders of the parent | Non-controlling interests | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|---|
| Shareholders' equity 31/12/2011 | 24,082 | 66 | 1,221 | -591 | -1,712 | 28,903 | -38,417 | 13,552 | -1,100 | 12,452 |
| Comprehensive income | | | | | | | | | | |
| Result for the period | | | | | | | -7,423 | -7,423 | 1,151 | -6,271 |
| Other comprehensive items | | | | | | | | | | |
| Translation differences | | | | | 209 | | 8 | 216 | | 216 |
| Total comprehensive income | | | | | 209 | | -7,415 | -7,207 | 1,151 | -6,055 |
| Transactions with the owners | | | | | | | | | | |
| Change in non-controlling interests | | | | | | | 2,473 | 2,473 | -193 | 2,280 |
| Share of changes in associates | | | | | | -7,575 | 7,575 | 0 | | 0 |
| Total transactions with the owners | | | | | | -7,575 | 10,048 | 2,473 | -193 | 2,280 |
| **Shareholders' equity 31/12/2012** | **24,082** | **66** | **1,221** | **-591** | **-1,503** | **21,328** | **-35,784** | **8,819** | **-142** | **8,677** |

| EUR 1,000 | Share capital | Premium fund | Reserve fund | Own shares | Translation differences | Other unrestricted equity | Retained profit | Shareholder's equity to the shareholders of the parent | Non-controlling interests | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|---|
| Shareholders' equity 31/12/2012 | 24,082 | 66 | 1,221 | -591 | -1,503 | 21,328 | -35,784 | 8,819 | -142 | 8,677 |
| Comprehensive income | | | | | | | | | | |
| Result for the period | | | | | | | -1,163 | -1,163 | -18 | -1,180 |
| Other comprehensive items | | | | | | | | | | |
| Translation differences | | | | | 1,497 | | 0 | 1,497 | | 1,497 |
| Total comprehensive income | | | | | 1,497 | | -1,163 | 334 | -18 | 316 |
| Effect of reclassification to translation differences | | | | | | | -1,495 | -1,495 | | -1,495 |
| Transactions with the owners | | | | | | | | | | |
| Change in non-controlling interests resulted from the end of subsidiaries' operations | | | | | | | -395 | -395 | 395 | 0 |
| Change in non-controlling interests resulted from the sale of subsidiaries | | | | | | | 253 | 253 | -235 | 18 |
| Other change | | | | | | | -59 | -59 | | -59 |
| Total transactions with the owners | | | | | | | -201 | -201 | 160 | -41 |
| **Shareholders' equity 31/12/2013** | **24,082** | **66** | **1,221** | **-591** | **-6** | **21,328** | **-38,644** | **7,456** | **0** | **7,456** |

Changes in associated companies are described in more detail in note 16 (“Holdings in associates”).

## CONSOLIDATED CASH FLOW STATEMENT (IFRS)

| EUR 1,000 | 1/1 - 31/12/2013 | 1/1 - 31/12/2012 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Payments received from operating activities | 82,847 | 110,441 |
| Payments paid on operating activities | -81,175 | -109,177 |
| Paid interests and other financial expenses | -2,924 | -2,937 |
| Interests received and other financial income | 123 | 446 |
| Direct taxes paid | -9 | -93 |
| **Net cash provided by operating activities** | **-1,138** | **-1,319** |
| | | |
| **Cash flows from investments** | | |
| Sales of shares in subsidiaries | 248 | 0 |
| Investments in tangible fixed assets | -1,720 | -2,095 |
| Sales of tangible fixed assets | 46 | 264 |
| Investments in other financial funds | -1 | -3 |
| Sales of loan receivables | 9,074 | 0 |
| Loan repayments | 210 | 193 |
| **Net cash provided by investment activities** | **7,857** | **-1,640** |
| | | |
| **Cash flows from financing activities** | | |
| Increase in loans | 2,000 | 3,078 |
| Decrease in loans | -7,945 | -1,200 |
| Payments of finance lease activities | -48 | -199 |
| **Net cash provided by financing activities** | **-5,993** | **1,679** |
| | | |
| **Change in cash and cash equivalents at the end of the period** | **725** | **-1,281** |
| Cash and cash equivalents at beginning of the period | 504 | 1,793 |
| Exchange rate differences | -5 | 14 |
| Elimination of cash and cash equivalents related to discontinued operations | | -22 |
| **Cash and cash equivalents at the end of the period** | **1,224** | **504** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. General information

Neo Industrial Plc is the parent company of the Group, which includes the Neo Industrial wholly owned subsidiaries Novalis Plc and Alnus Ltd with their subsidiaries.

In addition to Finland, the Group operates in Russia, Sweden, the Baltic countries, Denmark and Norway.

The parent company is domiciled in Hyvinkää. Neo Industrial Plc's address is Niinistonkatu 8 - 12, 05800 Hyvinkää. Neo Industrial Plc's B shares are listed on NASDAQ OMX Helsinki.

The Neo Industrial Group is part of the Reka Group. Reka Ltd, the parent company of the Reka Group, is domiciled in Juupajoki. Reka Ltd's address is Niinistönkatu 8–12, 05800 Hyvinkää.

Neo Industrial Plc's Board of Directors approved these financial statements for publication at its meeting of 19 March 2014. In accordance with the Limited Liability Companies Act, shareholders have the right to approve or reject financial statements at the Annual General Meeting that is held after the publication of the financial statements. The Annual General Meeting also has the right to decide on making changes to the financial statements.

## 2. Accounting policies

***Principles of preparation***

*Adherence to IFRS standards*
The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the IAS standards as well as SIC and IFRIC interpretations effective on 31 December 2013. International financial standards refer to standards and the related interpretations that are laid down in the Finnish Accounting Act and regulations based on the Finnish Accounting Act and that have been approved in accordance with the EU Regulation (EC) No 1606/2002. The notes to the consolidated financial statements also comply with Finnish accounting and companies' laws that supplement IFRS regulations.

The Group has adopted the amended IAS 1 standard *Presentation of Financial Statements* (effective for financial periods beginning on 1 July 2012 or later): the most significant change is the requirement to group together items within other comprehensive income that may be classified to the profit or loss section of the income statement. The amendment has a minor effect on the presentation of items within other comprehensive income.

The adopted IFRS 13 Fair Value Measurement and IFRS 7 *Financial Instruments: Disclosures* amendment have effects on the notes to the consolidated financial statements. Revised IAS 19 *Employee Benefits* has no direct effects on the Group´s financial statements.

Compiling the financial statements in accordance with the IFRS requires the Group's management to make certain assumptions and to use consideration in applying the accounting policies. This process and assumptions with the largest effect on the figures presented in the financial statements are explained under "Accounting principles requiring management discretion and key uncertainty factors related to estimates".

*Adherence to the principle of continuity*
Of the Neo Industrial Group's three segments, the Viscose Fibres segment and the Single Family Housing segment presented in discontinuing operations in 2012. The assets and the liabilities of the Viscose Fibres segment were written off along with the bankruptcies in the segment. The Group´s quarantee liabilities related to Avilon Fibres Ltd were recorded as liabilities on the consolidated balance sheet through profit or loss. The Cable segment was left in the continuing operations.

The Group´s liquidity situation is tight. To assure the liquidity situation, the Group strives to negotiate adjustments to payment terms and agreements and to liquidate capital from its operations. The fluctuation of raw material prices and currencies as well as seasonal market changes present challenges in working capital management.

The Cable segment´s challenge is to ensure favourable operating conditions. To assure those conditions the Group needs to be able to renegotiate payment terms or liquidate capital from its operations in other ways. Measures are in progress to ensure operating conditions.

In the Cable segment, the most significant risks are related to market development, working capital management and fluctuations in the prices of raw materials and currencies. During considerable seasonal changes, suppliers´ terms of payment have an essential effect to the company´s ability to ensure competitive delivery times through sufficient inventories.

The bankruptcy estate of Kuitu Finland Ltd brought an action against Neo Industrial on 9 April. The action is related to the transaction of the industrial premises of Avilon Fibres, Neo Industrial´s former subsidiary and Neo Industrial guarantee on the transaction. The action demands that Neo Industrial pays the remaining amount (EUR 5.0 million) as a one-off payment plus penalty interest, legal expenses and an adjustment (EUR 309,000) based on the building cost index, contrary to the 25-year payment plan stated in the agreement. Neo Industrial considers the action to be unfounded and is seeking for agreement with the bankruptcy estate of Kuitu Finland. The provisions in Neo Industrial´s consolidated financial statements for 2012 include the discounted balance sheet value (EUR 2.7 million) of the instalments of Avilon Fibres´ industrial premises for the price remaining unpaid. In the parent company´s financial statements (FAS), the instalments are not discounted, for which reason the related provision is EUR 5.0 million. If the action is successful, the Group will have to pay the amount demanded deducted by the instalment made in 2013, in total EUR 5.1 million as a one-off payment, contrary to the 25-year payment plan stated in the sales agreement. Neo Industrial has given equivalent to this action. The District Court of Pirkanmaa dismissed the action of the bankruptcy estate of Kuitu Finland on 17 March and ordered Kuitu Finland to repay Neo Industrial Plc for the legal expenses. The bankruptcy estate of Kuitu Finland has expressed dissatisfaction with the decision.

*Valuation principles*
The consolidated financial statements have been prepared based on original cost, except for the following items, which have been recognised at fair value: derivative contracts, cash and cash equivalents and other financial assets.

All changes in value in derivatives are recognised through the income statement. Derivatives that hedge net sales are included in net sales. Changes in metal derivatives targeted at customer orders and changes in raw-material purchase hedging for periods less than 12 months are included in material purchases. Longer-term raw-material purchase hedging is included in financial income or expenses. Customer-specific commodity derivatives and segment-specific currency hedging have been recognised under each segment. Other derivatives are recognised in other operations and eliminations. In addition, segment-specific statements present the operating result before and after open hedging instruments.

***Principles of consolidation***

*Subsidiaries*
The consolidated financial statements include the parent company, Neo Industrial Plc, and its subsidiaries. Subsidiaries are companies in which the Group has a controlling interest. A controlling interest is created when the Group holds more than half of the votes or otherwise has the right to decide on the principles of a company's economy and business. If the Group holds more than half of the votes but the Group has not the real controlling interest such company is not consolidated to the closing of the books and is instead handled as associated company or as other investment. Potential voting power is taken into account when assessing the criteria for a controlling interest if the instruments of potential voting power can be implemented at the time of assessment.

The acquisition cost method is used to eliminate mutual shareholdings within the Group. Acquired subsidiaries are consolidated from the moment when the Group has acquired a controlling interest, and divested subsidiaries are consolidated up to the termination of the controlling interest. All intra-Group transactions, receivables, liabilities and unrealised profits as well as internal profit distributions are eliminated in the consolidated accounts. Unrealised losses are not eliminated if the loss is due to impairment.

The subsidiaries have the same financial year as the parent company and comply with the consolidated preparation principles described here.

*Associated companies*
Associated companies are companies over which the Group exercises significant influence. Significant influence is generally created when the Group holds more than 20 percent of the voting rights or otherwise

has significant influence but not control. Associated companies have been consolidated using the equity method. If the Group's share of an associated company's losses exceeds the book value of the investment, the investment is recognised at zero value on the balance sheet. Losses exceeding book value are not consolidated unless the Group has committed itself to fulfilling the associated company's obligations. Unrealised gains on transactions between the Group and its associated companies are eliminated in accordance with the Group's holding. Investments in associated companies include any goodwill that may be created upon acquisition. The Group's share of its associated companies' profits is reported under "Share of the results of associates" after the operating profit.

If an associated company's accounting policies are not essentially equivalent to the Group's accounting principles, the Group has made the necessary adjustments in figures reported by the associated company.

***Foreign currency items***

Figures related to the result and financial position of the Group's units are presented in the currency of each unit's principal operating environment ("functional currency"). The consolidated financial statements are presented in euros, the functional and reporting currency of the parent company.

Transactions denominated in a foreign currency are recognised in the functional currency, using the exchange rate on the transaction date or a day close to the transaction date. Monetary items denominated in a foreign currency have been translated into the functional currency at the exchange rate on the balance sheet date. Non-monetary items denominated in a foreign currency and recognised at fair value have been translated into the functional currency at the exchange rate on the date of recognition. Other non-monetary items have been recognised at the exchange rate on the transaction date.

Gains and losses arising from transactions denominated in a foreign currency and from the translation of monetary items are recognised in the income statement. The foreign exchange losses and profits from the Group's internal non-current liabilities, however, are included in the change in equity under translation differences. Foreign exchange profits and losses from business operations are included in the corresponding items above the operating profit. Foreign exchange losses and profits related to financing are included in financial income and expenses.

The income statements of foreign Group companies have been translated into euros at the average exchange rate of the period. Their balance sheets have been translated using the exchange rate on the balance sheet date. The use of different currency rates for translating the period's result for the income statement and the balance sheet causes a translation difference, which is recognised in equity. Translation differences arising from the elimination of the acquisition cost of foreign subsidiaries are recognised in equity. When a subsidiary is sold, the accumulated translation differences are recognised in the income statement as part of sales gains and losses.

The goodwill arising from the acquisition of foreign units – as well as the fair value adjustments to the book values of the assets and liabilities of said foreign units in conjunction with the acquisition – have been treated as the foreign units' assets and liabilities and translated into euros at the exchange rates on the balance sheet date.

***Tangible non-current assets***

Tangible non-current assets are measured at original acquisition cost less depreciation and impairment. If a non-current asset consists of several parts with different economic lifetime, each part is treated as a separate asset. In these cases, the costs associated with renewing the asset are activated. Otherwise, any expenses arising later are included in the book value of the tangible non-current asset only if the Group is likely to profit from the future financial benefit and if the acquisition cost of the asset can be determined reliably. Other repair and maintenance costs are recognised through profit and loss at the time of completion.

Depreciation of these assets is made on a straight-line basis over their useful lives. No depreciation is made on land. The estimated useful lives are as follows:

| | |
|---|---|
| Buildings and structures | 10–25 years |
| Machinery and equipment | 3–20 years |
| Motor vehicles | 3–10 years |

Non-current assets acquired through finance leases are depreciated over their estimated useful life or the lease term, if shorter.

Residual values and useful lives are reviewed on a regular basis in conjunction with annual financial statements and adjusted to reflect changes in expected financial benefits. Depreciation on a tangible non-current asset is classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Sales gains and losses from decommissioning and disposal of tangible non-current assets are included in other operating income and expenses in the income statement.

***Borrowing costs***

Borrowing costs are recognised in the financial period during which they are incurred. In 2013, the Group had no borrowing costs (arising from asset purchases) that were activated.

***Intangible non-current assets***

*Goodwill*
Goodwill is recognised in the amount by which the total amount of the assigned consideration, non-controlling interest in the object of acquisition and previously held equity interest exceeds the fair value of the acquired net assets.

No depreciation is recognised on goodwill, but goodwill is tested for impairment annually or more frequently, if necessary. For this purpose, goodwill is attributed to units generating cash flow, or in the case of an associate, goodwill is included in the acquisition cost of the associate concerned. Goodwill is valued at the original acquisition cost less impairment.

*Research and development expenses*
Research and development expenses are recognised in the income statement as expenses, except for development costs that meet the capitalisation criteria of IAS 38 *Intangible Assets*. In that case, product development expenses are recognised in the balance sheet as intangible assets as of the moment when the product can be implemented technically, exploited commercially and expected to bring future financial benefit. Development costs that have been recognised as expenses previously will not be capitalised later. Depreciation will start as soon as the asset is ready for use. The depreciation period is 3 to 10 years, during which capitalised expenses are depreciated on a straight-line basis and recognised as costs. An asset that is not yet ready to be exploited is tested for impairment annually or more frequently, if necessary.

*Other intangible assets*
Other intangible assets with a limited useful life are recognised in the balance sheet and depreciated as expenses on a straight-line basis in the income statement over their useful lives. No depreciation is recognised on other intangible assets with an unlimited useful life, but they are tested for impairment annually or more frequently, if necessary. Intangible assets include assets that have an unlimited useful life. These include electric and gas connection rights that do not have a legal or contractual time limit.

The estimated useful lives are as follows:

| | |
|---|---|
| Customer contracts and the related customer relationships | 5–10 years |
| Software | 3–5 years |
| Other intangible rights | 5–10 years |

Any gains or losses from the disposal of intangible assets are recognised in other operating income and expenses on the income statement.

***Emission rights***

Emission rights received are recognised as intangible assets and deferred income. Emission rights are valued at current fair value or other probable value. If the market value of the emission rights drops significantly below the book value and the decline is considered to be permanent, the impairment loss is recognised under rights that the Group does not intend to use internally. Deferred revenue is recognised in other operating income during the period for which the corresponding rights are granted. Expenses corresponding to actual emissions are recognised in the income statement under other operating expenses and appear in the balance sheet reserves. Emission rights that will not be used during the review period are recognised through profit or loss at the time that they are deemed to be surplus. Emission rights and the related provisions are derecognised from the Balance Sheet when they are sold or submitted to cover obligations. Any gains or losses are recognised in the income statement.

***Inventories***

Inventories are recognised at acquisition cost or recoverable amount, depending on which is lower, in accordance with the FIFO principle. The acquisition cost of finished products and work in progress consists of raw materials, direct expenses arising from work, other direct expenses and fixed acquisition and production costs. The recoverable amount is the estimated sales price in normal business less estimated expenses required to complete the product and selling expenses.

***Lease agreements***

*The Group as a lessee*
Lease agreements related to tangible assets in which the Group bears an essential part of the risks and rewards of ownership are recognised as finance lease agreements. Assets acquired through finance lease agreements are entered in the balance sheet at the leased item's fair value or the present value of minimum lease payments, if lower, at the beginning of the lease period. Assets acquired through finance leases are depreciated over their estimated useful lives or their lease periods, if shorter. Lease obligations are included in interest-bearing liabilities.

Lease agreements in which the lessor bears the risks and rewards of ownership are recognised in other leases. Rents payable under other leases are recognised as expenses in the income statement in equal instalments during the lease period.

The Group primarily operates in leased premises. In Russia, the Group also owns premises. The Group makes fixed-term lease agreements, which are converted into permanent agreements at the end of the fixed period or which offer the Group the opportunity to continue the fixed-term agreement. The most common option is to continue the lease for five (5) years. These options have been taken into account in the accounting of finance leases.

***Impairment***

On the closing date of the financial year, the Group evaluates whether any assets are showing signs of impairment. If such signs are detected, the recoverable amount of the asset concerned is estimated. The recoverable amount is also assessed annually on the following assets, regardless of whether they are showing signs of impairment: goodwill, intangible assets with unlimited useful lives and unfinished intangible assets. The need for impairment is assessed at the level of units generating cash flows – that is, the lowest level on which units are mostly independent of others and cash flows can be separated from other cash flows.

The subsidiaries in the Cable segment constitute a unit generating cash flows. Balance sheet values related to the unit are tested through test calculation. Nestor Cables Ltd, an associated company in the Cable segment, is a unit to be tested separately if any balance sheet values are related to it. In the 2013 financial statements, no balance sheet values are related to Nestor Cables Ltd.

Other tangible and intangible balance sheet values are evaluated by item.

In the Cable segment, the indicators monitored are permanent changes in the euro prices of main raw materials and developments in the main markets. Their combination affects volumes, and it also affects the way in which an increase in the prices of capital goods can be incorporated into market prices. The interest rate level is not an indicator as such, but it may have an effect on the discount rate.

The recoverable amount is the fair value of an asset less selling expenses or value in use, if higher. Value in use refers to the estimated future net cash flows received from the asset or a unit generating cash flows, discounted to their current value. Determined before taxes, the discount rate reflects the market's view on the time value of money and the special risks related to the asset concerned.

An impairment loss is recognised when an asset's book value is higher than the recoverable amount. The impairment loss is recognised in the income statement. If an impairment loss is attributed to a unit generating cash flows, it is first allocated to reduce the unit's goodwill and then to reduce the unit's other assets in equal proportions. When an impairment loss is recognised, the useful life of the asset being depreciated is reassessed. An impairment loss recognised on assets other than goodwill is reversed if the assessments used in determining the recoverable amount of the asset have changed. The amount of reversed impairment losses, however, cannot be higher than the asset's book value without recognition of the impairment loss. An impairment loss recognised on goodwill is not reversed.

***Pension arrangements***

The Group's statutory pension insurance for staff has been set up with pension insurance companies. Pension expenses are recognised as costs in the financial year during which they are accumulated. The Group has no defined benefit pension plans.

***Provisions and contingent liabilities***

A provision is made when the Group has a legal or actual obligation as a result of a previous event, when it is likely that a payment obligation must be fulfilled and when the amount of the obligation can be assessed reliably. If it is possible to receive compensation for part of the obligation from a third party, the compensation is recognised as a separate asset, but not before it is practically certain that compensation will be paid.

A warranty provision is made when a product with a warranty clause is sold. The amount of the warranty provision is based on proven knowledge about actual warranty costs.

A restructuring provision is made when the Group has prepared a detailed restructuring plan and announced it or begun to implement it. No provision is recognised for expenses related to Group operations continuing as normal.
A provision is made for loss-making contracts if the expenses required to fulfil the contractual obligations exceed the benefits from the contract.

A provision is made for environmental obligations based on current interpretations of environmental laws and regulations. A provision is made when it is likely that an obligation has been created and the amount of the obligation concerned can be estimated reliably.

A contingent liability is a conditional obligation resulting from previous events that is confirmed when an uncertain eventuality beyond the Group's control actually occurs. Contingent liabilities also include existing obligations which are not likely to require payment or the amount of which cannot be determined reliably. Potential contingent liabilities are presented in the notes to the financial statements.

***Taxes***

The tax expenses in the income statement consist of the income tax for the financial year and deferred taxes. The income tax for the financial year is calculated on the taxable income, using the tax rate in force in each country on the balance sheet date or on a subsequent tax rate. The taxes are adjusted by taxes potentially related to previous periods, with the exception of taxes recognised in equity for which the corresponding income or expense has been recognised directly in equity.

Deferred tax assets and liabilities are calculated on temporary differences between the book value and taxable value. However, deferred tax liabilities are not recognised when the transaction concerns an asset or liability initially recognised in the accounts and does not concern business combinations and when the recognition of such an asset or liability does not affect the accounting result or the taxable income at the time of the transaction. No deferred taxes are recognised on goodwill that is non-deductible in taxation or on subsidiaries' non-distributable profit funds to the extent that the difference is not likely to be released in the foreseeable future.

Deferred tax assets related to individual companies are recognised if it is probable, based on an evaluation, that the deferred tax assets can be utilised before the expiry of unused tax losses or unused tax-related credits. Deferred tax assets are recognised to the extent that it is likely that taxable income will be created in the future, against which the temporary difference can be utilised.

***Revenue recognition***

*Products sold and services produced*
Income from product sales is recognised when significant risks and benefits of ownership and the actual control over the products have been transferred to the buyer. This is usually done in conjunction with product

delivery in accordance with contract terms. Income from services produced is recognised in the financial year when the service is performed.

*Interest rates and dividends*
Interest income is recognised using the effective interest method, and dividend income is recognised when the right to receive the dividend is created.

***Discontinued operations***
A part of the Group is presented in discontinued operations if the part has been divested or classified as available for sale and is a significant separate business unit and part of a single, coordinated plan related to divesting a separate key business area.

Earlier The Single Family Housing segment and Viscose Fibres segment have been classified as discontinued operations in the financial statements starting year 2012. In the consolidated statement of comprehensive income, discontinued operations are presented in the line item “Discontinued operations”. With regard to the Single Family Housing segment, the investment in the associated company has been recorded as a write-off on the balance sheet, as it has no expected income. The assets and liabilities of the Viscose Fibres segment have been recognised as write-offs due to bankruptcy on the consolidated balance sheet on 31 December 2012. At the closing of the books 31 December 2013 the companies classified in 2012 as discontinued operations do no longer belong to the Neo Industrial Group as the Group has sold in December 2013 the shares of Finndomo Ltd and Carbatec Ltd.

***Financial assets and liabilities***

The Group’s financial assets are classified into the following groups: derivative contracts, financial assets available for sale, loans and other receivables and other financial assets. The classification is based on the purpose of acquiring the financial assets, and they are classified in conjunction with the initial acquisition.

In cases where the fair value of financial assets and liabilities has not been used as the book value, the financial assets and liabilities are valued at allocated acquisition cost. Financial assets and liabilities recognised at fair value are valued based on market quotations. Realised and unrealised gains and losses from changes in fair value are recognised in the income statement in the financial year in which they occur. If no specific market quote is available, valuation is based on confirmation from the counterparty, which has been tested using common valuation methods and available market quotations.

Financial assets are derecognised when the Group has lost its contract-based entitlement to cash flows or when it has transferred a significant part of risks and rewards outside the Group.

Based on their nature, financial instruments are divided into current and non-current assets and liabilities.

*Available-for-sale financial assets* are assets that have been specifically assigned to this group or that have not been classified in any other group. Available-for-sale financial assets are recognised at fair value, and changes in value are recognised directly in equity if their fair value can be measured reliably. If the fair value cannot be measured reliably, available-for-sale investments are recognised at acquisition cost. Available-for-sale financial assets may consist of shares and interest-bearing investments.

*Loans and other receivables* are recognised at the outstanding value of the receivable. Sales receivables are presented in gross amounts, and the financial liabilities under sales receivables are recognised in financial liabilities. If sales receivables have been sold in part or in full in accordance with IFRS, so that the credit loss risk related to the receivables sold has been transferred, the sold part of sales receivables is recognised as a write-off on the balance sheet. The Group recognises an impairment loss on sales receivables if there is objective evidence that the receivable cannot be recovered in full. If the amount of impairment loss is reduced later, the recognised loss is reversed through profit or loss.

*Cash and cash equivalents*
Cash and cash equivalents include cash, bank deposits that can be withdrawn on demand and other short-term investments.

*Financial liabilities*
Financial liabilities are valued at allocated acquisition cost or at fair value excluding liabilities arising from finance leases under IAS 17. Liabilities arising from finance leases are recognised initially at the fair value of the asset leased or the present value of minimum lease payments, depending on which one is lower. Financial liabilities also include a long-term purchase price liability related to industrial premises, in which the

instalments are tied to an index. Transaction costs are included in the initial book value of financial liabilities. Financial liabilities are included in current and non-current liabilities.

*Derivative contracts*
Derivatives are recognised at fair value on the date when the Group becomes party to a derivative contract. Derivatives are recognised either as current or non-current receivables or liabilities on the balance sheet. Gains and losses arising from fair value measurement are recognised in accordance with the derivative's use as follows:

- Derivatives that hedge net sales are included in net sales.
- Changes in metal derivatives targeted at customer orders are included in material purchases, as are commodity derivatives with a maturity of less than 12 months.
- Commodity derivatives with a maturity of 12 months or more are included in financial income or expenses.
- Derivatives related to financing are included in financial income or expenses.

***Operating result***

IAS 1 *Presentation of Financial Statements* does not define the concept of operating result. The Group defines it as follows: operating result is the net amount formed when the net sales figure is reduced by purchasing costs adjusted for the change in the inventories of finished products, work in progress, expenses incurred through production for own use and by expenses arising from employee benefits, depreciation and any impairment loss, with other operating income and expenses taken into account. Items other than those mentioned above are presented below the operating profit. Foreign exchange differences and changes in the fair values of derivatives are included in the operating profit if they arise from items related to business operations. Otherwise, they are recognised under financial items. Operating result is also known as operating profit or operating loss, depending on the context.

***Accounting principles requiring management discretion and key uncertainty factors related to estimates***

When preparing financial statements, estimates and assumptions concerning the future must be made, and these may differ from the actual outcome. Furthermore, discretion must be used when applying accounting principles.

*Management discretion related to the choice and application of accounting principles*
The Group's management uses discretion when making decisions concerning the choice and application of accounting principles. This applies particularly to cases where the existing IFRS standards have alternative recognition, measurement or presentation methods.

The management has used its discretion in assessing which lease agreements are handled in accordance with IAS 17 as financial leases recognised as assets on the balance sheet and which ones are recognised as ordinary rent expenses. As its guideline, the management has used the definition that lease agreements in which the lessor bears the risks and rewards of ownership are recognised in other leases. For this reason, short-term and fairly short-term leases of facilities have been treated as other leases, as have individual leases of machinery and equipment obtained from outside the Group and all IT equipment leases. Long-term leases of facilities and leases of production equipment have been recognised as capital leases.

The management has used its discretion when assessing financial contracts that involve derivatives.

*Uncertainty factors related to estimates*
Estimates and assessments made when preparing the financial statements are based on the management's best opinion on the closing date. The estimates are based on previous experiences and assumptions that concern expected trends in the Group's financial operating environment as far as sales and cost levels are concerned and that are considered most likely on the closing date. The Group regularly monitors the materialisation of estimates and assumptions and changes in the factors behind them together with the business units by using several sources of information, both internal and external. Any changes in the estimates and assumptions are recorded in the accounts for the financial period in which they are revised and in all consequent financial periods.

*Measurement of fair value of goods acquired in business combinations*
In June 2007, the Neo Industrial Group acquired the Reka Cables Group. The seller was Reka Ltd, which is the parent company of Neo Industrial Plc. Although it was a business amalgamation of corporations under the same controlling interest, the management felt that the acquisition cost method under IFRS 3 needed to

be applied. For this reason, the fair value of all assets acquired was measured in accordance with the provisions of IFRS 3. The Group has used an external advisor in estimating the fair values of tangible and intangible assets. The acquisition cost calculation for OAO Expokabel, acquired in August 2008 by purchasing a majority of the shares, was also performed in accordance with IFRS 3, as was the acquisition cost calculation for Finndomo in April 2010. Balance sheet items related to Finndomo were recorded as write-offs in the 2012 financial statements OAO Expokabel was sold in May 2013.

The management believes that the estimates and assumptions used are sufficiently accurate to form a basis for measuring fair value. In addition, the Group reviews potential signs of impairment concerning both tangible and intangible assets at least once a year, on the closing date of the financial year.

*Impairment testing*
The Group carries out impairment tests annually – or more often, if necessary – on goodwill, unfinished intangible assets and intangible assets with an unlimited useful life. The Group also assesses signs of impairment in accordance with what is presented above in the accounting principles. The recoverable amount from units generating cash flows has been determined based on calculations of value in use. These calculations require the use of estimates.

***Application of new and revised IFRS standards***

The Group will adopt following standards and interpretations in 2014:

IFRS 10 *Consolidated Financial Statements* and its amendments (effective for financial periods beginning on 1 January 2014 or later in the European Union): in accordance with existing principles, IFRS 10 defines control as a key factor in deciding whether investees should be consolidated. In addition, the standard offers further guidance to be applied in circumstances where the assessment of control may be difficult.

IFRS 11 *Joint Arrangements* and its amendments (effective for financial periods beginning on 1 January 2014 or later in the European Union): in the recognition of joint arrangements, IFRS 11 stresses the importance of the resulting rights and obligations rather than the judicial form. There are two types of joint arrangements: joint operations and joint ventures. In future, joint ventures must be reported in accordance with the equity method. Relative consolidation is no longer allowed.

IFRS 12 *Disclosure of Interests in Other Entities* and its amendments (effective for financial periods beginning on 1 January 2014 or later in the European Union): IFRS 12 is a compilation of requirements for disclosures in the financial statements. These are related to different types of interests in other entities, including associated companies, joint arrangements and structured units and other, unconsolidated entities. The new standard extends the scope of the notes the Group presents related to its interests in other entities.

The Group has not yet adopted the following new or revised standards published by IASB. The Group will adopt these standards and interpretations on the date when they take effect. If this date is not the first day of the financial period, the Group will adopt them at the beginning of the following financial period.
* The amendment has not yet been approved to be adopted in the EU.

The effects of the following standards that will take effect in 2014 or 2015 will be evaluated in more detail in future financial periods. Standards and interpretations not listed here are estimated to have no effect on the Group’s financial statements.

IFRS 9 *Financial Instruments** and its amendments (effective for financial periods beginning on 1 January 2015 or later): this project will be carried out in three stages and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The amendments of the first stage (published in November 2009) concern the classification and valuation of financial assets. Financial assets are divided into two main categories based on valuation method: those valued at amortised acquisition cost and those valued at fair value. The classification depends on the company’s business model and the contractual characteristics of cash flows. The amendments published in October 2010 pertain to the classification and valuation of financial liabilities, and the regulations for these were mainly transferred as such from IAS 39 to the new standard. The parts of IFRS 9 relating to the impairment of financial assets and to general hedge accounting were published in November 2013. Because the project is still in progress, it is not possible to evaluate the effects of the standard on the Group’s consolidated financial statements.

IFRS 14 *Regulatory Deferral Account* standard and its effect on the Group´s consolidated financial statements will be analyzed before the effective date of the standard. According to the prevailing timetable the new standard will be effective for financial periods beginning on 1 January 2016 or later.

## 3. Segment information

In accordance with IFRS 8, segment-specific reporting is based on the management's internal reporting. Net sales by product group and sales area are presented as complementary information. Customer-specific commodity derivatives and segment-specific currency hedging have been recognised under each segment. Other derivatives are recognised in other operations and eliminations. In addition, segment-specific statements present the operating result before and after open hedging instruments.

2013

| EUR 1,000 | Cable | Other operations and eliminations | Group |
|---|---|---|---|
| **Net sales** | **83,012** | **21** | **83,032** |
| **Operating result before change in the value of open derivatives** | **995** | **-1,998** | **-1,003** |
| Change in the value of open derivatives | -1 | -1 | -2 |
| Unallocated items | | | 0 |
| **Operating result after change in the value of open derivatives** | **993** | **-1,999** | **-1,006** |
| Share of discontinued operations | 0 | 0 | 0 |
| Unallocated items | | -176 | -176 |
| **Result for the period** | | | **-1,182** |
| | | | |
| **Assets** | | | |
| Segment's assets | 41,412 | 5,815 | 47,227 |
| Unallocated assets | | | 0 |
| **Total assets** | **41,412** | **5,815** | **47,227** |
| | | | |
| **Liabilities** | | | |
| Segment's liabilities | 25,626 | 14,145 | 39,771 |
| Unallocated liabilities | | 0 | 0 |
| **Total liabilities** | **25,626** | **14,145** | **39,771** |
| | | | |
| **Assets less liabilities** | **15,786** | **-8,330** | **7,456** |
| | | | |
| **Investments** | **1,702** | **101** | **1,804** |
| **Depreciations** | **2,498** | **420** | **2,918** |

2012

| EUR 1,000 | Cable | Other operations and eliminations | Group |
|---|---|---|---|
| **Net sales** | **106,213** | **21** | **106,234** |
| | | | |
| **Operating result before change in the value of open derivatives** | **2,122** | **-1,463** | **659** |
| Change in the value of open derivatives | -32 | 170 | 138 |
| Unallocated items | | | |
| **Operating result after change in the value of open derivatives** | **2,090** | **-1,293** | **796** |
| Share of discontinued operations, Single Family Housing | 0 | -6,369 | -6,369 |
| Share of discontinued operations, Viscose Fibres | | 6,071 | 6,071 |
| Unallocated items | | -6,770 | -6,770 |
| **Result for the period** | | | **-6,272** |
| | | | |
| **Assets** | | | |
| Segment's assets | 58,643 | | 58,643 |
| Unallocated assets | | 4,306 | 4,306 |
| **Total assets** | **58,643** | **4,306** | **62,949** |
| | | | |
| **Liabilities** | | | |
| Segment's liabilities | 30,597 | | 30,597 |
| Unallocated liabilities | | 23,675 | 23,675 |
| **Total liabilities** | **30,597** | **23,675** | **54,272** |
| | | | |
| **Assets less liabilities** | **28,046** | **-19,369** | **8,677** |
| | | | |
| **Investments** | **1,317** | **209** | **1,526** |
| **Depreciations** | **3,546** | **1,389** | **4,935** |

| Cable segment's net sales by product group, EUR million | 1-12/2013 | 1-12/2012 |
|---|---|---|
| LV energy | 26.9 | 38.8 |
| Power cable | 56.1 | 67.4 |
| **Total** | **83.0** | **106.2** |

| Cable segment's net sales by sales area, EUR million | 1-12/2013 | 1-12/2012 |
|---|---|---|
| EU-countries | 73.7 | 89.3 |
| Non-EU-countries | 9.3 | 16.9 |
| **Total** | **83.0** | **106.2** |

The Cable segment's two largest customers are the Onninen Group and the Sonepar Group, each of which represents more than 10 percent of the segment's net sales.

On 31 December 2013, non-current assets other than financial instruments and deferred taxes were EUR 17.8 million (41.2). The assets are located in Finland – EUR 17.8 million (29.8) – and Russia – EUR 0.0 million (11.4).

4. Divested business operations

In May 2013, Neo Industrial sold its companies in the Cable segment in Russia, with the exception of a sales company that sells the products of the Group´s Finnish factories in Russia. The selling price consisted of the sale of the shares and the sale of Group receivables from Finnish companies at the closing of the transaction. For this reason, the transaction is included in cash flows from both business operations and investment in the cash flow statement. The consideration for the selling price was paid entirely in cash. The gain from the sale was EUR 1.0 million, including the fees paid to the experts involved in performing the transaction. The gain is recognised in other operating income. The parties have decided not to publish the price.

| | EUR 1,000 |
|---|---|
| Assets and liabilities of divested companies: | |
| Tangible and intangible non-current assets | 11,495 |
| Inventories | 1,500 |
| Sales receivales and other receivables | 1,627 |
| Cash and cash equivalents | 67 |
| Financial liabilities | -8,385 |
| Accounts payable and other liabilities | -7,383 |
| Net assets | -1,078 |

Additionally, following subsidiaries and associates were traded off in 2013: Finndomo Ltd, Carbatec Ltd, Advanced Cellulosic Fiber Company Ltd. In this connection Avilon Fibres Ltd, subsidiary of Carbatec Ltd, was also traded off from the Group.

5. Net sales

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Net sales from industrial business operations | 83,032 | 106,234 |
| Net sales, total | 83,032 | 106,234 |

6. Other operating income

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Subsidies received | 66 | 100 |
| Rental income | 106 | 96 |
| Sales of Russian operations | 993 | 0 |
| Other income | 144 | 112 |
| Total | 1,310 | 308 |

7. Other operating expenses

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Rental expenses | -2,727 | -2,625 |
| Machinery and property maintenance costs | -2,255 | -3,026 |
| Sales and marketing expenses | -701 | -828 |
| Other expenses | -4,945 | -4,476 |
| Total | -10,627 | -10,955 |

The item “Other expenses” includes EUR 52,000 in fees paid to auditors for the audit of the accounts (EUR 218,000) and EUR 35,000 in fees for other consulting services (EUR 207,000).

8. Depreciation and impairment

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Depreciation by commodity group | | |
| Intangible non-current assets | | |
| Customer relationships | -275 | -275 |
| Product brands and trademarks | -105 | -106 |
| Other intangible assets | -280 | -278 |
| Total | -660 | -658 |
| Tangible non-current assests | | |
| Buildings | -254 | -867 |
| Machinery and equipment | -1,681 | -2,347 |
| Total | -1,935 | -3,214 |
| Impairment by commodity group | | |
| Buildings | -323 | 0 |
| Total depreciation and impairment | -2,918 | -3,872 |

The impairment recognised on buildings in total EUR 0.5 million of which EUR 0.3 million in year 2013 is based on the difference between the estimated income and expenses related to a long-term lease agreement.

In the Cable segment, the useful economic lives of machines and production lines were reassessed in September. The related depreciation periods were adjusted in accordance with the actual useful lives. The adjustment had a positive effect of EUR 0.3 million in the result of the review period.

## 9. Personnel expenses

| EUR 1,000 | 2013 | 2012 |
|---|---|---|
| Salaries and fees | 10,991 | 14,027 |
| Pension expenses, defined contribution plans | 1,590 | 1,839 |
| Other personnel expenses | 657 | 882 |
| Total | 13,237 | 16,748 |

Management benefits are presented in note 30 (“Related-party transactions”).

Average number of personnel in continuing operations in the financial period:

| | 2013 | 2012 |
|---|---|---|
| Total | 323 | 473 |
| Cable segment | 318 | 458 |

## 10. Research and development expenses

The income statement includes EUR 0.3 million (0.8) in research and development costs recognised as expenses. Of these, 0.4 million were related to discontinued operations in 2012.

## 11. Financial income and expenses

Financial income

| EUR 1,000 | 2013 | 2012 |
|---|---|---|
| Interest revenues | 110 | 48 |
| Income from metal derivates | 0 | 16 |
| Positive value changes in financial derivates | 1,029 | 0 |
| Exchange rate differences | 390 | 157 |
| Other financial income | 169 | 1 |
| Total | 1,698 | 223 |

Financial expenses

| EUR 1,000 | 2013 | 2012 |
|---|---|---|
| Interest expenses | -1,494 | -846 |
| Interest expenses on finance leases | -112 | -115 |
| Expenses on metal derivates | -32 | 0 |
| Negative value changes in financial derivates | 0 | -430 |
| Exchange rate differences | -386 | -512 |
| Guarantee liabilities recognised on the balance sheet related to Avilon Ltd's bankruptcy | 0 | -3,034 |
| Other financial expenses | -416 | -2,294 |
| Total | -2,440 | -7,231 |
| | | |
| Total exchange rate differences | 3 | -355 |

12. Taxes

| EUR 1,000 | 2013 | 2012 |
|---|---|---|
| Taxes payable on profit | -70 | -48 |
| Taxes from previous financial periods | 1 | -13 |
| Deferred tax on profit | 636 | 299 |
| Total | 567 | 238 |

Reconciliation of the tax expense in the income statement and taxes calculated at the domestic tax rate (24.5%)

| EUR 1,000 | 2013 | 2012 |
|---|---|---|
| Result from continuing operatons before taxes | -1,748 | -6,211 |
| Taxes calculated at the domestic tax rate | -428 | -1,522 |
| Effect of tax-exempt income | 179 | -1 |
| Effect of non-deductible expenses | -535 | 962 |
| Effect of different tax rates applicable to foreign subsidiaries | -29 | -7 |
| Effect of unrecognised deferred tax receivables related to taxable losses | 928 | 314 |
| Taxes from previous periods | 0 | 13 |
| Change in deferred tax-Change in domestic tax rate | -666 | 0 |
| Other items | -16 | 3 |
| Taxes on the income statement | -567 | -238 |

With the exception of IFRS conversions, the deferred tax assets of the foreign companies are not included in the financial statements on the closing date.

13. Earnings per share

| | 2013 | 2012 |
|---|---|---|
| Profit from the financial period attributable to shareholders of the parent company, EUR 1,000 | -1,163 | -7,423 |
| Weighted average number of shares during the period | 5,928,633 | 5,928,633 |
| Undiluted earnings per share | -0.20 | -1.25 |
| Weighted diluted average number of shares during the period (number) | 5,928,633 | 5,928,633 |
| Earnings per share adjusted for dilution | -0.20 | -1.25 |

Earnings per share from continuing and discontinued operations:

| | | |
|---|---|---|
| Earnings per share attributable to the shareholders of the parent before and after dilution, EUR | | |
| continuing operations | -0.20 | -1.00 |
| Earnings per share attributable to the shareholders of the parent before and after dilution, EUR | | |
| Discontinued operations | 0.00 | -0.25 |
| Earnings per share attributable to the shareholders of the parent before and after dilution, EUR | -0.20 | -1.25 |
| Number of shares | 5,928,633 | 5,928,633 |

The undiluted earnings per share are calculated by dividing the profit attributable to the shareholders of the parent company by the weighted average number of outstanding shares during the financial period.

When adjusting earnings per share for dilution, the diluting effect of the conversion of all potential ordinary shares is taken into account in the weighted average number of shares. The Group had no dilutive instruments on the closing date of the financial period.

14. Tangible non-current assets

| | **Land and water areas** | **Buildings** | **Machinery and equipment** | **Motor vehicles** | **Advance payments and acquisitons in progress** | **Total** |
|---|---|---|---|---|---|---|
| Acquisition costs 1/1/2013 | 1,338 | 7,394 | 27,264 | 270 | 260 | 36,526 |
| Increase | 0 | 0 | 2,108 | 0 | 76 | 2,184 |
| Decrease | -1,326 | -5,314 | -4,747 | 0 | -260 | -11,647 |
| Exchange rate differences | -12 | -48 | 646 | 0 | 0 | 586 |
| Acquisition costs 31/12/2013 | 0 | 2,032 | 25,271 | 270 | 76 | 27,649 |
| Accumulated depreciation and impairment 1/1/2013 | 0 | 2,537 | 14,989 | 140 | 0 | 17,667 |
| Depreciation | 0 | 575 | 1,660 | 20 | 0 | 2,255 |
| Decrease | 0 | -2,399 | -2,375 | 0 | 0 | -4,774 |
| Exchange rate differences | 0 | -21 | 242 | 0 | 0 | 221 |
| Accumulated depreciation and impairment 31/12/2013 | 0 | 692 | 14,516 | 160 | 0 | 15,368 |
| Book value 1/1/2013 | 1,338 | 4,857 | 12,275 | 130 | 260 | 18,861 |
| Book value 31/12/2013 | 0 | 1,340 | 10,755 | 110 | 76 | 12,281 |

| | **Land and water areas** | **Buildings** | **Machinery and equipment** | **Motor vehicles** | **Advance payments and acquisitons in progress** | **Total** |
|---|---|---|---|---|---|---|
| Acquisiton costs 1/1/2012 | 1,483 | 24,790 | 32,145 | 270 | 0 | 58,688 |
| Transfer, discontinued operations | -191 | -3,618 | -6,420 | 0 | 0 | -10,229 |
| Increase | 0 | 142 | 1,432 | 0 | 260 | 1,834 |
| Decrease | 0 | -14,114 | -36 | 0 | 0 | -14,150 |
| Exchange rate differences | 46 | 194 | 143 | 0 | 0 | 383 |
| Acquisiton costs 31/12/2012 | 1,338 | 7,394 | 27,264 | 270 | 260 | 36,526 |
| Accumulated depriciation and impairment 1/1/2012 | 0 | 6,454 | 12,425 | 120 | 0 | 18,999 |
| | 0 | -672 | -246 | 0 | | -918 |
| Depreciation | 0 | 867 | 2,327 | 20 | | 3,213 |
| Decrease | 0 | -4,181 | 435 | | | -3,746 |
| Exchange rate differences | 0 | 70 | 49 | | | 119 |
| Accumulated depriciation and impairment 31/12/2012 | 0 | 2,537 | 14,989 | 140 | | 17,667 |
| Book value 1/1/2012 | 1,483 | 18,337 | 19,720 | 150 | 0 | 39,690 |
| Book value 31/12/2012 | 1,338 | 4,857 | 12,275 | 130 | 260 | 18,861 |

Tangible non-current assets include assets leased through financial leases as follows:

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| **Bulidings** | | |
| Acquisition costs 1/1 | 2,146 | 14,560 |
| Decrease | 0 | -12,414 |
| Acquisition costs 31/12 | 2,146 | 2,146 |
| | | |
| Accumulated depriciation 1/1 | 397 | 2,782 |
| Decrease in accumulated depreciation | 0 | -2,470 |
| Depreciation for the period | 86 | 86 |
| Impairment | 323 | 0 |
| Accumulated depriciation 31/12 | 806 | 397 |
| | | |
| Book value 31/12 | 1,340 | 1,749 |

15. Intangible non-current assets

| EUR 1,000 | Goodwill | Other intangible | Total |
|---|---|---|---|
| Acquisition costs 1/1/2013 | 3,484 | 9,980 | 13,464 |
| Increase | 0 | 140 | 140 |
| Decrease | -232 | -4,333 | -4,565 |
| Exchange rate differences | 0 | -38 | -38 |
| Acquisition costs 31/12/2013 | 3,252 | 5,749 | 9,001 |
| Accumulated depreciation and impairment 1/1/2013 | 0 | 3,283 | 3,283 |
| Depreciation | 0 | 660 | 660 |
| Accumulated depreciation and impairment 31/12/2013 | 0 | 3,943 | 3,943 |
| Book value 1/1/2013 | 3,484 | 6,697 | 10,181 |
| Book value 31/12/2013 | 3,252 | 1,806 | 5,058 |
| Acquisition costs 1/1/2012 | 3,477 | 13,480 | 16,957 |
| Transfer, discontinued operations | 0 | -4,002 | -4,002 |
| Increase | 0 | 1,512 | 1,512 |
| Decrease | 0 | -1,155 | -1,155 |
| Exchange rate differences | 7 | 145 | 152 |
| Acquisition costs 31/12/2012 | 3,484 | 9,980 | 13,464 |
| Accumulated depreciation and impairment 1/1/2012 | 0 | 2,862 | 2,862 |
| Transfer, discontinued operations | 0 | -239 | -239 |
| Depreciation | 0 | 658 | 658 |
| Exchange rate differences | 0 | 2 | 2 |
| Accumulated depreciation and impairment 31/12/2012 | 0 | 3,283 | 3,283 |
| Book value 1/1/2012 | 3,477 | 10,618 | 14,095 |
| Book value 31/12/2012 | 3,484 | 6,697 | 10,181 |

Other intangible non-current assets include the following items: customer relationships, product brands and trademarks, electricity and natural gas connection rights, emission rights, activated IT software, licences and rights to technological methods.

On the closing date of the financial period in the Cable segment, under other intangible assets, the book value of intangible assets with indefinite useful lives was EUR 0.0 million (4.3). The amount consisted of electricity, gas, water and waste water connections in Russia. These excluded from the Group´s Balance Sheet when OAO Expokabel and ZAO Reka Kabel were sold in May 2013.

The goodwill recognised in the financial statements arose from the acquisition of shares in Reka Cables Ltd and it has been allocated entirely to the Cable segment for impairment testing purposes. The recoverable amount has been determined based on value in use calculations. The calculations are based on forecasts approved by the management for a period of four years. Cash flows after the forecast period have been predicted using a growth assumption of 0 percent. The projected cash flows are discounted at the present date. In the Cable segment, the discount rate after taxes was 6.99 percent (6.62 percent).

The following are the most significant factors used in the calculations related to the Cable segment: the prices of metals and other key raw materials in euros, the effects of demand and competition on volumes and market prices, the timing of infrastructure investments and the expansion of cooperation with key customers. The prediction calculations are based on actual outcome information and predictions updated based on the actual outcome. The effects of the investments as well as changes made to operating models – those already visible in 2013 – have been taken into account in the predictions. With regard to growth, the predictions are moderate. Sensitivity calculations have been used to simulate the effects of market prices and the prices of key raw materials on the result and working capital items. The effects of changes in discount rate levels have also been examined using sensitivity calculations. Based on the sensitivity calculations, the present value of future cash flows is larger than the investments, even if profit margins were to decrease by seven percentage or discount rates were over thirty percent higher over the years covered by the prediction.

According to the results of the impairment tests, the company has no need to recognise impairments. The recoverable amount determined in impairment testing exceeds the book value of the units tested.

16. Holdings in associates

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| At the beginning of the period | 0 | 6,369 |
| Impairment | 0 | -6,369 |
| At the end of the period | 0 | 0 |

On the closing date of the financial period, Neo Industrial’s associated company was Nestor Cables Ltd.

The value of the shares of Nestor Cables Ltd is zero in the 2013 financial statements.

Nestor Cables is domiciled in Oulu. Its assets in the financial statements are EUR 17.4 million (18.2), and its liabilities are EUR 20.7 million (21.7 million). Subordinated loans constitute EUR 5.5 million (5.5) of the liabilities. The company’s net sales in 2013 were EUR 25.4 million (27.4), and its operating result was EUR 0.2 million (-0.5). The company launched production in 2008. Neo Industrial’s share of the company is 22.94 percent. The unrecognised share of Nestor Cables’ result in 2013 is EUR 0.1 and that of its cumulative loss is EUR 0.9 million, because the company’s value on the consolidated balance sheet is EUR 0 and the Group does not carry any liabilities regarding Nestor Cables Ltd.

The above figures (net sales, assets and liabilities) were calculated in keeping with the associated companies’ accounting principles.

17. Deferred tax assets and liabilities

Deferred tax assets from losses are recognised based on future profit expectations. With the exception of IFRS conversions, the deferred tax assets of the foreign companies are not included in the financial statements on the closing date.

Changes in deferred taxes during 2013:

| EUR 1,000 | **1/1/2013** | **Recorded in the income statement** | **Exchange rate differences** | **Transfer, discontinued operations** | **31/12/2013** |
|---|---|---|---|---|---|
| **Deferred tax receivables** | | | | | |
| Provisions | 195 | -35 | 0 | 0 | 160 |
| Deferred tax receivables on losses | 1,972 | 236 | 0 | 0 | 2,208 |
| Other items | 142 | 0 | 0 | -142 | 0 |
| Total | 2,309 | 201 | 0 | -142 | 2,368 |
| | | | | | |
| **Deferred tax liabilities** | | | | | |
| Accumulated depreciation difference | -1,437 | 260 | 0 | 0 | -1,177 |
| Purchase price allocation in accordance with IFRS 3 and recognition of costs resulting from the allocation | -1,878 | 175 | 0 | 1,507 | -196 |
| Other items | -5 | 0 | 5 | 0 | 0 |
| Total | -3,320 | 435 | 5 | 1,507 | -1,374 |

Confirmed losses of the Group companies expire in 2019 or later. Deferred tax receivables on losses were not recognised for the Group's foreign companies.
In the Cable segment, deferred tax receivables on losses have been recognised for Reka Cables Ltd and its parent company. These are recognised as a single entity and evaluated based on Reka Cables' actual results and on long-term predictions that have updated on the basis on the actual results and for which sensitivity analyses have been carried out. Deferred tax receivables has not been recognised with regard to the tax loss of the Group's parent company in 2013. The change of tax rate has been updated through profit and loss.

Changes in deferred taxes during 2012:

| EUR 1,000 | 1/1/2013 | Recorded in the income statement | Exchange rate differences | Transfer, discontinued operations | 31/12/2013 |
|---|---|---|---|---|---|
| **Deferred tax receivables** | | | | | |
| Provisions | 236 | -41 | 0 | 0 | 195 |
| Deferred tax receivables on losses | 2,213 | 11 | 0 | -252 | 1,972 |
| Other items | 161 | -19 | 0 | 0 | 142 |
| Total | 2,610 | -49 | 0 | -252 | 2,309 |
| | | | | | |
| **Deferred tax liabilities** | | | | | |
| Accumulated depreciation difference | -1,460 | 23 | 0 | 0 | -1,437 |
| Purchase price allocation in accordance with IFRS 3 and recognition of costs resulting from the allocation | -2,086 | 208 | 0 | 0 | -1,878 |
| Other items | 8 | 0 | -13 | 0 | -5 |
| Total | -3,538 | 231 | -13 | 0 | -3,320 |

## 18. Inventories

| EUR 1,000 | 2013 | 2012 |
|---|---|---|
| Materials and supplies | 3,386 | 4,318 |
| Production in progress | 4,249 | 3,912 |
| Finished products | 5,278 | 7,313 |
| Total | 12,913 | 15,543 |

In years 2012 and 2013 there has not been any inventory impairment.

## 19. Current receivables

Current receivables were distributed as follows:

| EUR 1,000 | 2013 | 2012 |
|---|---|---|
| Sales receivables | 2,324 | 2,381 |
| Factoring receivables | 8,247 | 9,850 |
| Other receivables | 2,350 | 3,095 |
| Total | 12,920 | 15,326 |

**Age distribution of Sales receivables 31/12/2013**

EUR 1,000

| Total | undue | less than 7 days | less than 14 days | less than 30 days | less than 60 days | more than 60 days |
|---|---|---|---|---|---|---|
| 10,571 | 8,960 | 617 | 444 | 360 | 190 | 0 |

**Age distribution of Sales receivables 31/12/2012**

EUR 1,000

| Total | undue | less than 7 days | less than 14 days | less than 30 days | less than 60 days | more than 60 days |
|---|---|---|---|---|---|---|
| 12,231 | 10,765 | 649 | 592 | 83 | 20 | 122 |

The Cable segment has a partial factoring arrangement related to sales receivables. The entire amount of sales receivables was recognised, because the criteria for derecognition were not met. The credit facility used is recognised in current interest-bearing liabilities.

The factoring credit was secured by sales receivables. The factoring credit stood at a total of EUR 6.6 million (8.8) and is included in current financial liabilities.

Current receivables distributed by currency:

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| EUR | 11,360 | 12,161 |
| SEK | 1,100 | 2,455 |
| DKK | 279 | 332 |
| RUB | 109 | 148 |
| NOK | 72 | 230 |
| Total | 12,920 | 15,326 |

With the bankruptcies of Avilon Fibres Ltd and Carbatec Ltd, receivables related to the Viscose Fibres segment have been recorded as write-offs through profit or loss in 2012. There are no other impairment of financial assets.

20. Cash and cash equivalents

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Cash and bank | 1,224 | 504 |

21. Shareholders' equity

| | **2013** | | **2012** | |
|---|---|---|---|---|
| **The parent company's share capital by share series** | Number | Shareholders' equity EUR 1,000 | Number | Shareholders' equity EUR 1,000 |
| Series A (20 votes/share) | 139,600 | 558 | 139,600 | 558 |
| Series B (1 vote/share) | 5,880,760 | 23,524 | 5,880,760 | 23,524 |
| | 6,020,360 | 24,082 | 6,020,360 | 24,082 |

Neo Industrial Plc has two series of shares. The maximum number of A shares is 0.2 million (0.2 million in 2011), and the maximum number of B shares is 9.6 million (9.6 million). All issued shares are paid up in full.

Premium fund and reserve fund
The premium fund and reserve fund were set up before 1998. Their use is governed by the Limited Liability Companies Act.

Other unrestricted equity
Other unrestricted equity was created in 2000 through a reduction in the share capital. At the time, the amount equivalent to the reduction was transferred to a fund to be used in accordance with the Annual General Meeting's decision.

Translation differences
Translation differences primarily consist of differences arising from the conversions of foreign units' financial statements and intra-Group loans.

Dividends

The Board proposes to the Annual General Meeting that no dividends will be paid for 2013. No dividends were paid for 2012.

## 22. Provisions

| EUR million | Product warranty provisions | Provision of unpaid purchase price | Environmental guarantee | Other provisions | Total |
|---|---|---|---|---|---|
| **31/12/2012** | 0.8 | 2.7 | 0.3 | 0.7 | 4.5 |
| Changes resulted from the sale of subsidiaries | -0.1 | | | | -0.1 |
| Increase | 0.1 | | | | 0.1 |
| Decrease | | -0.2 | -0.3 | -0.7 | -1.2 |
| **31/12/2013** | 0.8 | 2.5 | 0.0 | 0 | 3.3 |

| EUR million | **2013** | **2012** |
|---|---|---|
| Long-term provisions | 3.1 | 3.6 |
| Short-term provisions | 0.2 | 0.9 |
| Total | 3.3 | 4.5 |

The provisions EUR 3.3 million on the consolidated balance sheet consist of product warranty provisions (EUR 0.8 million) and the discounted balance sheet value (EUR 2.5 million) of the instalments of Avilon Fibres Ltd’s industrial premises for the price remaining unpaid, for which the Group has granted a guarantee.

In the closing of the books for 2012 the provisions EUR 4.5 million on the consolidated balance sheet consisted of product warranty provisions (EUR 0.8 million), accounts receivable write-offs (EUR 0.7 million), a guarantee liability provision related to an environmental guarantee (EUR 0.3 million) and discounted balance sheet value (EUR 2.7 million) of the instalments of Avilon Fibres Ltd’s industrial premises for the price remaining unpaid, for which the Group has granted a guarantee.

The product warranty are made based on claims made but not yet paid as well as assigned provisions based on experience from past years. The assigned provision takes into account any compensation obligations potentially occurring in the Cable segment over a period of ten years, unless otherwise agreed with the customer.

23. Financial liabilities

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| **Long-term financial liabilities valued at allocated acquisition cost** | | |
| Loan the proceeds of which are partly tied to the company's share performance | 5,361 | 5,174 |
| Finance lease agreements | 1,947 | 1,997 |
| Other loans | 801 | 2,038 |
| Total | 8,109 | 9,209 |
| **Short-term financial liabilities valued at allocated acquisition cost** | | |
| Revolving bank credits | 5,601 | 5,679 |
| Bank loans | 5,633 | 8,633 |
| Factoring credit | 6,595 | 8,806 |
| Other loans | 534 | 314 |
| Finance lease agreements | 50 | 48 |
| Total | 18,413 | 23,479 |

The Group's bank and financing loans have floating interest rates. Finance leases have fixed interest rates. In addition to a fixed interest rate, an effective interest rate applies to the loan the proceeds of which are partly tied to the company's share performance. The Group's average interest rate on 31 December 2013 was 5.1 percent (4.3).

The amounts of consolidated liabilities and their re-pricing periods under the agreements:

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Less than 6 months | 12,246 | 14,484 |
| 6-12 months | 6,167 | 8,995 |
| More than 12 months | 8,109 | 9,209 |
| Total | 26,522 | 32,688 |

All loans are denominated in euro.

*Maturing of finance lease agreements*

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Finance lease agreements - total amount of minimum lease payments | | |
| Within 1 year | 160 | 160 |
| 1-5 years | 640 | 640 |
| After 5 years | 2,693 | 2,827 |
| Total | 3,493 | 3,627 |
| | | |
| Unaccumulated financial expenses | -1,489 | -1,582 |
| Present value of finance agreements | 2,005 | 2,044 |
| | 8 | 0 |
| Finance lease agreements - present value of minimum lease payments | | |
| Within 1 year | 50 | 48 |
| 1-5 years | 228 | 218 |
| After 5 years | 1,727 | 1,779 |
| Total | 2,005 | 2,044 |

In the spring of 2012, it was determined that the availability of premises for the Cable segment can be ensured, regardless of the tenure of the lease, if the lessor is a company of the Reka Group. The leases for premises were adjusted on the initiative of Reka Cables. As a result, the recognition of leases in accordance with IFRS changed, and finance leases were eliminated from the balance sheet. Finance lease agreements eliminated from the balance sheet totalled EUR 9.7 million.

Located next to the Valkeakoski plant, the Kirjasniemi residential area is leased from the bankruptcy estate of the Kuitu Finland for 25 years as a part of a comprehensive restructuring carried out in the Viscose Fibres segment in 2010. Neo Industrial has the option to continue the lease for another 25 years, and it also has the right to purchase the area based on a preliminary agreement signed in 2010. The long-term lease for the Kirjasniemi residential area is recognised as a financial lease agreement. Avilon Fibres Ltd´s bankruptcy does not affect the terms of the lease.

24. Accounts payable and other liabilities

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Current financial liabilities valued at allocated acquisitions cost | | |
| Accounts payable | 2,477 | 4,844 |
| Personnel expenses allocated by period | 2,262 | 2,859 |
| Accruals and deferred income | 3,067 | 1,815 |
| Other liabilities | 365 | 2,848 |
| | | |
| Total | 8,171 | 12,367 |

Non-interest-bearing current liabilities distributed by currency:

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| EUR | 7,908 | 10,517 |
| RUB | 91 | 1,651 |
| Other currency | 172 | 199 |
| | 8,171 | 12,367 |

25. Financial risk management

The Group’s business operations involve risks related to financing. Neo Industrial’s primary financial risks are currency, interest rate, commodity, liquidity, credit and investment market risks.

The Board of Directors approves the Group’s general risk management principles. The operational management is responsible for the practical implementation of these principles. Operating under the parent company’s Board of Directors, the audit committee is responsible for assessing the sufficiency and pertinence of risk management.

For risk management, the Group uses forward contracts, options, commodity derivatives, interest rate swaps and reference rate changes, if necessary, as well as various selling and buying orders based on threshold values.

*Currency risk*
Operating internationally, the Group is subjected to currency transaction risks as well as risks that arise when different currencies, investments, assets and liabilities are converted into the parent company’s functional currency. For the Group, the most significant currencies are the U.S. dollar (USD), the Swedish krona (SEK) and the Russian rouble (RUB). In relation to these, currency positions are determined at least once a year, and the currency positions are hedged, in accordance with foreign exchange trends, with hedging instruments to a degree ranging from 0 to 125 percent. Currently, the Group has not hedged net investments in foreign units by using external loans denominated in the corresponding currency or by using foreign exchange forward contracts. All of the Group’s external loans are denominated in euros. On the closing date of the financial period, the group had no open currency hedges.

The U.S. dollar is important for the Group, because the prices of the metals and pulp it purchased are determined based on the dollar. On the other hand, the market prices of viscose fibres are also based on dollar prices. The combined effect of metal, pulp and viscose fibre prices and the USD/EUR ratio is essential to the Group. If the dollar had been 10 percent stronger against the euro on the closing date of the financial period, its effect on the operating result before taxes would have been EUR 0.0 million (0.0). Had the dollar been 10 percent weaker, its effect would have been EUR 0.0 million (0.0).

The significance of the Russian rouble is evident on the balance sheets of the companies in Russia and in the development of the operating result. After the sale of the manufacturing companies in Russia, May 2013, the effect of the currency has deteriorated. From the competitiveness point of view the most important factor in future is how the prices of USD price based raw materials are handled in the local manufacturers offers when the rouble weakens.

*Interest rate risk*
The Group’s interest rate risks arise from borrowing.

The reference rates for external loans are the 1-week Euribor and 1-month Euribor. Finance leases have fixed interest rates, as does the loan the proceeds of which are partly tied to the company’s share performance. On the closing date of the financial year, the Group’s average financing rate for external loans was 5.1 percent (4.3). If the average interest rate had been 1 percentage point higher, it would have affected the Group’s result before taxes by EUR -0.3 million (-0.4 million).

*Commodity risk*
In the Cable segment, the key raw materials are metals (copper and aluminium) and plastics. Partial price hedging through commodity derivatives is used in metal purchases. In terms of metals, the development of dollar prices is important for the Group, as is the development of the USD/EUR ratio. If the market value of aluminium had been 10 percent higher on the closing date of the financial period, its effect on the operating

result before taxes would have been EUR 0.0 million (0.1) in terms of commodity derivatives. Had the market value of aluminium been 10 percent lower, its effect on the operating result before taxes would have been EUR 0.0 million (-0.1 million). If the market value of copper had been 10 percent higher on the closing date of the financial period, its effect on the operating result before taxes would have been EUR 0.0 million (0.0) in terms of commodity derivatives. Had the market value of copper been 10 percent lower, its effect on the operating result before taxes would have been EUR 0.0 million (0.0).

*Liquidity risk*

The Group´s liquidity situation is tight. To assure the liquidity situation, the Group strives to negotiate adjustments to payment terms and agreements and to liquidate capital from its operations. The fluctuation of raw material prices and currencies as well as seasonal market changes present challenges in working capital management.

The Cable segment´s challenge is to ensure favourable operating conditions. To assure those conditions the Group needs to be able to renegotiate payment terms or liquidate capital from its operations in other ways. Measures are in progress to ensure operating conditions.

In the Cable segment, the most significant risks are related to market development, working capital management and fluctuations in the prices of raw materials and currencies. During considerable seasonal changes, suppliers´ terms of payment have an essential effect to the company´s ability to ensure competitive delivery times through sufficient inventories.

The bankruptcy estate of Kuitu Finland Ltd brought an action against Neo Industrial on 9 April. The action is related to the transaction of the industrial premises of Avilon Fibres, Neo Industrial´s former subsidiary and Neo Industrial guarantee on the transaction. The action demands that Neo Industrial pays the remaining amount (EUR 5.0 million) as a one-off payment plus penalty interest, legal expenses and an adjustment (EUR 309,000) based on the building cost index, contrary to the 25-year payment plan stated in the agreement. Neo Industrial considers the action to be unfounded and is seeking for agreement with the bankruptcy estate of Kuitu Finland. The provisions in Neo Industrial´s consolidated financial statements for 2012 include the discounted balance sheet value (EUR 2.7 million) of the instalments of Avilon Fibres´ industrial premises for the price remaining unpaid. In the parent company´s financial statements (FAS), the instalments are not discounted, for which reason the related provision is EUR 5.0 million. If the action is successful, the Group will have to pay the amount demanded deducted by the instalment made in 2013, in total EUR 5.1 million as a one-off payment, contrary to the 25-year payment plan stated in the sales agreement. Neo Industrial has given equivalent to this action. The District Court of Pirkanmaa dismissed the action of the bankruptcy estate of Kuitu Finland on 17 March and ordered Kuitu Finland to repay Neo Industrial Plc for the legal expenses. The bankruptcy estate of Kuitu Finland has expressed dissatisfaction with the decision.

The Group aims to continuously evaluate and monitor the amount of financing required by its business operations in order to ensure that the Group has sufficient liquid funds to finance operations and repay loans. To guarantee liquidity, external loan funding includes accounts with credit facilities and funding for sales receivables. This makes it easier to respond to seasonal fluctuations in the different segments.

In the Cable segment, unused credit facilities totalled EUR 12.3 million on 31 December 2013 (10.0). Factoring credit facilities represented EUR 11.4 million of this total (9.2).

| EUR 1,000 | Balance sheet value | Cash flow | Less than 1 year | 1 - 2 years | 2 - 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| **31/12/2013** | | | | | | |
| Bank loans | 5,633 | 5,633 | 5,633 | 0 | 0 | 0 |
| Other Loans | 1,335 | 1,445 | 600 | 571 | 274 | |
| Loan the proceeds of which are partly tied to the company's share performance | 5,361 | 8,897 | 450 | 450 | 6,488 | 0 |
| Finance lease agreements | 1,997 | 3,493 | 160 | 160 | 480 | 2,693 |
| Revolving bank credit, in use | 5,601 | 5,601 | 5,601 | | | |
| Factoring credit | 6,595 | 6,595 | 6,595 | | | |
| Accounts payable and other liabilities | 2,848 | 2,848 | 2,842 | 6 | | |
| Total | 29,370 | 34,512 | 21,881 | 1,187 | 7,242 | 2,693 |
| | | | | | | |
| **Derivatives** | | | | | | |
| Commodity derivatives | 10 | 10 | 10 | | | |
| Financial derivatives | 314 | 314 | 0 | 0 | 314 | |

| EUR 1,000 | Balance sheet value | Cash flow | Less than 1 year | 1 - 2 years | 2 - 5 years | More than 5 years |
|---|---|---|---|---|---|---|
| **31/12/2012** | | | | | | |
| Bank loans | 8,633 | 8,633 | 8,633 | 0 | 0 | 0 |
| Other loans | 2,351 | 2,550 | 1,106 | 600 | 845 | 0 |
| Loan the proceeds of which are | 5,174 | 8,897 | 892 | 644 | 7,361 | 0 |
| Finance lease agreements | 2,044 | 3,627 | 160 | 160 | 480 | 2,827 |
| | 0 | 0 | 0 | 0 | 0 | 0 |
| Revolving bank credit | 5,679 | 5,679 | 5,679 | | | |
| Factoring credit | 8,806 | 8,806 | 8,806 | | | |
| Accounts payable and other liabilities | 7,699 | 7,699 | 7,693 | 6 | | |
| Total | 40,386 | 45,891 | 32,969 | 1,410 | 8,686 | 2,827 |
| | | | | | | |
| **Derivatives** | | | | | | |
| Commodity derivatives | 25 | 25 | 19 | 6 | | |
| Financial derivatives | 1,343 | 1,343 | 0 | 0 | 1,343 | |

The figures are undiscounted and include both interest payments and principal repayments.

Neo Industrial’s loan the proceeds of which are partly tied to the company’s share performance includes covenants. The key covenants concern restrictions related to the issue of new shares and the size of the dividend. The requirements of the covenants were met on the closing date of the financial period.

In February, Reka Cables signed a short-term financing agreement of EUR 2.0 million, which created better conditions for increasing delivery capacity for the high season in spring. The short-term loan was repaid and short-term financing agreements were signed.

*Credit risk*

The Group manages its credit risk by regularly monitoring the credit rating of its key partners – customers, suppliers and other partners – and by regularly and actively monitoring customer payment behaviour and external information. In addition, Reka Cables Ltd has customer-specific credit insurance. The Group also manages its credit risk through market-specific and customer-specific payment terms. The Group's maximum credit risk corresponds to the book value of financial assets at the end of the financial period. Age analysis of sales receivable is presented in enclosure 19. The Group's largest customers, who represent more than 10 percent of net sales, are presented in note 3 ("Segment information").

*Investment market risk*
Through its investments in securities, the Group is subjected to investment market risks. Market prices of shares, changes in fund values and the general market situation affect the company's performance through changes in the values of said investments. The company had no active investments in securities on the closing date of the financial period.

**Derivative financial instruments valid on the closing date of the financial period:**

| EUR 1,000 | Positive current values | Negative current values | Current net values 31/12/2013 | Current net values 31/12/2012 | Nominal values 31/12/2013 | Nominal values 31/12/2012 |
|---|---|---|---|---|---|---|
| **Financial derivatives** | | | | | | |
| Option contracts | | -314 | -314 | -1343 | 0 | 0 |
| **Raw material options** | | | | | | |
| Metal derivatives | 21 | -11 | 10 | 25 | 422 | 1,358 |
| **Total derivatives** | 21 | -325 | -304 | -1,318 | | |

Raw-material derivatives and currency derivatives have been valued using third-party market value reports (hierarchy level 2). Financial derivatives represent hierarchy level 3. The loan the proceeds of which are partly tied to the company's share performance is valued at the end of each quarter using the Black-Scholes model. It is recognised at fair value in the balance sheet. If the price of the company's share had been 10 percent higher on the closing date of the financial period, its effect on the operating result before taxes would have been EUR -0.1 million (-0.2). Had the share price been 10 percent weaker, its effect would have been EUR 0.1 million (0.2). If the price of the company's share is higher than EUR 2.78 on the loan repayment date, the lender will receive an additional payment. If the share price were EUR 3.20 on the loan repayment date, the additional payment would be EUR 0.9 million (0.9).

26. Capital management

The Group invests in industrial companies. In capital management, it monitors key figures, such as return on investment (ROI), equity ratio, operating profit and earnings per share.

Neo Industrial aims to distribute at least 30 percent of its net earnings as dividends.

27. Fair values of financial assets and liabilities

Derivatives are presented in note 25. Other cash and cash equivalents as well as receivables and liabilities are recognised in accordance with the amount open in the financial statements, excluding any credit losses. The Group does not apply hedge accounting. All income and expenses from derivatives are recognised through the income statement.

28. Other leases

The Group as a lessee
Minimum lease payments based on non-cancellable other leases:

| EUR 1,000 | 2013 | 2012 |
|---|---|---|
| Within 1 year | 2,164 | 2,163 |
| 1-5 years | 280 | 284 |
| After 5 years | 0 | 0 |
| Total | 2,444 | 2,447 |

The Group has leased many of its production and office facilities. Some leases for premises are recognised as finance lease agreements. Other leases for premises have an average term of three to six years and they usually involve an option to continue the lease after the original termination date. The agreements usually include a term that ties the rent to an index.

The Group has leased most of its IT equipment and software, vehicles and forklifts. The average duration of these leases is three years, and they do not meet the criteria for financial leases.

The income statement for 2013 includes EUR 1.0 million (1.2) in expenses based on other leases.

29. Contingent liabilities and commitments

| EUR 1,000 | **31/12/2013** | **31/12/2012** |
|---|---|---|
| Debts secured against business mortgages, securities or guarantees | | |
| Loans from financial institutions | 11,234 | 14,312 |
| Granted business mortgages | 35,000 | 35,000 |
| Book value of pledged securities | 25,888 | 25,885 |
| Granted guarantees | 11,234 | 14,312 |
| | | |
| Other collateral | | |
| Guarantees and payment commitments | 1,038 | 1,038 |

Investment commitments
On December 2013 Investment commitments for tangible fixed assets amounted to EUR 0.1 million (0.2).

30. Related-party events

The Group´s related parties include the subsidiaries and associated companies, other companies belonging to the Reka Group, the Group´s Board of Directors and management group. The management group consists of General Manager and CFO. Also related parties include companies, that have ownership connection through the owner who has significant decision power, or that belong to the related-party companies via the management or board members.

Neo Industrial Plc, and therefore also the Neo Industrial Group, belong to the Reka Group. Reka Ltd has a 50.76 percent holding of shares and a 65.77 percent holding of votes.

The Neo Industrial Group’s internal parent companies, subsidiaries and associated companies are listed below:

| **Company name** | **Home country** | **Domicile** | **Group's equity share (%)** | **Group's share of votes (%)** |
|---|---|---|---|---|
| Parent company: Neo Industrial Oyj | Finland | Hyvinkää | | |
| Alnus Oy | Finland | Helsinki | 100.00 | 100.00 |
| Metsämarkka 1 Oy | Finland | Hyvinkää | 100.00 | 100.00 |
| Metsämarkka 101 Oy | Finland | Hyvinkää | 100.00 | 100.00 |
| Novalis Oyj | Finland | Helsinki | 100.00 | 100.00 |
| Reka Kaapeli Oy | Finland | Hyvinkää | 100.00 | 100.00 |
| Reka Kabel Ab | Sweden | Göteborg | 100.00 | 100.00 |
| Reka Kabel AS | Norway | Kolbotn | 100.00 | 100.00 |
| Reka Kabel A/S | Denmark | Roskilde | 100.00 | 100.00 |
| OOO Reka Kabel | Russia | Pietari | 99.00 | 99.00 |
| Reka Cables Baltic OÜ | Estonia | Tallinna | 100.00 | 100.00 |
| Nestor Cables Oy | Finland | Oulu | 22.94 | 22.94 |
| TOO Reka Kabel | Kazakstan | Almaty | 100.00 | 100.00 |

**Related-party transactions**

Transactions with the Reka Group

| EUR 1,000 | **1-12/2013** | **1-12/2012** |
|---|---|---|
| Sales | 0 | 21 |
| Rental expenses | -1,722 | -1,699 |
| Other purchases | -589 | -112 |
| Other income | 30 | 6 |
| Interest revenues | 92 | 42 |
| Loan receivables | 90 | 300 |
| Sales receivables and other receivables at the end of the period | 983 | 375 |
| Other debts at the end of the period | -17 | -190 |

Discounted rent and sale price receivables, EUR 0.6 million, are included in other receivables. The items are part of the finance investment activities of the Group.

In the spring of 2012, it was determined that the availability of premises for the Cable segment can be ensured, regardless of the tenure of the lease, if the lessor is a company of the Reka Group. The leases for premises were adjusted on the initiative of Reka Cables. As a result, the recognition of leases in accordance with IFRS changed, and finance leases were eliminated from the balance sheet. Finance lease agreements eliminated from the balance sheet totalled EUR 9.7 million. If the premises in question are transferred to a third party, Reka Cables must negotiate lease terms that ensure continued operations.

Transactions with associated companies
Sales to associated companies in 2013 totalled EUR 57,000 (36,000), and purchases totalled EUR 2,000 (3,000). Receivables totalled EUR 1,000 (0) at the end of the financial period. Liabilities totalled EUR 0 (3,000) at the end of the financial period.

Transactions with other related parties

| EUR 1,000 | **1-12/2013** | **1-12/2012** |
|---|---|---|
| Other purchases | 6 | 204 |
| Other debts at the end of the period | 0 | 6 |

Other related parties consist of companies that are connected to the company through an owner that has significant controlling power or that belong to related-party companies through management or board members.

Management fringe benefits

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Salaries and other short-term fringe benefits | 496 | 291 |
| Pension benefits, defined contribution plans | 71 | 50 |

The Group's related parties include the Group's Board of Directors and management group.

The members of the Board of Directors are paid an annual fee in accordance with the Annual General Meeting's decision. In addition, a separate meeting fee is paid for Board and committee meetings. Travel expenses are paid according to invoice. Members of the Board and management group have no other benefits. The Board members have no pension agreements with the company. The notice period is twelve (12) months for the CEO and six (6) months for the CFO.

Salaries and other fringe benefits by person:

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Salaries and fees | | |
| Jari Salo, Managing Director | 257 | 36 |
| Markku E. Rentto, Managing Director | 45 | 116 |
| Sari Tulander, CFO | 107 | 57 |
| Members of the board | | |
| Markku E. Rentto (from 8/11/2012) | 20 | 3 |
| Matti Lainema | 17 | 21 |
| Ilpo Helander | 3 | 17 |
| Taisto Riski | 17 | 19 |
| Raimo Valo | 17 | 17 |
| Jukka Koskinen | 12 | 0 |
| Pekka Soini, former member | 0 | 4 |
| Risto Kyhälä, former member | 0 | 3 |
| Total | 496 | 291 |

The amounts above include statutory pension insurances as follows: Jari Salo EUR 45,000 (9,000), Markku E. Rentto EUR 8,000 (28,000) and Sari Tulander EUR 19,000 (14,000).

The Group has no other significant transactions, receivables, liabilities or guarantees involving related parties.

31. Discontinued operations

In year 2013 the Group did not have discontinued operations.

32. Major events after the end of the financial period

The long negotiations relating to the breakdown at Reka Cables´ Keuruu plant in 2011 were closed with the insurance company in February 2014. The compensation was on a par with the estimation recognised (EUR 0.8 million) in the financial statements in 2011.

The financial negotiations of the Cable Segment have been concluded  and a long term financing agreement was signed in March 2014. With this arrangement the Cable Segment replaces previous short term loans with long term loans and at the same time it enabled a working capital increase with EUR 2 million at a later date. Terms of the financing agreement include financial covenants for Cable Segment. In addition, the use and distribution of the funds requires consent from the financier.

KEY FINANCIAL INDICATORS

## *Key figures from the income statement and balance sheet*

The key figures regarding years 2013 and 2012 have been calculated from continuing operations. The key figures for 2011 are as previously published.

| *EUR 1,000* | 2013 | 2012 | 2011 |
|---|---|---|---|
| Net sales | 83,032 | 106,234 | 121,186 |
| Operating profit | -1,006 | 796 | -15,609 |
| Operating profit, % | -1.2 % | 0.70 % | -12.90 % |
| Result before taxes and discontinued operations | -1,748 | -6,211 | -29,025 |
| % of net sales | -2.1 % | -5.80 % | -24.00 % |
| Result for the period | -1,181 | -6,272 | -29,104 |
| | | | |
| Return on equity (ROE) | -14.63 % | -59.40 % | -125.50 % |
| Return on investment (ROI) | 1.73 % | 1.90 % | -32.10 % |
| Equity ratio, % | 15.79 % | 13.80 % | 12.70 % |
| Gearing | 339.29 % | 370.90 % | 389.80 % |
| Investments in tangible assets | 1,690 | 1,834 | 1,504 |
| Average number of personnel | 338 | 473 | 605 |

| Share-related key figures (A and B shares) | 2013 | 2012 | 2011 |
|---|---|---|---|
| Equity per share, EUR | 1.26 | 1.46 | 2.1 |
| Earnings per share (EPS), EUR | -0.20 | -1.25 | -4.6 |
| Dividend/share, EUR | 0.00 | 0.00 | 0.00 |
| Dividend/earnings, % | 0.00 % | 0.00 % | 0.00 % |
| Effective dividend yield, % | 0.00 % | 0.00 % | 0.00 % |
| Price/earnings (P/E) | -4.1 | -1.4 | -0.5 |
| | | | |
| Share performance, EUR | | | |
| -average share price | 0.91 | 2.21 | 5.87 |
| -lowest price | 0.5 | 1.17 | 2.0 |
| -highest price | 1.9 | 3.36 | 9.43 |
| -price at the end of the period | 0.8 | 1.75 | 2.5 |
| Market capitalisation, EUR 1,000 | 4,758 | 10,439 | 15,292 |
| | | | |
| Trading, number of shares | 541,852 | 309,490 | 410,027 |
| % | 9.2 | 5.3 | 7.0 |
| | | | |
| Adjusted weighted average number of shares | | | |
| during the period | 6,020,360 | 6,020,360 | 6,020,360 |
| A shares | 139,600 | 139,600 | 139,000 |
| B shares | 5,880,760 | 5,880,760 | 5,880,760 |
| | | | |
| Adjusted number of shares at the end of the period | 6,020,360 | 6,020,360 | 6,020,360 |
| A shares | 139,600 | 139,600 | 139,600 |
| B shares | 5,880,760 | 5,880,760 | 5,880,760 |

CALCULATION OF KEY FINANCIAL INDICATORS

Return on equity (ROE), %

$$= \frac{\text{Result for the period}}{\text{Shareholders' equity (average)}} \times 100$$

Return on investment (ROI), %

$$= \frac{\text{Profit before taxes + interest and other financial expenses}}{\text{[Balance sheet total – obligatory provisions and non-interest-bearing liabilities] (average)}} \times 100$$

Equity ratio, %

$$= \frac{\text{Shareholders' equity + non-controlling interest}}{\text{Balance sheet total – advances received}} \times 100$$

Gearing, %

$$= \frac{\text{Interest-bearing liabilities – cash and cash equivalents, liquid financial and investment securities}}{\text{Shareholders' equity + non-controlling interest}} \times 100$$

Earnings per share (EPS), EUR

$$= \frac{\text{Profit for the period attributable to equity holders of the parent company}}{\text{Number of shares adjusted for share issues (average)}}$$

Equity per share, EUR

$$= \frac{\text{Shareholders' equity – non-controlling interest}}{\text{Number of shares adjusted for share issues at the end of the period}}$$

Dividend/share, EUR

$$= \frac{\text{Dividend for the period}}{\text{Number of shares adjusted for share issues at the end of the period}}$$

Dividend/earnings, %

$$= \frac{\text{Dividend/share}}{\text{Earnings/share}} \times 100$$

Effective dividend yield, %

$$= \frac{\text{Dividend/share}}{\text{Share price adjusted for share issues at the end of the period}} \times 100$$

Price/earnings (P/E)

$$= \frac{\text{Share price adjusted for share issues at the end of the period}}{\text{Earnings/share}}$$

Market capitalisation

= (Number of B shares – own B shares) x share price at the end of the period + number of A shares x average share price

## INCOME STATEMENT OF THE PARENT COMPANY (FAS)

| | Notes | 1/1-31/12/2013 | 1/1-31/12/2012 |
|---|---|---|---|
| NET SALES | 1 | 71,897.20 | 625,458.15 |
| Other operating income | 2 | 77,944.12 | 135,059.76 |
| Personnel expenses | 3 | -624,234.57 | -879,722.89 |
| Depreciation and impairment | 4 | -1,188.27 | -7,159,705.82 |
| Other operating expenses | 5 | -1,540,320.41 | -1,186,550.34 |
| OPERATING RESULT | | -2,015,901.93 | -8,465,461.14 |
| Financial income and expenses | 6 | -7,925,501.21 | -13,703,237.77 |
| RESULT BEFORE EXTRAORDINARY ITEMS | | -9,941,403.14 | -22,168,698.91 |
| Extraordinary items | 7 | 150,000.00 | 598,000.00 |
| RESULT BEFORE TAXES AND APPROPRIATIONS | | -9,791,403.14 | -21,570,698.91 |
| Appropriations | | 474.99 | 553.04 |
| Taxes | 8 | -120,921.27 | 642,766.52 |
| RESULT FOR THE PERIOD | | -9,911,849.42 | -20,927,379.35 |

## BALANCE SHEET OF THE PARENT COMPANY (FAS)

| | Notes | 31/12/2013 | 31/12/2012 |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS | | | |
| Intangible rights | 9 | 0.00 | 33,751.02 |
| Tangible assets | 10 | 101,534.60 | 10,075.37 |
| Other investments | 11 | 6,901,518.48 | 16,573,110.12 |
| | | 7,003,053.08 | 16,616,936.51 |
| CURRENT ASSETS | | | |
| Non-current receivables | 12 | 17,404,179.06 | 16,709,100.33 |
| Current receivables | 13 | 6,203,073.20 | 10,056,003.79 |
| Cash and cash equivalents | | 14,898.51 | 1,249.85 |
| | | 23,622,150.77 | 26,766,353.97 |
| **ASSETS** | | 30,625,203.85 | 43,383,290.48 |
| **LIABILITIES** | | | |
| SHAREHOLDERS' EQUITY | 14 | | |
| Share capital | | 24,081,440.00 | 24,081,440.00 |
| Premium fund | | 66,400.00 | 66,400.00 |
| Reserve fund | | 1,221,254.58 | 1,221,254.58 |
| Own shares | | -590,794.10 | -590,794.10 |
| Retained profit | | -18,460,670.45 | 2,466,708.90 |
| Other unrestricted equity | | 21,326,806.46 | 21,326,806.46 |
| Result for the period | | -9,911,849.42 | -20,927,379.35 |
| | | 17,732,587.07 | 27,644,436.49 |
| ACCUMULATED APPROPRIATIONS | 15 | 1,068.01 | 1,543.00 |
| OBLIGATORY PROVISIONS | 16 | 5,320,457.07 | 5,497,169.99 |
| NON-CURRENT LIABILITIES | 17 | 6,481,768.17 | 7,857,141.86 |
| CURRENT LIABILITIES | 18 | 1,089,323.53 | 2,382,999.14 |
| **LIABILITIES** | | 30,625,203.85 | 43,383,290.48 |

PARENT COMPANY CASH FLOW STATEMENT (FAS)

| EUR 1,000 | 1/1-31/12/2013 | 1/1-31/12/2012 |
|---|---|---|
| **Cash flow from operating activities:** | | |
| Payments received from operating activities | 82 | 593 |
| Payments paid on operating activities | -3,123 | -1,554 |
| Paid interests and other financial expenses | -1,510 | -846 |
| Interests received and other financial income | 1,191 | 1,060 |
| Direct taxes paid | 0 | -19 |
| **Cash flow from operating activities** | **-3,360** | **-765** |
| **Cash flow from investments:** | | |
| Investments in tangible fixed assets | -98 | -3 |
| Proceeds from sale of tangible fixed assets | 39 | 0 |
| Acquired shares in subsidiaries | 0 | -20 |
| Loans granted | 0 | -483 |
| Loan repayments | 2,796 | 1,227 |
| **Cash flow from investments** | **2,737** | **722** |
| **Cash flow from financing activities:** | | |
| Decrease in loans | -511 | 0 |
| Group contributions received/paid | 1,148 | 0 |
| **Cash flow from financing activities** | **637** | **0** |
| **Change in cash and cash equivalents** | **14** | **-43** |
| Cash and cash equivalents at the beginning of the period | 1 | 44 |
| **Cash and cash equivalents at the end of the period** | **15** | **1** |

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS (FAS)

ACCOUNTING POLICIES

The financial statements of the parent company have been prepared in accordance with the general accounting principles of Finnish Accounting Standards (FAS; chapter 3, section 3).

**Valuation principles**

*Valuation of non-current assets*
Non-current assets are recognised in the balance sheet at original cost less depreciation. Depreciation has been determined on the basis of the useful lives of the assets. Machinery and equipment are depreciated over a period of 3 to 5 years.

*Valuation of current assets*
The company's financial securities are recognised at fair value. Realised and unrealised gains and losses from changes in fair value are recognised in the income statement in the financial period in which they occur.

Fair value is assessed based on information received from the counterparty or a valuation report or valuation model submitted by a third party.

*Recognition of pensions*
The Group's statutory pension insurance for staff has been set up with pension insurance companies. Pension expenses are recognised as costs in the financial year during which they are accumulated.

**Comparability of the profit**

In year 2013 an impairment of EUR 9.7 million on shares in Novalis Plc was recorded. After this, the value of the shares on the balance sheet is EUR 6.7 million.

The result for 2011 was burdened by a write-off of EUR 2.5 million on doubtful receivables, of which EUR 2.2 million consisted of unsecured receivables or receivables with doubtful securities from Avilon Fibres Ltd. Of this previously recorded impairment, EUR 0.4 million was reversed through profit or loss.

A guarantee liability granted for financing for Avilon Fibres Ltd was realised in 2012. The liability with interest, totalling EUR 2.2 million, was recorded through profit or loss for year 2012. Because of Avilon Ltd’s bankruptcy, the guarantees granted on behalf of Avilon Fibres Ltd related to industrial premises (EUR 5.0 million) and an environmental guarantee (EUR 0.3 million) have been recognised as provisions affecting the result for 2012. As a result of Avilon Fibres Ltd’s and Carbatec Ltd’s bankruptcies, EUR 7.1 million in shares in subsidiaries has been recorded as a write-off on the balance sheet in 2012, and receivables from the companies, totalling EUR 0.7 million, were recorded as credit loss provisions.

An impairment of EUR 6.5 million on shares in Finndomo was recorded in 2012. After this, the value of the shares on the balance sheet was zero. In 2013 the shares of Finndomo Ltd were traded off. The sale of the shares did not bring positive impact on the result because there are no income expected to the owners, as Finndomo Ltd´s reorganisation programme is based on what is known as "liquidation reorganisation".

### Foreign currency items

Receivables and liabilities denominated in foreign currencies have been converted to euros using the exchange rate listed by the European Central Bank on the closing date of the financial period.

## NOTES TO THE INCOME STATEMENT

### 1. Net sales

| EUR 1,000 | 2013 | 2012 |
|---|---|---|
| Net sales from consulting and management services | 72 | 625 |
| | 72 | 625 |

### 2. Other operating income

| EUR 1,000 | 2013 | 2012 |
|---|---|---|
| Rental income from Group companies | 0 | 62 |
| Rental income from other companies | 78 | 71 |
| Other income | 0 | 2 |
| | 78 | 135 |

### 3. Personnel expenses

| EUR 1,000 | 2013 | 2012 |
|---|---|---|
| Salaries and fees | 523 | 739 |
| Pension expenses | 87 | 120 |
| Other personnel expenses | 14 | 21 |
| | 624 | 880 |
| of which | | |
| Management's salaries and fees | 409 | 208 |
| Board of Directors' fees | 87 | 83 |
| | 496 | 291 |

### 4. Depreciation and impairment

| EUR 1,000 | 2013 | 2012 |
|---|---|---|
| Depreciation on machinery and equipment | 1 | 3 |
| Depreciation on intangible rights | 0 | 11 |
| | 1 | 14 |
| Impairment | | |
| Impairment on shares in subsidiaries | 0 | 7,145 |
| Total depreciation and impairment | 1 | 7,159 |

**5. Other operating expenses**

| EUR 1,000 | 2013 | 2012 |
|---|---|---|
| Rents | 208 | 237 |
| Voluntary personnel expenses | 28 | 21 |
| Audit of the accounts | 55 | 164 |
| Consultant services | 574 | 432 |
| Sales and marketing | 62 | 41 |
| Machinery and property maintenance costs | 107 | 104 |
| Other expenses | 507 | 184 |
| | 1,540 | 1,183 |

**Fees paid to auditors**

| The amounts are included in other operating expenses | 2013 | 2012 |
|---|---|---|
| Annual audit of the accounts | 21 | 88 |
| Other services | 33 | 76 |
| | 55 | 164 |

| **Fees paid to auditors by authorised public audit firm** | 2013 | 2012 |
|---|---|---|
| Ernst&Young Ltd | 0 | 62 |
| KPMG Ltd | 55 | 102 |
| | 55 | 164 |

**6. Financial income and expenses**

| Financial income (EUR 1,000) | 2013 | 2012 |
|---|---|---|
| Interest and financial income from Group companies | 1,112 | 1,219 |
| Income from financial derivates | 1,029 | 0 |
| Interest and financial income from other companies | 2 | 3 |
| | 2,143 | 1,222 |
| Financial expenses | | |
| Impairment on investments in non-current assets | -9,669 | -6,482 |
| Reversal of impairment on investments in non-current assets | 0 | 407 |
| Interest and financial expenses to Group companies | -1 | -272 |
| Guarantee liabilities resulting from Avilon Fibres Ltd's bankruptcy | 0 | -5,300 |
| Expenses on financial derivates | 0 | -430 |
| Interest and financial expenses to other companies | -399 | -2,848 |
| | -10,069 | -14,925 |
| Total financial income and expenses | -7,926 | -13,703 |

**7. Extraordinary items/income(+),expenses(-)**

| EUR 1,000 | 2013 | 2012 |
|---|---|---|
| Group contributions received | 150 | 598 |
| Total extraordinary items | 150 | 598 |

**8. Taxes on the income statement**

| EUR 1,000 | 2013 | 2012 |
|---|---|---|
| Taxes | 0 | 643 |
| Change in deferred tax | -121 | 0 |
| Taxes total | -121 | 643 |

## NOTES TO THE BALANCE SHEET

### 9. Intangible rights

| Intangible rights (EUR 1,000) | 2013 | 2012 |
|---|---|---|
| Acquisition costs 1/1 | 56 | 53 |
| Increase | 0 | 3 |
| Decrease | -34 | 0 |
| Acquisition costs 31/12 | 22 | 56 |
| Accumulated depreciation 1/1 | -22 | -11 |
| Depreciation according to plan | 0 | -11 |
| Accumulated depreciation 31/12 | -22 | -22 |
| Book value 31/12 | 0 | 34 |

### 10. Tangible assets

| Machinery and equipment (EUR 1,000) | 2013 | 2012 |
|---|---|---|
| Acquisition costs 1/1 | 23 | 23 |
| Increase | 98 | 0 |
| Decrease | -6 | 0 |
| Acquisition costs 31/12 | 115 | 23 |
| Accumulated depreciation 1/1 | -13 | -10 |
| Depreciation according to plan | -1 | -3 |
| Accumulated depreciation 31/12 | -14 | -13 |
| Book value 31/12 | 101 | 10 |

### 11. Other investments

| EUR 1,000 | 2013 | 2012 |
|---|---|---|
| Acquisition costs 1/1 | 16,573 | 29,798 |
| Increase | 0 | 402 |
| Decrease | -2 | 0 |
| Impairment | -9,669 | -13,627 |
| Acquisition costs 31/12 | 6,902 | 16,573 |

| Holdings in Group companies | Business ID | Share capital EUR 1,000 | Number of shares | Book value EUR 1,000 | Proportion of shares, % |
|---|---|---|---|---|---|
| Alnus Oy, Helsinki | 0762281-4 | 168 | 1,000 | 171 | 100,0 |
| Novalis Oyj, Helsinki | 1642820-4 | 2000 | 2,000,000 | 6,731 | 100.0 |

Finndomo Ltd filed for corporate reorganisation on 15 February 2012, and the reorganisation procedure was started on 2 March 2012. Confirmed on 3 December 2012, the programme is based on what is known as “liquidation reorganisation”, in which all of the company’s assets are liquidated and the accumulated amount is disbursed to the creditors of the company. In 2012, an impairment of EUR 6.5 million (2.5) was recognised on Finndomo’s book value. After that the value of the shares was zero in the balance sheet. The impairment was recognised in financial expenses on the income statement in 2012 and 2013. The shares of Finndomo Ltd were traded off in 2013.

Carbatec Ltd and Avilon Fibres Ltd filed for bankruptcy on 6 March 2013. An impairment of EUR 7.1 million were recognised on the 2012 income statement as an impairment on non-current assets in the line item “Depreciation and impairment”. The shares of Carbatec Ltd were traded off in 2013.

The sale of manufacturing companies OAO Expokabel and ZAO Reka Kabel in May 2013 had on a positive effect of EUR 1.0 million on the Group´s result. However, the impact of the sale affected differently to different Group companies. The direct and undirect effect on Novalis Plc was negative and therefore an impairment of EUR 9.7 million on shares in Novalis Plc was recorded in 2013. The impairment was recognised in financial expenses on the income statement.

**12. Non-current receivables**

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Subordinated loan receivables from Group companies | 13,600 | 13,600 |
| Non-current interest receivables from Group companies | 3,264 | 2,448 |
| Deferred tax receivable | 540 | 661 |
| Total | 17,404 | 16,709 |

**13. Current receivables**

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Sales receivables | 8 | 7 |
| Sales receivables from Group companies | 110 | 68 |
| Current loan receivables | 0 | 40 |
| Current loan receivables from Group companies | 5,212 | 7,956 |
| Interest receivables from Group companies | 543 | 448 |
| Other receivables, Neo Industrial Group | 150 | 1,293 |
| Accrued income from Group companies | 36 | 25 |
| Other receivables | 24 | 0 |
| Accrued income | 120 | 219 |
| Total | 6,203 | 10,056 |

**Material items of accrued income**

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Accrued income from Group companies | 36 | 25 |
| Other accrued income | 120 | 194 |
| Total | 156 | 219 |

**14. Shareholders' equity**

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Share capital 1/1 | | |
| Series A | 558 | 558 |
| Series B | 23,524 | 23,524 |
| Share capital 31/12 | 24,082 | 24,082 |
| | | |
| Premium fund 1/1 | 66 | 66 |
| Premium fund 31/12 | 66 | 66 |
| | | |
| Reserve fund 1/1 | 1,221 | 1,221 |
| Reserve fund 31/12 | 1,221 | 1,221 |
| | | |
| Restricted equity 31/12 | 25,369 | 25,369 |
| | | |
| Own shares 1/1 | -591 | -591 |
| Own shares 31/12 | -591 | -591 |
| | | |
| Retained profit 1/1 | -18,460 | 2,467 |
| Retained profit 31/12 | -18,460 | 2,467 |
| | | |
| Other unrestricted equity 1/1 | 21,327 | 21,327 |
| Other unrestricted equity 31/12 | 21,327 | 21,327 |
| | | |
| Result for the period | -9,912 | -20,927 |
| Unrestricted equity 31/12 | -7,636 | 2,275 |
| | | |
| Shareholders equity 31/12 | 17,733 | 27,644 |

| The parent company's share capital by share series | 2013 Number | 2013 Shareholders' equity EUR 1,000 | 2012 Number | 2012 Shareholders' equity EUR 1,000 |
|---|---|---|---|---|
| Series A (20 votes/share) | 139,600 | 558 | 139,600 | 558 |
| Series B (1 vote/share) | 5,880,760 | 23,524 | 5,880,760 | 23,524 |
| | 6,020,360 | 24,082 | 6,020,360 | 24,082 |

**15. Accumulated appropriations**

| EUR 1,000 | **2013** | **2012** | Change |
|---|---|---|---|
| Difference between depreciation according to plan and depreciation in accordance with the Finnish Business Tax Act (EVL) | 1 | 2 | -1 |

**16. Obligatory provisions**

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Rental loss provision | 520 | 197 |
| Payment guarantee for the purchase price of premises (Avilon Fibres Ltd) | 4,800 | 5,000 |
| Counter-security for an environmental guarantee (Avilon Fibres Ltd) | 0 | 300 |
| Total obligatory provisions | 5,320 | 5,497 |

**17. Non-current liabilities**

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Loan the proceeds of which are partly tied to the company's share performance | 5,361 | 5,174 |
| Derivative liabilities | 314 | 1,343 |
| Other liabilities to Group companies | 0 | 5 |
| Other liabilities | 806 | 1,335 |
| Total | 6,482 | 7,857 |

**18. Current liabilities**

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Accounts payable | 187 | 728 |
| Accounts payable to Group companies | 0 | 127 |
| Accruals and deferred income | 338 | 716 |
| Other liabilities | 565 | 804 |
| Total | 1,089 | 2,383 |

**Material items of accrued liabilities**

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Personnel expenses allocated by period | 59 | 120 |
| Other accrued liabilities | 280 | 596 |
| Total | 338 | 716 |

**19. Contingent liabilities**

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Guarantees granted on behalf of the Group or its subsidiaries | 5 633 | 8 633 |
| Granted business mortgages | 171 | 0 |
| Total | 5 804 | 8 633 |

Financial lease and other lease liabilities

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| Maturing within 1 year | 166 | 154 |
| Maturing in 1 to 5 years | 666 | 666 |
| Maturing after 5 years | 2774 | 2830 |
| Total | 3606 | 3650 |

**20. Derivative contracts**

| EUR 1,000 | **2013** | **2012** |
|---|---|---|
| *Nominal values* | | |
| Financial derivative | | |
| Option contracts | 0 | 0 |
| | | |
| *Fair values* | | |
| Financial derivative | | |
| Option contracts | -314 | -1,343 |

The loan the proceeds of which are partly tied to the company's share performance is valued at the end of each quarter using the Black-Scholes model. The option is recognised at fair value in the balance sheet. If the price of the company's share is higher than EUR 2.78 on the loan repayment date, the lender will receive an additional payment.

**21. Additional information for shareholders**

The company had recognised its guarantee liabilities related to Avilon Fibres Ltd through profit or loss on the balance sheet in 2012 financial statements. With Avilon Fibres´ bankruptcy estate selling its landfill site in summer 2013, the related counter-security for an environmental guarantee was eliminated from Neo Industrial´s liabilities. The provision of EUR 0.3 million in the financial statements 2012 covered the expenses related to the case. The remaining guarantee liability provision at the balance sheet is EUR 4.8 million (5.3) on 31 December 2013. The possible time and amount of the realisation of the guarantee liabilities will be found out later.

**22. Board´s proposal to the Annual General meeting**

The parent company's unrestricted equity stood at EUR -7,636,507.51 on 31 December 2013, of which the result of the year is EUR -9,911,849.42. The Board proposes to the Annual General Meeting that no dividends will be paid for 2013.

Signatures of the Financial Statement and Board of Directors´ report

Helsinki, 19 March 2013

Markku E. Rentto
Chairman

Matti Lainema

Jukka Koskinen

Taisto Riski

Raimo Valo

Jari Salo
Managing Director

AUDITOR'S NOTE

We have issued the auditor's report today.

Helsinki, 19 March 2013

KPMG Ltd
Authorised Public Audit Firm

Lasse Holopainen
APA

*This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.*

## AUDITOR'S REPORT

### *To the Annual General Meeting of Neo Industrial Plc*

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Neo Industrial Plc for the year ended December 31, 2013. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

*Responsibility of the Board of Directors and the Managing Director*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

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

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

*Opinion on the consolidated financial statements*

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

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

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

*Emphasis of a matter*

Without qualifying our opinion we want to draw attention to the chapter 2 of the notes to the consolidated financial statements section "Adherence to the principle of continuity" as well as to section "Risks and uncertainty factors" in the report of the Board of Directors.

The Group´s liquidity situation is tight. To assure the liquidity situation, the Group strives to negotiate adjustments to payment terms and agreements and to liquidate capital from its operations.

The Cable segment´s challenge is to ensure favorable operating conditions. To assure those conditions the Group needs to be able to renegotiate payment terms or liquidate capital from its operations in other ways. Measures are in progress to ensure operating conditions.

Helsinki, 19 March 2014

KPMG OY AB

LASSE HOLOPAINEN
*Authorized Public Accountant*

SHAREHOLDERS ON 31 DECEMBER 2013

**Neo Industrial plc's ten largest shareholders on December 31 2013**

| | A-class shares | B-class shares | Shares total | Proportion of equity % | Proportion of votes % |
|---|---|---|---|---|---|
| Reka Oy | 139,400 | 2,916,387 | 3,055,787 | 50.76 | 65.77 |
| Onninen-Sijoitus Oy | | 250,000 | 250,000 | 4.15 | 2.88 |
| CAG Management Oy | | 105,305 | 105,305 | 1.75 | 1.21 |
| Neo Industrial Oyj | | 91,727 | 91,727 | 1.52 | 1.06 |
| Lainema Matti | | 25,000 | 25,000 | 0.42 | 0.29 |
| Etelä-Pohjanmaan Turve Oy | | 17,500 | 17,500 | 0.29 | 0.20 |
| Hoppu Maija | | 14,700 | 14,700 | 0.24 | 0.17 |
| Aimo Kalervo | | 13,567 | 13,567 | 0.23 | 0.16 |
| Seneca Oy | | 13,500 | 13,500 | 0.22 | 0.16 |
| Tulander Sari | 40 | 13,445 | 13,485 | 0.22 | 0.16 |
| Other shareholders | 160 | 2,419,629 | 2,419,789 | 40.19 | 27.94 |
| Total | 139,600 | 5,880,760 | 6,020,360 | 100.00 | 100.00 |

**Ownership by type of shareholder**

| Type of shareholder | Share-holders no. | Share-holders % | Shares total | Proportion of equity % | Proportion of votes % |
|---|---|---|---|---|---|
| Companies | 251 | 2.1 | 3,717,941 | 61.8 | 73.4 |
| Financial institutions and insurance companies | 31 | 0.3 | 28,190 | 0.5 | 0.3 |
| Public organisations | 71 | 0.6 | 46,540 | 0.8 | 0.5 |
| Non-profit organisations | 252 | 2.1 | 147,694 | 2.5 | 1.7 |
| Households | 11,369 | 94.9 | 1,959,202 | 32.5 | 22.6 |
| Outside Finland | 6 | 0.1 | 1,300 | 0.0 | 0.0 |
| Nominee registered | | | 9,626 | 0.2 | 0.1 |
| Not in the book-entry securities system | | | 109,867 | 1.8 | 1.3 |
| Total | 11,980 | 100.0 | 6,020,360 | 100.0 | 100.0 |

**Ownership by the amount held**

| Shares held | Share-holders no. | Share-holders % | Shares total | Proportion of equity % | Proportion of votes % |
|---|---|---|---|---|---|
| 1 - 50 | 5,417 | 45.2 | 157,267 | 2.6 | 1.8 |
| 51 - 100 | 3,146 | 26.3 | 275,477 | 4.6 | 3.2 |
| 101 - 1 000 | 3,050 | 25.5 | 951,455 | 15.8 | 11.0 |
| 1 001 - 10 000 | 348 | 2.9 | 822,573 | 13.7 | 9.5 |
| 10 001 - | 19 | 0.2 | 3,703,721 | 61.5 | 73.3 |
| Not in the book-entry securities system | | | 109,867 | 1.8 | 1.3 |
| Total | 11,980 | 100.0 | 6,020,360 | 100.0 | 100.0 |

**Management's shareholding**

The members of the Board, the Managing Director and the CFO directly owned and controlled a total of 2,978,643 (2,961,358) of Neo Industrial's B shares on 31 December 2013. Neo Industrial held 91,727 (92,727) of its own shares on 31 December 2013.

**Shares and share capital**

Neo Industrial Plc's share capital was EUR 24,081,440 (24,081,440) on 31 December 2012. The share capital is divided into 6,020,360 shares. Of the shares, 139,600 are A shares with 20 votes per share and 5,880,760 are B shares with one vote per share. The total number of votes is 8,672,760, of which A series represents 2,792,000 votes and B series represents 5,880,760 votes. The total number of shares includes 91,727 (91,727) B shares owned by Neo Industrial. The company's Articles of Association do not include any redemption clauses. There are no shareholder agreements.