NEO Industrial

NEO INDUSTRIAL GROUP

FINANCIAL STATEMENTS 2019
AND
BOARD OF DIRECTORS´ REPORT

CONTENTS

BOARD OF DIRECTOR´S REPORT 1/1 – 31/12/2019

The Neo Industrial Group's (Neo Industrial) turnover in 2019 was EUR 97.5 million (103.8 million). Its result for the full year was EUR -1.4 million (-0.5 million).

MAJOR EVENTS DURING THE FINANCIAL YEAR

Neo Industrial Plc's subsidiary Reka Cables Ltd is one of two companies to win the public acquisition of substantial contract for underground power cables. Total value of Reka Cable's share will be approximately EUR 20 million and the deliveries will be made during 2020-2021.Underground power cables are used when building grids that are not vulnerable to weather conditions.

Jukka Poutanen was appointed as Neo Industrial Plc and its subsidiary Reka Cables Ltd Managing Director starting August 12, 2019.

Neo Industrial Plc sold its shares of Riihimäen Kaapelitehdas Ltd to Riihimäen Tilat ja Kehitys Ltd in August. Selling price was EUR 2.0 million.

Sale of shares was part of total arrangement where Riihimäen Tilat ja Kehitys Ltd bought altogether 68.05 % and Neo Industrial Plc's subsidiary Reka Cables Ltd 20.2 % shares of Riihimäen Kaapelitehdas Ltd. Third owner is Reka´s Pension fund, whose ownership decreased to be under 12 % after arrangement.

At the end of the financial year, Neo Industrial Plc successfully issued EUR 10 million in senior secured green bonds.

The IFRS 16 standard, implemented on January 1, 2019, increased the Group Balance Sheet substantially. The Group included January 1, 2019 EUR 13.5 million of tangible assets, including the lease agreement relating Keuruu plant. At the end of the financial year the Group balance sheet includes tangible assets due IFRS 16 EUR 8.2 million and EUR 5.4 million regarding Keuruu plant real estate bought end of June.

CONSOLIDATED FINANCIAL STATUS AND PERFORMANCE INDICATORS (IFRS)

	2019	2018	2017
Turnover, EUR million	97.5	103.8	110.9
Operating result, % of turnover	0.5	1.0	4.6
Result for the year	-1.4	-0.5	3.0
Return on investment (ROI), %	2.4	8.4	25.4
IAS 19 corrected Return on equity (ROE), %	-14.3	-4.5	28.0
IAS 19 corrected Gearing, %	188.2	104.4	61.2
IAS 19 corrected Equity ratio, %	16.8	25.5	30.4
Earnings per share, EUR	-0.24	-0.09	0.51
Gross investments, EUR million	8.2	2.4	2.9

Neo Industrial use in its financial reporting the alternative performance measures according to the European Securities and Markets Authority (ESMA).

The company joined a pension fund in 31 December 2015. From Balance Sheet items and total the effects of IAS 19 entries are excluded when calculating related performance indicators.

According to Neo Industrial´s interpretation of the ESMA guidelines the operating profit, IAS 19 corrected return on equity (ROE), IAS 19 corrected gearing, the IAS 19 corrected equity ratio, return on investment (ROI) and gross investments can be counted as alternative performance measures.

Calculation of performance and financial indicators

IAS 19 corrected Return on equity (ROE) %	=	Result for the period / Shareholders' equity excluding effects of IAS 19 bookings (average)	x 100
IAS 19 corrected Equity ratio, %	=	Shareholders' equity + non-controlling interest excluding effects of IAS 19 bookings / Balance sheet total - advances received excluding effects of IAS 19 bookings	x 100
IAS 19 corrected Gearing, %	=	Interest-bearing liabilities - cash and cash equivalents, liquid financial and investment securities / Shareholders' equity + non-controlling interest excluding effects of IAS 19 bookings	x 100
Return on investment (ROI) %	=	Profit before taxes + interest and other financial expenses / [Balance sheet total - obligatory provisions and non-interest-bearing liabilities] (average)	x 100
Operating profit	=	Neo Industrial has defined operating profit as follows: Operating result is the net sum formed when from the net sales are deducted the purchase costs adjusted by the change in the stocks of non-finished and finished goods as well as expenses for production for personal use. Also deducted from the net sales are expenses, depreciation, amortization and any impairment losses arising from employee benefits. Also other operating income and expenses are taken into account. Other income statement items than those mentioned above are presented below operating result. Exchange rate differences and changes in fair values of derivatives are included in operating result if they arise from items related to business operations; otherwise they are recognized in financial items. Operating profit or operating loss are also terms used instead of operating result, according to the situation.	
Gross investments	=	New investments made to tangible and intangible assets and Right of Use assets	

Reconciliation of IAS 19 adjusted Alternative Performance Measures to figures reported in Financial Statements

EUR 1,000	**2019**	**2018**	**2017**
IAS 19 effect on non-interest-bearing liabilities	3,870	4,107	2,769
IAS 19 effect on Shareholders' equity	-2,731	-3,441	-2,231
IAS 19 effect on Balance sheet total	1,138	665	538
Shareholders' equity in Financial statements	6,962	8,170	10,759
IAS 19 eliminations	2,731	3,441	2,231
Shareholders' equity in IAS 19 adjusted Performance Measures	9,694	11,612	12,990
Balance sheet total in Financial Statements	58,942	46,278	43,242
IAS 19 eliminations	-1,138	-665	-538
Balance sheet total in IAS 19 adjusted Performance Measures	57,804	45,613	42,704

SEGMENTS

Neo Industrial´s business segment is Cable Industry.

CABLE

The Cable segment’s turnover was EUR 97.4 million (103.8). Operating profit was EUR 0.9 million (1.9 million).

The turnover and the operating result of the cable segment were lower than in the previous year. Domestic sales decreased. Particularly part of the underground power cable projects were postponed to year 2020. Export sales increased as planned but could not compensate for the domestic decrease.

The cable segment made a plan to develop and strengthen substantially both domestic and export sales organization. Part of the measures to take were implemented by the end of the year 2019. The remaining measures to take are estimated to be carried out in the beginning of the year 2020.

The industry's key raw materials are copper, aluminum and plastics. At the beginning of the year the price of copper was EUR 5,251 and the price of aluminum was EUR 1,632 per tonne. At the end of the December 2019, the price of copper was EUR 5,481 and the price of aluminum EUR 1,603.

At its highest point, the daily price of copper during the review period was EUR 5,787 per tonne in April 2019, and at its lowest in August, at EUR 5,051 per tonne. The price of aluminum has been at its highest in March 2019, when it was EUR 1,694 per tonne, and its lowest in June, when it was EUR 1,523 per tonne.

In purchasing metals, partial price hedging is utilized through commodity derivatives.

IFRS 16 Leases, which entered into force on 1 January 2019, is tempting to acquire assets for yourself instead of leases. As a first step Neo Industrial´s cable segment bought in the end of June one of the premises that is used in Keuruu plant. In addition, the arrangement carried out at the end of August is the first step of Neo Industrial´s cable segment towards production premises in Riihimäki. Reka Cables Ltd acquired 20.2 % share of Riihimäen Kaapelitehdas Ltd. Reka Cables Ltd plans to increase the ownership in future years.

Investments fulfilled, EUR 8.2 million (2.4 million in 2018) were targeted at real estates, developing new products and improving productivity, material- and energy efficiency.

Turnover for Nestor Cables Group, an associated company in the Cable segment, was EUR 31.5 million (36.0 million). The operating result was positive but lower than year before. The company's value on the consolidated balance sheet is zero and the result of the company is not included in the Group figures.

BALANCE SHEET AND FINANCING

At the end of the financial year the interest-bearing liabilities were EUR 25.0 (13.0) million, of which other than finance lease liabilities were EUR 15.6 (9.7) million. In the end of the financial period the balance sheet total stood at EUR 58.9 million (46.3).

The balance sheet increased substantially due IFRS 16 -standard. The balance sheet 31 December 2019 include tangible assets due IFRS 16 EUR 8.2 million and EUR 5.4 million Keuruu plant real estate that was bought end of June 2019.

During the financial year, the stocks were from time to time at a high level. At the end of December the value of the inventories was EUR 13.8 (16.4) million. The EUR 3.0 million limit loan was not in use at the end of December.

The Group rearranged financing by reducing short-term interest-bearing loans and acquiring long-term funding for the acquisition of Keuruu plant.

The short-term interest-bearing loans have covenants, of which all were not fulfilled at the end of the closing of the financial year. The breakage of the covenant terms did not cause any immediate repayment of the short-term interest-bearing loans in the balance sheet at 31 December 2019. In enclosures of the Group Financial statements more information is available regarding covenants.

At the end of the financial year, Neo Industrial Plc successfully issued EUR 10 million in senior secured green bonds (the Bonds). The tenor of the euro-denominated Bonds is five (5) years, with maturity date falling on the 6th of December 2024. The Bonds carry a fixed annual coupon at 6.00 per cent, payable annually on the 6th of December.

The Bonds are guaranteed by subsidiary Reka Cables Ltd. The net proceeds of the bonds will be used for the financing of eligible expenditures as set out in the Green Bond Framework related to the enhancement of the environmental credentials of Reka Cables' portfolios of products; and the improvement of Reka Cables' environmental performance in respect to its production facilities and processes. Part of the Bonds can be used for refinancing as described in the contract terms.

MAJOR EVENTS AFTER THE REVIEW PERIOD

Neo Industrial Plc's subsidiary Reka Cables Ltd received in January 2020 a substantial contract for underground power cables from Scandinavia. The total value of the contract is approximately EUR 9 million. The deliveries will be made during 2020-2022.

SHARE PRICE AND TRADING VOLUME

In 2019, a total of 961,796 (1,280,875 in 2018) of Neo Industrial Plc´s B shares were traded on NASDAQ Helsinki for a total of EUR 2.0 million (5.2 million), representing 16.4 (21.8) percent of the total number of the shares. At the end of trading on 31 December 2019, the share price was EUR 2.04 (2.03), and the average share price for 2019 was EUR 2.12 (4.10). The lowest quotation in 2019 was EUR 1.72 (1.98) and the highest quotation was EUR 2.50 (6.60). The company´s market capitalization was valued at EUR 12.2 million (12.4) on 31 December 2019.

GROUP STRUCTURE AND SHAREHOLDERS

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

On 31 December 2019, Neo industrial Plc had 10,869 shareholders (11,389). 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.

On 31 December 2019, the combined holding of the ten largest shareholders was 56.1 percent (57.6 on 31 December 2018) of the shares and 69.5 (69.8) percent of the votes.

The members of the Board, the Managing Director and the CFO directly owned and controlled a total of 2,958,529 (2,955,000) of Neo Industrial´s B shares on 31 December 2019.

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.

In the Cable segment, the most significant risks are related to market development, fluctuations of raw material prices and currencies as well as working capital management in various situations. During considerable seasonal changes, suppliers' terms of payment effect significantly on the ability to ensure competitive delivery times through sufficient inventories. Also, operation models are being developed in order to balance out the effects of seasonal changes on the load rates of factories.

In the Cable Segment the key raw materials are metals (copper and aluminium) and plastics. In the metals purchases partial price hedging is used with the aid of commodity derivatives. Important with metals are the development of both the dollar-denominated price and the USD / EUR exchange rate. Partial price fixing is used with electricity.

The Group has carried out and is carrying out the simplifications of the Group structure with mergers. Tax authority has questioned the tax neutrality of the subsidiary merge carried out in 2015. Neo Industrial has filed for changes in its tax assessment notice. Neo Industrial has the opinion that the merge is universal succession and therefore tax neutral. The difference of opinion of the Neo Industrial and tax authority is EUR 1.2 million.

RESEARCH AND DEVELOPMENT

The Group invested a total of EUR 0.3 million in research and product development in 2019 (0.4 million in 2018). The investments were allocated to the Cable Segment. During the financial period, total of EUR 0.2 million (EUR 0.2 million in 2018) of the development costs of new products and product families were capitalized in the balance sheet.

PERSONNEL

During the financial year, the Group employed an average of 247 people (251 in 2018 and 269 in 2017). At the end of 2019, the Group employed 245 (252 in 2018 and 261 in 2017) people, of whom 244 (252 in 2018 and 261 in 2017) worked in the Cable segment and 1 (0 in 2018 and 0 in 2017) in Group administration. The Group paid a total of EUR 10.7 million (11.3 million in 2018 and 12.0 million in 2017) in performance-based salaries and fees in 2019.

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 MEETINGS

The Annual General Meeting (AGM) of Neo Industrial Plc was held in Helsinki, on 22 March 2019.

The AGM approved the financial accounts for the 2018 accounting period and granted the Company's Board and the Managing Director discharge from liability for the 2018 accounting period.

The AGM resolved, in accordance with the Board's proposal, that for the 2018 accounting period a dividend of EUR 0.02 per share will be paid. The AGM resolved to pay the dividend on 29 April 2019.

The AGM approved the annual remuneration of EUR 10,000 for the members of the Board of Directors, EUR 12,500 for the chairman of the Board and an attendance remuneration of EUR 600 per each meeting for the Board and the committees, and that the members of the Board are compensated for their travel expenses.

Circa 40 per cent of the annual remunerations will be paid by the shares of the company. Transfer to the shares is made by using the average share price of Neo Industrial Plc's B-share in May 2019 and the shares will be handed over in June 2020.

The AGM resolved that the members of the Board will be paid a bonus based on the price development of the Company's class B share, the amount of which is EUR 1,000 for the chairman of the Board and EUR 500 for the ordinary members of the Board, multiplied by annual return based on the share price development of the Company's class B share (average share price in May 2020 – average share price in May 2019). Should the annual return exceed 50 per cent, the bonus shall be paid in accordance with 50 per cent. Thus, the highest multiplier is 50.

Circa 40 per cent of the bonuses will be paid with the shares of the company. Conversion into the shares will be carried out based on the average share price of the Company's class B share in May 2020, and the shares will be handed over in June 2020.

In addition, the AGM approved the proposal of the Board that the auditors' fees be paid as per invoice.

The AGM approved, in accordance with the shareholders' proposal, that the number of members of the Board shall be four (4) and re-elected the following persons to the Board: Markku E. Rentto, chairman; Jukka Koskinen, deputy chairman and Marjo Matikainen-Kallström and Ari Järvelä as members of the Board. No deputy members were elected.

The AGM elected, in accordance with the shareholders' proposal, Authorized Public Accountants KPMG Ltd, with Authorized Public Accountant Leenakaisa Winberg as responsible auditor, as the Company's auditor for a term that expires at the end of the Annual General Meeting of 2020.

The AGM authorized, in accordance with the Board of Director's proposal, the Board of Directors to decide on the acquisition of the Company's own shares with assets from the Company's unrestricted equity so that the maximum number of class B shares to be acquired is 588,076. The amount corresponds to approximately 9.77 per cent of all the shares in the Company and in total 10,0 per cent of the Company's class B shares.

The shares will be acquired through trading arranged by Nasdaq Helsinki in accordance with its rules, and the consideration to be paid for the shares to be acquired must be based on market price. The Company may acquire B class shares directly by a contractual trade, provided that the number of class B shares to be acquired via contractual trade is at least 15,000 and that the consideration to be paid for the shares is equal to the prevailing market price in Nasdaq Helsinki at the time of the acquisition. When carrying out acquisitions of the Company's own shares, derivatives, stock lending and other agreements customary to the capital markets may be entered into within the limits set by law and regulations.

The authorization entitles the Board of Directors to also decide on a directed acquisition in a proportion other than that of the shares held by the shareholders, provided the Company has a weighty reason for this as defined in the Finnish Companies Act.

The Board of Directors is entitled to decide on all other matters pertaining to the acquisition of the Company's own shares.

The authorization will remain in force until the next Annual General Meeting.

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 of Directors. The members of Neo Industrial Plc´s audit committee are Marjo Matikainen-Kallström and Ari Järvelä. In 2019, Neo Industrial´s audit committee reviewed business risks, balance sheet values, financing, liquidity, test calculation procedures and IFRS regulations effects. In guidance to internal audit measures the emphasis was on ensuring going concern and both process and ICT risk management played major role.

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. The statement has been issued separately from the annual report and will be published at the same time with the financial statements and the board of directors´ report. The report will be 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 2019, its total share capital was EUR 24,081,440, and the number of shares was 6,020,360. The total number of shares includes 68,610 B shares held by Neo Industrial Plc. The holding presents 1.1 percent of the company´s share capital and 0.8 percent of the votes. The company held no A shares. Neo Industrial Plc´s shares (NEO1V) are listed on the exchange list of NASDAQ Helsinki.

Company shares	31/12/2019	31/12/2018	31/12/2017
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	68,610	74,439	74,271

ACQUISITION AND TRANSFER OF THE COMPANY´S OWN SHARES
On 31 December 2019, the company held a total of 68,610 own B shares. Neo Industrial Plc did not exercise it's authorization to acquire the company´s own shares.

Neo Industrial Plc has used the authorization to transfer treasury B shares against or without payment. In the financial period of 2019, Neo Industrial Plc has paid remuneration and incentives to the Board of Directors with shares, totaling to 3,829 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 2,806,872.33 including the result of the review period EUR 1,068,591.57. The Board proposes to the Annual General Meeting that no dividends will be paid for 2019. Dividend of EUR 0.02 was paid for 2018.

NEAR-TERM OUTLOOK
For the financial year 2020, Neo Industrial's net result is expected to be positive.

ANNUAL GENERAL MEETING 2020
Neo Industrial Plc's Annual General Meeting will be held in Helsinki on 25 March 2020 at 1.00 p.m.
A separate invitation will be published on 27 February 2020.

Espoo, 27 February 2020

Neo Industrial Plc

Board of Directors

CONSOLIDATED INCOME STATEMENT (IFRS)

EUR 1,000	Note	1/1-31/12/2019	1/1-31/12/2018
TURNOVER	1.1.	**97,478**	**103,818**
Change in inventories of finished products and production in progress		-2,461	83
Production for own use		8	24
Other operating income	1.2.	280	282
Materials and services		-70,524	-77,124
Personnel expenses	1.3.	-13,727	-14,712
Depreciation and impairment	1.4.	-4,384	-2,485
Other operating expenses	1.5.	-6,161	-8,887
		-96,970	-102,820
Operating result		**508**	**998**
Financial income	1.7.	106	132
Financial expenses	1.7.	-2,616	-2,014
		114	166
Result before taxes		**-1,887**	**-716**
Taxes	1.8.	447	190
Result for the period		**-1,440**	**-527**
Profit or loss attributable to			
Shareholders of the parent		-1,440	-527
Non-controlling interests		0	0
		-1,440	-527
Earnings per share attributable to the shareholders of the parent before and after dilution, EUR	1.9.	-0.24	-0.09
Number of shares		5,951,750	5,947,921

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

Result	-1,440	-527
Other comprehensive items that may subsequently reclassified to statement of income		
Translation differences related to foreign units	-14	-10
Change in the value of open customer derivatives	180	-174
Taxes of items that may subsequently reclassified to statement of income	-36	35
Total	130	-150
Other comprehensive items that are not subsequently reclassified to statement of income		
Items related to remeasurements of net defined benefit liability	234	-704
Taxes of items that are not subsequently reclassified to statement of income	-47	141
Total	188	-563
Other comprehensive items total	**317**	**-713**
Total comprehensive income	-1,123	-1,240
Total comprehensive income attributable to		
Shareholders of the parent	-1,123	-1,240
Non-controlling interests	0	0
	-1,123	-1,240

CONSOLIDATED BALANCE SHEET (IFRS)

EUR 1,000	Note	31/12/2019	31/12/2018
ASSETS			
Non-current assets			
Goodwill	2.2.	3,252	3,252
Other intangible assets	2.2.	1,476	1,191
Tangible assets	2.1.	16,321	12,011
Right-of-use assets (2018 Financial leases)		8,193	2,249
Holdings in associates	2.3.	930	1,578
Receivables		71	19
Derivative contracts	2.14.	0	0
Deferred tax assets	2.4.	2,608	1,975
Total non-current assets		**32,851**	**22,276**
Current assets			
Inventories	2.5.	13,832	16,411
Sales receivables and other receivables	2.6.	5,272	6,622
Derivative contracts	2.14.	204	80
Cash and cash equivalents	2.7.	6,784	889
Total current assets		**26,092**	**24,002**
Total Assets		**58,943**	**46,278**
SHAREHOLDERS' EQUITY AND LIBILITIES			
Shareholder's equity			
Share capital		24,082	24,082
Premium fund		66	66
Reserve fund		1,221	1,221
Own shares		0	0
Translation differences		-45	-30
Retained profit		-18,798	-17,604
Other unrestricted equity		436	436
Equity attributable to sharehoders of the parent		**6,963**	**8,170**
Non-controlling interets		0	0
Total shareholders´ equity	2.8.	**6,963**	**8,170**
Non-current liabilities			
Deferred tax liabilities	2.4.	55	27
Provisions	2.9.	3,250	3,127
Financial liabilities	2.10.	12,561	4,089
Lease liabilities (2018 Financial lease liabilities)	2.10.	7,595	3,079
IAS19 pension liability		3,870	4,107
Other liabilities		11	7
Derivative contracts	2.14.	14	73
Current liabilities			
Tax liabilities from the profit		62	53
Provisions	2.9.	27	23
Financial liabilities	2.10.	3,004	5,575
Lease liabilities (2018 Financial lease liabilities)	2.10.	1,867	266
Derivative contracts	2.14.	184	197
Accounts payable and other liabilities	2.12.	19,480	17,483
Total liabilities		**51,980**	**38,108**
Shareholders´ equity and liabilities		**58,943**	**46,278**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY (IFRS)

EUR 1,000	Share capital	Premium fund	Reserve fund	Own shares	Translation differences	Pension liability IAS 19	Fair value fund	Other unrestricted equity	Retained profit	Shareholder´s equity to the shareholders of the parent	Non-controlling interests	Total shareholders´ equity
Shareholders' equity 31/12/2017	24,082	66	1,221	0	-20	-1,518	0	436	-13,508	10,759	0	10,759
Effects of IFRS 15 and 9 changes									-890	-890		-890
Shareholders' equity 1/1/2018	24,082	66	1,221	0	-20	-1,518	0	436	-14,398	9,869	0	9,869
Comprehensive income												
Result for the period									-527	-527	0	-527
Other comprehensive items												
Items related to remeasurements of net defined benefit liability						-563				-563		-563
Derivatives							-139			-139		-139
Payments by own shares				0					0	0	0	0
Translation differences					-10					-10		-10
Total comprehensive income					-10	-563	-139		-527	-1,239	0	-1,239
Effect of reclassification to translation differences									0	0		0
Transactions with the owners												
Dividends paid									-476	-476		-476
Payments by own shares									17	17		17
Total transactions with the owners									-459	-459	0	-459
Shareholders' equity 31/12/2018	**24,082**	**66**	**1,221**	**0**	**-30**	**-2,081**	**-139**	**436**	**-15,383**	**8,170**	**0**	**8,170**

EUR 1,000	Share capital	Premium fund	Reserve fund	Own shares	Translation differences	Pension liability IAS 19	Fair value fund	Other unrestricted equity	Retained profit	Shareholder´s equity to the shareholders of the parent	Non-controlling interests	Total shareholders´ equity
Shareholders' equity 31/12/2018	24,082	66	1,221	0	-30	-2,081	-139	436	-15,383	8,170	0	8,170
Comprehensive income												
Result for the period									-1,440	-1,440	0	-1,440
Other comprehensive items												
Items related to remeasurements of net defined benefit liability						188				188		188
Derivatives							144			144		144
Translation differences					-14					-14		-14
Total comprehensive income					-14	188	144		-1,440	-1,123	0	-1,123
Other change									16	16		16
Transactions with the owners												
Dividends paid									-119	-119		-119
Payments by own shares									17	17		17
Total transactions with the owners									-102	-102	0	-102
Shareholders' equity 31/12/2019	**24,082**	**66**	**1,221**	**0**	**-45**	**-1,893**	**4**	**436**	**-16,909**	**6,963**	**0**	**6,963**

CONSOLIDATED CASH FLOW STATEMENT (IFRS)

EUR 1,000	**1/1-31/12/2019**	**1/1-31/12/2018**
Cash flows from operating activities		
Payments received from operating activities	96,851	100,993
Payments paid on operating activities	-86,325	-100,238
Paid interests and other financial expenses	-2,561	-1,812
Direct taxes paid	-232	-243
Net cash provided by operating activities	**7,758**	**-1,300**
Cash flows from investments		
Investments in tangible assets	-7,152	-2,549
Sales of tangible assets	75	0
Purchase of associated company shares	-1,255	0
Proceeds from sale of associated company shares	2,017	0
Loans granted	-3,200	0
Loan repayments	3,200	0
Net cash provided by investing activities	**-6,314**	**-2,549**
Cash flows from financing activities		
Increase in loans	19,438	5,000
Decrease in loans	-12,901	-1,356
Payments of finance lease activities	-1,968	-251
Dividends paid	-119	-476
Net cash provided by financing activities	**4,450**	**2,917**
Change in cash and cash equivalents at the end of the period	**5,894**	**-932**
Cash and cash equivalents at beginning of the period	889	1,827
Exchange rate differences	2	-7
Change in cash and cash equivalents at the end of the period	**6,784**	**889**

Reconcialition of cash flow statement is presented in note 2.11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

Neo Industrial Plc is the parent company of the Group, which includes The Neo Industrial wholly owned subsidiary Alnus Ltd with its subsidiaries and associated companies.

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

The parent company is domiciled in Hyvinkää. Neo Industrial Plc's address is Kankurinkatu 4-6, 05800 Hyvinkää. Neo Industrial Plc's B shares are listed on NASDAQ 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 Salokunnantie 590, 35550 Salokunta.

Neo Industrial Plc's Board of Directors approved these financial statements for publication at its meeting of 27 February 2020. 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.

Accounting policies for the consolidated financial statements ☆

The general accounting policies of the consolidated financial statements are described in this section. Detailed accounting policies and descriptions of decisions based on management's judgement and management's use of estimates are presented later at each item of the financial statements. Accounting policies are marked with star ☆

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 2019. 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.

Neo Industrial Group has applied as from 1 January 2019 the following new and amended standards that have come into effect:

IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019). The new standard replaced the IAS 17 –standard and related interpretations. IFRS 16 requires the lessees to recognize the lease agreements on the balance sheet as a right-of-use assets and lease liabilities. The accounting model is similar to finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short term contracts in which the lease term is 12 months or less, or to low value items i.e. assets of value about USD 5,000 or less. The lessor accounting remains mostly similar to current IAS 17 accounting. The impacts of IFRS 16 on Neo Industrial's consolidated financial statements:

- The Group has several contracts in which the lease term is 12 months or less and assets of value less than USD 5,000. The Group benefits the exceptions and does not expect any change in handling of such contracts nor assets. IT- devices are whether already in the the Assets in the Balance Sheet or their value is less than USD 5,000. IFRS 16 will be noticed also in future when comparing different contract models and in decisions whether to buy or lease some IT related purchases.
- The Group has rental agreements, which are valid over 12 months or for the time being, of which part were not handled in the Balance Sheet according to the IAS 17 standard. The Group analyzed all such contracts and evaluated the periods to be used as well as the interest noticed.
- For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.
- The new IFRS 16 standard is implemented by using method of accumulated effect as of 1 January 2019. As a result, the comparison figures of previous financial year were not changed.

- The weighted-average rate applied was 4.0 %.
- IFRS 16 changes essentially Neo Industrial Group's balance structure. The effect of IFRS 16 to the opening balance was EUR 13.5 million to non-current assets and interest-bearing liabilities.

During year 2019 the Group recognized depreciation expense on right-of-use assets from former operating lease contracts totalling EUR 2.1 million and interest expenses totalling EUR 0.6 million. The rent expenses reversed from other operating expenses relating to these contracts totalled EUR 2.5 million.

A reconciliation of the operating lease commitment at 31 December 2018 and the lease liabilities recognized at 1 January 2019 is presented in the following table:

EUR million	**1/1/2019**
Operating lease commitment at 31/12/2018	3.1
VAT adjustment	-0.6
Other adjustments	0.6
Lease adjustments from other leases 31/12/2018 total	3.0
Discounted at 1/1/2019	**2.8**
Finance lease liabilites recognised as at 31/12/2018	3.3
Recognition exemption fo:	
- Short-term leases	-0.1
- Leases of low-value assets	-0.1
Extension options reasonably certain to be exercised	10.8
Lease liabilities recognised at 1/1/2019	**16.7**

IFRIC 23 Uncertainty over Income Tax Treatments (effective for financial years beginning on or after 1 January 2019). The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether the tax authority will accept the company’s chosen tax treatment. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The interpretation is not expected to have significant impact.

Other new or amended standards and interpretations did not have effect on to the Financial Statement of the Group.

Use of estimates

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the valuation of the reported assets and liabilities and other information, such as contingent assets and liabilities and the recognition of income and expenses in profit or loss. Although these estimates are based on management’s best knowledge of current events and actions, actual results may differ from the estimates.

The most important items, which require management estimates and assumptions and which may include uncertainty, are impairment testing of goodwill, deferred tax assets of unused tax losses, definition of length in lease periods in IFRS 16 handling, effects on provisions given, handling of rental loss provision and net realisable value of inventories. Detailed descriptions of decisions based on management's judgement and management’s use of estimates are presented later at each item of the financial statements.

The Group’s management makes judgements concerning the adoption and application of the accounting policies for the financial statements. The management has used its judgement in selecting and applying the accounting policies, for example, classification of leases.

Any assumptions and estimates related to the comparison period are based on the circumstances and outlook that prevailed at the reporting date of that period.

Valuation principles

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

All open customer-specific hedge changes are booked to equity. Other changes with derivatives are recognized 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 recognized under each segment. Other derivatives are recognized 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 has a controlling interest when it is exposed, or has rights, to variable returns from its involvement with the investee and has ability to affect those returns through its power over the investee.

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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized in equity. Translation differences arising from the elimination of the acquisition cost of foreign subsidiaries are recognized in equity. When a subsidiary is sold, the accumulated translation differences are recognized 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.

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. The Operating result does not include any group contributions nor financial costs relating to IAS 19. 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 recognized under financial items. Operating result is also known as operating profit or operating loss, depending on the context.

Adoption of new and amended standards iin future financial years

Neo Industrial has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The Group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.
* = not yet endorsed for use by the European Union as of 31 December 2019.

- ***Amendments to References to Conceptual Framework in IFRS Standards*** (effective for financial years beginning on or after 1 January 2020). The revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs.
- ***Definition of a Business (Amendments to IFRS 3)*** * (effective for financial years beginning on or after 1 January 2020). The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set is a group of assets rather than a business.
- ***Definition of Material (Amendments to IAS 1 and IAS 8)*** (effective for financial years beginning on or after 1 January 2020). The amendments clarify the definition of material and include guidance to help improve consistency in the application of that concept across all IFRS Standards. In addition, the explanations accompanying the definition have been improved.
- ***Interest Rate Benchmark Reform * (Amendments to IFRS 9, IAS 39 and IFRS 7)*** (effective for financial years beginning on or after 1 January 2020). Amendments have been issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.
- ***IFRS 17 Insurance Contracts**** (IASB's proposal effective for financial years beginning on or after 1 January 2022). The new standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. This standard replaces IFRS 4 standard.

1. Items related to the profit for the period

1.1 Operating segments

At this point Neo Industrial Group has one industrial operating segment, Cable industry. All other operations are categorised to group Other operations and eliminations.

Accounting policy of segment information

In accordance with IFRS 8, segment-specific reporting is based on the management's internal reporting. Turnover 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, the numbers of companies not belonging to Cable segment, IAS 19 bookkeeping entries and unallocated items as well financial liabilities related to acquiring businesses are recognised in other operations and eliminations. In addition, segment-specific statements present the operating result before and after open hedging instruments.

Information about geographical areas

Turnover by sales areas is based on customers' geographical locations and whether the customer's country is located to EU –area or not. Group's geographical areas are categorised to EU –countries and non-EU –countries.

Assets and investments of geographical areas are based on geographical locations of assets according to equal categorisation as turnover.

Revenue recognition principle

Revenue from the sale of goods is recognised when the significant risks, rewards and actual control usually associated with ownership of the goods have been transferred to the buyer. Usually revenue is recognised as income when products are delivered in accordance with the terms of sale. Revenue from services is recognised during the period when the service is rendered and the economic benefit of the transaction is probable. The share of Neo Industrial's revenue from services is not significant.

The cables are sold on drums and in most cases the drums are invoiced separately from cables. Drums may howerer also be included to the price of cables when agreed so with the customer and cables are sold to the markets, from where drums are now usually returned. In revenue recognition of drums both the effects of sold and credited drums are noticed.

The turnover is booked to the amount, that the Group expects to be entitled against made deliveries. With bill and hold arrangements, the products of the customers are clearly separated from the assets of the Group and the customer decides when products are tranferred further. The turnover includes variable compensations such like volume and cash payment discounts given. Turnover also includes foreign exchange rate gains and losses arising from trade receivables. During the financial year the volume discounts are estimated based on contracts, actual data and forecasts. At the end of the financial year the volume discounts are calculated based on actual figures.

Use of estimates

In revenue recognition of drums both the effects of sold and credited drums are noticed. Revenue recognition of drums includes estimates of how much of drums are returned. Estimates are based on earlier return percentage and seasonal changes.

Accounting policy

Derivative contracts are recognised at fair value when the Group becomes part of the contract. Accounting principles of derivative contracts are described more specifically in note 2.14.

31/12/2019

EUR 1,000	Cable	Other operations and eliminations	Group
Turnover	**97,439**	**39**	**97,478**
Operating result before change in the value of open derivatives	**887**	**-379**	**508**
Change in the value of open derivatives	0	0	0
Operating result after change in the value of open derivatives	**887**	**-379**	**508**
Unallocated items		-1,948	-1,948
Result before taxes			-1,887
Result for the period			**-1,440**
Assets			
Segment's assets	48,013	10,930	58,943
Total assets	**48,013**	**10,930**	**58,943**
Liabilities			
Segment's liabilities	34,647	17,333	51,980
Total liabilities	**34,647**	**17,333**	**51,980**
Assets - liabilities	**13,366**	**-6,403**	**6,962**
Investments	**8,167**	**45**	**8,212**
Depreciations	**4,262**	**123**	**4,384**

31/12/2018

EUR 1,000	Cable	Other operations and eliminations	Group
Turnover	**103,818**	**0**	**103,818**
Operating result before change in the value of open derivatives	**1,894**	**-839**	**1,055**
Change in the value of open derivatives	-57	0	-57
Operating result after change in the value of open derivatives	**1,837**	**-839**	**998**
Unallocated items		-1,525	-1,525
Result before taxes			-716
Result for the period			**-527**
Assets			
Segment's assets	42,658	3,620	46,278
Total assets	**42,658**	**3,620**	**46,278**
Liabilities			
Segment's liabilities	24,432	13,676	38,108
Total liabilities	**24,432**	**13,676**	**38,108**
Assets - liabilities	**18,226**	**-10,056**	**8,170**
Investments	**2,274**	**170**	**2,444**
Depreciations	**2,379**	**106**	**2,485**

Cable segment´s turnover by product group, EUR million	1-12/2019	1-12/2018
LV energy	21.0	21.9
Power cable	76.4	81.9
Total	**97.4**	**103.8**

Cable segment´s turnover by sales area, EUR million	1-12/2019	1-12/2018
EU-countries	81.4	89.7
Non-EU-countries	16.0	14.1
Total	**97.4**	**103.8**

Taken all market areas into the consideration the largest customer Group´s share of the Group´s turnover was 20.2 %, the share of the second largest was 11.1 % and the share of the third largest was 10.3 %. Other separate customer´s share of the Group´s turnover was under 10 %.

On 31 December 2019, non-current assets other than financial instruments and deferred taxes were EUR 30.2 million (20.3) and are located in Finland.

1.2. Other operating income

Accounting policy

Income related to other than normal business is recognised as other operating income. Such items are, for example, proceeds from sales of items of property and equipment and intangible assets, rental income, subsidies received and government grants.

EUR 1,000	2019	2018
Subsidies received	55	81
Rental income	93	93
Other income	131	109
Total	280	282

1.3. Personnel expenses

Accounting policy

Employee benefits include salaries and fees, pension expenses and other personnel expenses. Other expenses related to personnel are included in other operating expenses.

The Group’s statutory pension insurance for staff has been set up with pension insurance companies until December 31, 2015. Pension expenses have been recognized as costs in the financial year during which they are accumulated. Neo Industrial is part of Reka Group, whose pension insurances were transferred to the defined benefit plan. Due the transfer, the pension responsibilities has been handled according to defined benefit plan (IAS 19). Bookkeeping entries according to IAS 19 affect personnel costs, financial costs and to the items booked to equity via consolidated statement of comprehensive income. IAS 19 bookkeeping entries are included to other operations and eliminations in the segment report.

EUR 1,000	2019	2018
Salaries and fees	10,830	11,707
Pension expenses, defined contribution plans	2,608	1,941
Pension expenses, defined benefit plans	-94	572
Other personnel expenses	383	491
Total	13,727	14,712

Management benefits are presented in note 3.3 (”Related-party transactions”).

Average number of personnel in the financial period:

	2019	2018
Total	247	251
Cable segment	247	251

1.4. Depreciation and impairment

Accounting policy

Depreciation of tangible assets is made on straight-line basis over their economic lifetime. No depreciation is made on land. Intangible assets with a limited economic life are depreciated as expenses on a straight-line basis in the income statement over their economic lifetime. 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. The estimated useful lives are presented in notes 2.1. and 2.2.

EUR 1,000	2019	2018
Depreciation by commodity group		
Intangible non-current assets		
Product brands and trademarks	-44	-105
Other intangible assets	-50	-59
Total	-94	-165
Tangible non-current assets		
Buildings	-265	-150
Machinery and equipment	-1,946	-1,849
Other tangible assets	-14	-13
Total	-2,225	-2,012
Right-of-use assets (2018 Financial leases)		
Buildings	-1,911	-306
Machinery and equipment	-140	0
Impairment of buildings	-13	-2
Total	-2,065	-308
Total depreciation and impairment	-4,384	-2,485

1.5. Other operating expenses

Accounting policy

Losses on sales of tangible and intangible assets as well as indirect expenses of operations excluding employee benefit expenses and financial expenses are recognised as other operating expenses.

EUR 1,000	2019	2018
Short-term variable compensation	-187	0
Low value variable compensation	-115	0
Other variable compensation	-536	0
2018: Rental expenses	0	-3,101
Machinery and property maintenance costs	-1,726	-1,604
Sales and marketing expenses	-774	-593
Voluntary personal expenses	-476	-453
Other expenses	-2,346	-3,135
Total	-6,161	-8,887

Other expenses include remunerations to the Auditors as follows:

EUR 1,000	**2019**	**2018**
KPMG Oy Ab		
Audit of the accounts	104	57
Certificates	0	0
Tax services	42	7
Other services	0	3
Other companies		
Audit of the accounts	8	29

1.6. Research and development expenses

Accounting policy

Research and development costs are recognised in the income statement as expenses, except for development costs that meet the capitalization criteria of IAS 38 *Intangible Assets.*

The Group invested a total of EUR 0.3 million in research and product development in 2019 (0.4 million in 2018). During the financial period, total of EUR 0.2 million (EUR 0.2 million in 2018) of the development costs of new products and product families were capitalized in the balance sheet. Capitalized development costs are also presented in note 2.2.

Neo Industrial's research and development investments were allocated to Cable segment.

1.7. Financial income and expenses

Accounting policy

Costs of liabilities are recognised as expenses in income statement in the financial period during which they are incurred. Direct transaction costs related to a specified loan, are included to the original allocated acquisition costs of a financial liability and are noticed as interest costs by using effective interest method.

Revenue recognition principle

Interest income is recognized using the effective interest method, and dividend income is recognized when the right to receive the dividend is created.

Accounting policy

Derivative contracts are recognised at fair value when the Group becomes part of the contract. Accounting principles of derivative contracts are described more specifically in note 2.14.

Financial income

EUR 1,000	**2019**	**2018**
Interest revenues	26	0
Exchange rate differences	64	104
Derivatives	16	26
Other financial income	1	3
Total	106	132

Financial expenses

EUR 1,000	**2019**	**2018**
Interest expenses	-929	-1,198
Interest expenses on right-of-use assets (2018: financial leases)	-618	-204
Interest expenses on defined benefit pension liability	-91	-62
Expenses on metal derivates	0	-206
Exchange rate differences	21	-54
Other financial expenses	-999	-290
Total	-2,616	-2,014
Total exchange rate differences	85	50

1.8. Taxes

Accounting policy

Income taxes include taxes calculated based on the taxable profit for the period and change in deferred income taxes. The current tax is measured using each country's tax rates that have been enacted or substantially enacted by the end of the reporting period.

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.

EUR 1,000	**2019**	**2018**
Taxes payable on profit	-238	-217
Taxes from previous financial periods	-3	0
Deferred tax on temporary differences	688	406
Total	447	190

Reconciliation of the tax expense in the income statement and taxes calculated at the domestic tax rate (20%).

EUR 1,000	**2019**	**2018**
Result before taxes	-1,887	-716
Taxes calculated at the domestic tax rate	-377	-143
Effect of tax-exempt income	-8	-7
Effect of non-deductible expenses	79	255
Effect of different tax rates applicable to foreign subsidiaries	3	3
Effect of unrecognised deferred tax receivables related to taxable losses	-4	20
Effect of other unrecognised deferred tax receivables	0	-319
Taxes from previous periods	3	0
Lease agreements	-168	0
Other items	26	3
Taxes on the income statement	-447	-190

1.9. Earnings per share

Undiluted earnings per share
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.

Diluted earnings per share
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.

	2019	2018
Profit from the financial period attributable to the shareholders of the parent company, EUR 1,000	-1,440	-527
Weighted average numbers of shares during the period	5,951,750	5,947,921
Undiluted earnings per share	-0.24	-0.09
Weighted diluted average numbers of shares during the period (number)	5,951,750	5,947,921
Earnings per share adjusted for dilution	-0.24	-0.09
Earnings per share:		
Earnings per share attributable to the shareholders of the parent before and after dilution, EUR	-0.24	-0.09
Number of shares	5,951,750	5,947,921

2. Operating Assets and Liabilities

2.1. Tangible non-current assets

Accounting policy

Tangible non-current assets are measured at original acquisition cost less depreciation and impairment. 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

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.

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.

The right-of-use assets:

- The new rental agreement is entered to the balance sheet as right-of-use assets and respective lease liability. The right-of-use assets are valued originally to initial amount of lease liability. Initial lease liability is adjested by lease payments made at or before the commencement date, in-substance fixed payments, direct costs in the beginning of rental period and by the estimated costs to be incurred in dismantling and removing the underlying assets or restoring the site on which the assets are located. The right-of-use asset is depreciated within the rental time.
- The lease liability is valued originally to the net present value of unpaid rents as of the commencement of the rental time. Internal discount rate is used, or not available, the interest rate for additional loan of the lessee is used. The lease liability is valued at amortised cost and effective interest is used.
- The Group benefits two exceptions available and does not book to the balance sheet the rental agreements of which the rental time is 12 months maximum or low value. These rental agreements are booked as costs to the Income statement during the rental period.

Accounting principle applied in 2018 for financial leases:

- Lease agreements related to tangible assets in which the Group bears an essential part of the risks and rewards of ownership are recognized 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. Lease agreements mainly consist of premises, vehicles and equipments.

Impairment

On the closing date of the financial year, the Group evaluates whether any assets are showing signs of impairment. Values are evaluated by item. Assets classified as finance lease contracts are evaluated by contract.

If any indication exists, the asset´s recoverable amount is estimated or the financial impact of rental agreement is evaluated. The recoverable amount is the asset´s fair value less costs of disposal or its value in use, whichever is higher. The recoverable amount is based on the discounted estimated future net cash flows at the time of review. An impairment loss is recognized when an asset´s carrying amount exceeds its recoverable amount. An impairment loss is recognized immediately in profit and loss and it is included in Depreciation, amortization and impairment in comprehensive income. The useful life of the asset to be depreciated is reassessed at the recognition of the impairment loss.

An impairment loss is reversed in a subsequent period if there has been a significant positive change in the estimates used to determine an asset´s recoverable amount. An impairment loss can be reserved to the amount that would have been carrying value of the asset, had no impairment loss been recognized.

Use of estimates

When finding out whether there are any indications of the decrease in the value of the asset´s the management makes assumptions and estimates. These are used as a basis of for the possible further analyses. The Group has loss making rental agreement that is handled as financial lease and which financial impact is yearly evaluated by using the assumptions and estimations of the management. Possible changes in these assumptions and estimations may cause changes to the valuation in future years.

The total impairment recognised on buildings is EUR 0.7 (0.7) million and based on the difference between estimated income and expenses related to a long-term lease agreement.

EUR 1,000	Land and water areas	Buildings	Machinery and equipment	Motor vehicles	Advance payments and acquisitions in progress	Total
Acquistion costs 1/1/2019	30	1,266	32,756	270	244	34,566
Increase	142	5,396	989	0	52	6,579
Decrease	0	0	-44	0	0	-44
Transfers between items	0	0	244	0	-244	0
Acquistion costs 31/12/2019	172	6,662	33,945	270	52	41,101
Accumulated depreciation and impairment 1/1/2019	0	648	21,649	260	0	22,554
Depreciation	0	265	1,950	10	0	2,225
Accumulated depreciation and impairment 31/12/2019	0	912	23,599	270	0	24,778
Book value 1/1/2019	30	618	11,108	10	244	12,011
Book value 31/12/2019	172	5,749	10,348	0	52	16,321

EUR 1,000	Land and water areas	Buildings	Machinery and equipment	Motor vehicles	Advance payments and acquisitions in progress	Total
Acquistion costs 1/1/2018	0	4,232	31,041	270	83	35,626
Reclassification	0	-4,346	0	0	0	-4,346
Increase	30	242	1,625	0	251	2,148
Transfers between items	0	1,138	90	0	-90	1,138
Acquistion costs 31/12/2018	30	1,266	32,756	270	244	34,566
Accumulated depreciation and impairment 1/1/2018	0	1,675	19,807	240	0	21,720
Reclassification	0	-1,789	0	0	0	-2,097
Depreciation	0	152	1,841	20	0	2,321
Transfers between items	0	610	0	0	0	610
Accumulated depreciation and impairment 31/12/2018	0	648	21,649	260	0	22,554
Book value 1/1/2018	0	2,557	11,234	31	83	13,906
Book value 31/12/2018	30	618	11,108	10	244	12,011

Right-of-use assets (2018 Financial leases):

EUR 1,000	Machinery and equipment	Buildings	Total
Acquisition costs 1/1/2019	0	4,346	4,346
Increase in IFRS 16 implementation 1/1/2019	548	12,927	13,475
Other increase	47	0	47
Decrease	0	-5,512	-5,512
Acquisition costs 31/12/2019	595	11,761	12,355
Accumulated depreciation 1/1/2019	0	2,097	2,097
Depreciation for the period	140	1,911	2,052
Impairment	0	13	0
Accumulated depreciation 31/12	140	4,022	4,162
Book value 1/1	0	2,249	2,249
Book value 31/12	454	7,739	8,193

Financial leases included in 2018 to the Other intangible assets:

EUR 1,000	Machinery and equipment	Buildings	Total
Acquisition costs 1/1	0	4,346	4,346
Acquisition costs 31/12	0	4,346	4,346
Accumulated depreciation 1/1	0	1,789	1,789
Depreciation for the period	0	308	308
Accumulated depreciation 31/12	0	2,097	2,097
Book value 1/1/2018	0	2,557	2,557
Book value 31/12/2018	0	2,249	2,249

2.2. Intangible non-current assets

Accounting policy ☆

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. 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 recognized 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.

EUR 1,000	**Goodwill**	**Development expenses**	**Other intangible**	**Total**
Acquisition costs 1/1/2019	3,252	526	5,923	9,701
Increase	0	233	146	379
Acquisition costs 31/12/2019	3,252	759	6,069	10,080
Accumulated depreciation and impairment 1/1/2019	0	116	5,141	5,257
Depreciation	0	44	50	94
Accumulated depreciation and impairment 31/12/2019	0	160	5,191	5,351
Book value 1/1/2019	3,252	410	782	4,443
Book value 31/12/2019	3,252	599	877	4,728

EUR 1,000	Goodwill	Development expenses	Other intangible	Total
Acquisition costs 1/1/2018	3,252	374	6,974	10,600
Increase	0	152	87	239
Transfers between items	0		-1,138	-1,138
Acquisition costs 31/12/2018	3,252	526	5,923	9,701
Accumulated depreciation and impairment 1/1/2018	0	11	5,692	5,703
Depreciation	0	105	59	164
Transfers between items	0		-610	-610
Accumulated depreciation and impairment 31/12/2018	0	116	5,141	5,257
Book value 1/1/2018	3,252	363	1,282	4,897
Book value 31/12/2018	3,252	410	782	4,443

Other intangible non-current assets include the following items: activated IT software and licenses.

Impairment testing

Accounting policy

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. The associated companies are tested separately if any balance sheet values are related to them. Nestor Cables Ltd and Riihimäen Kaapelitehdas Ltd are associated companies. In the 2019 financial statements, no balance sheet values are related to Nestor Cables Ltd. Share of Riihimäen Kaapelitehdas Ltd in the balance on 31 December 2019 was acquired end of August 2019.

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.

Use of estimates

The execution of the annual impairment test has required management to make assumptions and estimates to measure the recoverable amounts of the cash-generating units. The estimated future cash flows are discounted to their current value.

The key assumptions

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 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 EUR, 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 already visible outcome of efficiency improvement program have been taken into account in the predictions.

Assumptions used in the cash flow analysis, %	2019
Terminal value growth 2024 -	2
WACC (Pre-Tax)	6.42

Assumptions used in the cash flow analysis, %	2018
Terminal value growth 2023 -	0
WACC (Pre-Tax)	5.88

	2019	2018
Sensitivity analysis	Value used, %	Value used, %
WACC (Pre-Tax)	6.42 – 15.99	5.88 – 22.31

According to the results of the impairment tests, the Group has no need to recognise impairments. The recoverable amount determined in impairment testing exceeds the book value of the units tested.
Based on the sensitivity calculations, the present value of future cash flows is larger than the investments, when discount rate is under 16.00 %.

2.3. Holdings in associates

EUR 1,000	**2019**	**2018**
At the beginning of the period	1,578	1,412
Share of profit	114	166
Increase	1,255	0
Decrease	-2,017	0
At the end of the period	930	1,578

On the closing date of the financial period, Neo Industrial's associated companies were Nestor Cables Ltd and Riihimäen Kaapelitehdas Ltd.

Turnover for Nestor Cables Group, an associated company in the Cable segment, was EUR 31.5 million (36.0 million). The operating result was positive but lower than year before. The company's value on the consolidated balance sheet is zero and the result of the company is not included in the Group figures.

Neo Industrial Plc sold its shares of Riihimäen Kaapelitehdas Ltd to Riihimäen Tilat ja Kehitys Ltd in August. Selling price was EUR 2.0 million. Sale of shares was part of total arrangement where Riihimäen Tilat ja Kehitys Ltd bought altogether 68.05 % and Neo Industrial Plc's subsidiary Reka Cables Ltd 20.2 % shares of Riihimäen Kaapelitehdas Ltd. Third owner is Reka´s Pension fund, whose ownership decreased to be under 12 % after arrangement.

The value of shares regarding Riihimäen Kaapelitehdas Ltd on the consolidated balance sheet consists of acquisition price in August 2019 added with the share of the result after the purchase. In addition to this, the effect of earlier owned shares of Riihimäen Kaapelitehdas Ltd.

EUR 1,000	**2019**	**2018**
Nestor Cables Ltd, Oulu		
Share	22.94 %	22.94 %
Assets	18,187	22,916
Liabilities	18,686	24,353
,of which subordinated loans	5,505	5,505
Turnover	31,452	35,982
Profit	1,008	1,465
Value on the consolidated balance sheet	0	0
Riihimäen Kaapelitehdas Ltd, Riihimäki		
Share	20.19 %	49.01 %
Assets	10,819	11,477
Liabilities	7,356	8,423
,of which subordinated loans	0	0
Turnover	1,269	1,253
Profit	145	315
Value on the consolidated balance sheet	930	1,578

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

2.4. Deferred tax assets and liabilities

Accounting policy

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.

Deferred tax assets related to individual companies are recognized 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.

Changes in deferred taxes during 2019:

EUR 1,000	1/1 2019	Recorded in the income statement	31/12 2019
Deferred tax receivables			
Provisions	79	3	81
Derivatives recognised in current value	0	1	1
Deferred tax receivables on losses	944	398	1,342
IFRS 16 right-of-use assets	16	235	251
IAS 19 pension liability	822	-47	774
IFRS 15 coil provision	115	36	150
IFRS 9 credit loss provision	0	8	8
Total	1,975	634	2,608
Deferred tax liabilities			
Accumulated depreciation difference	-27	-2	-29
Other items	0	-26	-26
Total	-27	-28	-55

Changes in deferred taxes during 2018:

EUR 1,000	1/1 2018	Recorded in the income statement	31/12 2018
Deferred tax receivables			
Provisions	73	5	79
Deferred tax receivables on losses	537	422	960
IAS 19 pension liability	554	268	822
Adoption of IFRS 15 and 9 standard	222	-107	115
Total	1,386	589	1,975
Deferred tax liabilities			
Accumulated depreciation difference	-21	-6	-27
Total	-21	-6	-27

Confirmed losses of the Group companies expire in 2023 or later.
Evaluation of deferred tax receivables is based on forecasts of Cable segment and for which sensitivity analyses have been carried out. Deferred tax receivables of the Group´s parent company have been fully used during 2016.

2.5. Inventories

Accounting policy

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.

Use of estimates

Neo Industrial Group regularly reviews inventories for obsolescence and turnover, and for a possible reduction in net realisable value below cost, and recognises obsolescence when necessary. Such reviews require estimates of future demand for products and development of the market price. Possible changes in these estimates may cause adjustments in inventory valuation in future periods.

EUR 1,000	2019	2018
Materials and supplies	4,589	4,707
Production in progress	4,608	4,621
Finished products	4,635	7,084
Total	13,832	16,411

In year 2019 there is recognised inventory impairment of EUR 0.4 (EUR 0.7) million.

2.6. Current receivables

Accounting policy

The new IFRS 9 standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets. The sales receivable of Cable industry is mainly covered by credit insurances and therefore the impact of IFRS 9 to the bad debt allowances is not significant. The bad debt allowances are made based on age analysis and are represented as adjustments to the sales receivables.

EUR 1,000	2019	2018
Sales receivables	3,337	5,562
Other receivables	1,936	1,060
Total	5,272	6,622

Age distribution of Sales receivables:

EUR 1,000	2019	2018
Undue	2,925	5,527
less than 30 days	245	57
less than 60 days	65	-37
less than 90 days	11	23
more than 90 days	90	-9
Total	3,337	5,562

Regarding open sales receivables the allowance of expected credit losses totalled EUR 118 thousand (EUR 1 thousand has been booked. The allowance of expected credit losses is included to the sales receivable amount.

Current receivables distributed by currency:

EUR 1,000	2019	2018
EUR	5,113	4,509
SEK	17	129
DKK	0	126
RUB	19	13
NOK	123	1,845
Total	5,272	6,622

2.7. Cash and cash equivalents

EUR 1,000	2019	2018
Cash and bank	6,784	889

2.8. Shareholders’ equity

The parent company´s share capital by share series	2019		2018	
	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 2018), and the maximum number of B shares is 9.6 million (9.6 million). All issued shares are paid up in full.

Own shares

Accounting policy

Acquiring own shares and related direct costs are booked directly to Equity. Disposal of own shares is booked directly to Equity.

When paying rewards, company uses also its own shares as means of payment. Part of the yearly and bonus remunerations of the Board of Directors can be paid via shares according to the decisions made in the AGM. Valid decisions of the AGM are always seen at www pages of the company and the decisions are informed also as a part of financial reporting. In addition to that, company can sign agreements, where part of service (e.g. consulting) can be paid with shares instead of money (exchange rate to transfer money to shares is defined in the related agreements, like average share price of the service delivery month or other predefined value). Company publishes stock releases when making payment with own shares.

	2019		2018	
	Number	EUR 1,000	Number	EUR 1,000
Own shares 1/1	72,439	0	74,271	0
Fee payments	-3,829	0	-1,832	0
Own shares 31/12	68,610	0	72,439	0

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 2019. Dividend of EUR 0.02 was paid for 2018.

2.9. Provisions

Accounting policy

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.

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 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. Contingent liabilities due to derivative contracts and pension responsibilities are presented in particular note.

Use of estimates

The evaluation of the provisions and contingent liabilities require management to make considerations.

The product warranty provision is 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 five years, unless otherwise agreed with the customer.

The cables are sold on drums and in most cases the drums are invoiced separately from cables. The drum provision notice the effects of drums sold and credited when those are returned. In revenue recognition of drums both the effects of sold and credited drums are noticed.

The granted guarantee is based on discounted balance sheet value of the instalments of Avilon Fibres Ltd´s industrial premises for the price remaining unpaid, for which the Group has granted a guarantee. The granted guarantee was noticed in the balance sheet of financial statement 2012 due the bankruptcy of Avilon Fibres Ltd. The guarantee is paid annually by amount of EUR 0.2 million until year 2035. The remaining amount of guarantee obligation is evaluated yearly by the management. In evaluation the sales price got when selling parts of the industrial premises lower the guarantee obligation.

	Product warranty provisions	Drum provision	Provision of unpaid purchase price	Total
Provisions 1/1/2019	388	570	2,192	3,150
Increase	17	178	0	195
Decrease	0	0	-68	-68
Provisions 31/12/2019	**405**	**748**	**2,124**	**3,277**

	Product warranty provisions	Drum provision	Provision of unpaid purchase price	Total
Provisions 1/1/2018	365	1,109	2,257	3,731
Increase	23	0	0	23
Decrease	0	-539	-65	-604
Provisions 31/12/2018	**388**	**570**	**2,192**	**3,150**

2.10. Financial liabilities

Accounting policy

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.

EUR 1,000	2019	2018
Long-term financial liabilities valued at allocated acquisition cost		
Bank loans	4,400	0
Lease liabilities (2018 Finance lease liabilities)	7,595	3,079
Bond	7,034	0
Other loans	1,128	4,089
Total	20,156	7,168
Short-term financial liabilities valued at allocated acquisition cost		
Bank loans	1,917	3,000
Other loans	1,087	2,575
Lease liabilities (2018 Finance lease liabilities)	1,867	266
Total	4,871	5,841

The Group's financing loans are whether fixed or Euribor based. Lease contracts (financial leases in 2018) have fixed interest rates. The Group's average interest rate on 31 December 2019 was 5.1 percent (4.4).

On 31 December 2019 EUR 2.6 million of the Bonds were stocked. Amount stocked is not noticed in the balance sheet.

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

EUR 1,000	2019	2018
Less than 6 months	1,867	266
6-12 months	3,004	5,575
More than 12 months	20,157	7,168
Total	25,027	13,009

All loans are denominated in euro.

Maturing of lease liabilities

EUR 1,000	2019
Buildings	
Within 1 year	1,725
1-5 years	5,792
After 5 years	1,482
Total	8,999
Machinery and equipment	
Within 1 year	142
1-5 years	321
After 5 years	0
Total	463

The lease liabilities include next to the Valkeakoski plant located Kirjasniemi residential area, which 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. Avilon Fibres Ltd´s bankruptcy in 2013 did not affect the terms of the lease. Other lease liabilities relate to the cable business.

Maturing of finance lease agreements in 2018 according to IAS 17

EUR 1,000	**2018**
Finance lease agreements - total amount of minimum lease payments	
Within 1 year	455
1-5 years	1,820
After 5 years	2,390
Total	4,665
Unaccumulated financial expenses	-1,317
Present value of finance agreements	3,348
Finance lease agreements - present value if minimum lease payments	
Within 1 year	266
1-5 years	1,238
After 5 years	1,844
Total	3,348

2.11. Reconciliation of cash flow

			Non-effected changes to cash flow			
EUR 1,000	**1/1/2019**	Cash flow	Acquisition	Exchange rate changes	Current value changes	**31/12/2019**
Long-term liabilities	4,089	9,183	-344		-366	12,561
Short-term liabilities	5,575	-2,646	75			3,004
Finance lease agreements	3,346	-1,968	8,085			9,462
Total financial liabilities	**13,009**	**4,569**	**7,816**	**0**	**-366**	**25,027**

			Non-effected changes to cash flow			
EUR 1,000	**1/1/2018**	Cash flow	Acquisition	Exchange rate changes	Current value changes	**31/12/2018**
Long-term liabilities	4,334	-12	-233			4,089
Short-term liabilities	1,849	3,656	70			5,575
Finance lease agreements	3,597	-251				3,346
Total financial liabilities	**9,779**	**3,393**	**-162**	**0**	**0**	**13,009**

2.12. Accounts payable and other liabilities

EUR 1,000	**2019**	**2018**
Current financial liabilities valued at allocated acquisitions cost:		
Accounts payable	9,551	8,406
Personnel expenses allocated by period	2,989	3,261
Accruals and deferred income	4,802	4,328
Other liabilities	2,138	1,489
Total	19,480	17,483

Accruals and deferred income consist of following items:

EUR 1,000	**2019**	**2018**
Internal accruals	108	16
Accruals of interest and other financial items	7	13
Tax liabilities	2,386	2,815
Accrued discounts	1,924	1,411
Other accruals	378	73
Total	4,802	4,328

Non-interest-bearing current liabilities distributed by currency:

EUR 1,000	**2019**	**2018**
EUR	19,042	17,353
USD	182	1
RUB	15	13
DKK	24	26
NOK	84	39
SEK	134	50
Total	19,480	17,483

2.13. Pension liabilities

Statutory pension liabilities of Neo Industrial Group are handled in Reka Pension Fund. The management and board of directors of Reka Pension Fund administer the assets of the Reka Pension Fund.

Change in the net defined benefit liability recognised in Balance Sheet during Financial year

EUR 1,000	Present value of defined benefit obligations	Present value of assets related	Total
1/1/2019	**9,991**	**-5,885**	**4,107**
Defined benefit pension cost recognised in Income statement			
Cost based on review period´s work performance	848	0	848
Interest expense or income	228	-137	91
	1,076	-137	940
Items due to remeasurements			
Profit for assets related to arrangement (except items including in Interest expense or income)	0	-571	-571
Gain (-) / loss (+) arising from changes in financial assumptions	977	0	977
Experiential gain (-) / loss (+)	-640	0	-640
	337	-571	-234
Payments made by employer to arrangement	0	-942	-942
Paid benefits	-83	83	0
31/12/2019	**11,320**	**-7,452**	**3,870**

Change in the net defined benefit liability recognised in Balance Sheet during previous year

EUR 1,000	Present value of defined benefit obligations	Present value of assets related	Total
1/1/2018	**8,785**	**-6,016**	**2,769**
Defined benefit pension cost recognised in Income statement			
Cost based on review period´s work performance	815	0	815
Interest expense or income	211	-150	62
	1,026	-150	877
Items due to remeasurements			
Profit for assets related to arrangement (except items including in Interest expense or income)	0	448	448
Gain (-) / loss (+) arising from changes in financial assumptions	246	0	246
Experiential gain (-) / loss (+)	9	0	9
	255	448	704
Payments made by employer to arrangement	0	-243	-243
Paid benefits	-75	75	0
31.12.2018	**9,991**	**-5,885**	**4,107**

Significant assumptions behind insurance mathematical calculations	**2019**	**2018**
Discount rate	1.46 %	2.29 %
Inflation	1.39 %	1.65 %
Increase of pensions	0.52 %	1.00 %

Sensitivity analysis, EUR 1,000

	Effect on pension liability	2019	2018
Discount rate			
	0.5 %-increase	-1,243	-1,086
	0.5 %-decrease	1,468	1,280
Pension increase			
	0.5 %-increase	1,315	1,136
	0.5 %-decrease	-1,178	-1,020
Life expectancy			
	1 year increase	323	274
	1 year decrease	-314	-266

Duration based on weighted average of liability is 25.9 years

Assets related to defined benefit plan are divided to categories as follows

%	2019	2018
Equity instruments	6.3 %	10.1 %
Debt instruments	5.5 %	3.2 %
Investment funds	82.0 %	76.1 %
Properties	6.2 %	10.6 %
	100.0 %	100.0 %

In addition to companies belonging to Reka Group also some related party companies of Reka Ltd have joined to Reka Pension Fund. The Assets of Reka Pension Fund are approximately EUR 33 million and pension liabilities are approximately EUR 30 million. The risk related is that the Assets of the pension fund increases slower than the pension liabilities which would cause that in the long run the Assets would not cover the liabilities.

The Group expects to pay contributions in financial year 2020 total EUR 2.5 (2019: 3.4) million.

2.14. 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.

The Group has carried out and is carrying out the simplifications of the Group structure with mergers. Tax authority has questioned the tax neutrality of the subsidiary merge carried out in 2015. Neo Industrial has filed for changes in its tax assessment notice. Neo Industrial has the opinion that the merge is universal succession and therefore tax neutral. The difference of opinion of the Neo Industrial and tax authority is EUR 1.2 million.

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) and the Swedish krona (SEK). 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 euro's.

The U.S. dollar is important for the Group, because the prices of the metals it purchase are determined based on the dollar. The combined effect of metal and pulp 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 -2.4 million (-3.5). Had the dollar been 10 percent weaker, its effect would have been EUR 2.4 million (3.5).

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

Leases and part of external loans have fixed interest rates. The reference rate for other external loans is 3-month Euribor. At 31 December 2019 lease liabilities with fixed interest rates totalled to EUR 9.5 million and other interest-bearing fixed rate liabilities totalled EUR 8.2 million. Liabilities with variable interest rates totalled EUR 7.4 million at 31 December 2019.

On the closing date of the financial year, the Group's average financing rate for external loans was 5.1 percent (4.4 in 2018). 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 (-0.1 million in 2018).

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 0.2 million (0.3) 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 -0.2 million (-0.3 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 0.4 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 -0.4 million (-0.0).

Partial price fixing is used with electricity.

Liquidity risk
Ensuring liquidity and sufficient funding by conducting negotiations on financing and payment terms, measures for boosting inventory and freeing up capital assets are taken into action.

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. The Group uses sales of accounts receivables as a part of optimising circulation of working capital and controlling liquidity risk.

In preparation for the peak season subsidiary Reka Cables Ltd agreed 2018 on EUR 3.0 million limit loan, which was not in use at the end of December 2019.

The limit loan and new funding acquired in summer 2019 include covenants.

The covenant terms of the limit loan (equity ratio, ownership, clean down period) and new acquired funding were met regarding Reka Cables Ltd on 31 December 2019. Due to the new bond the Group equity ratio did not meet the covenant terms. This was communicated to the creditors beforehand.

The limit loan has been in use after 31 December 2019. Regarding the limit loan it has been agreed with the creditor that amount in use will be paid back and usage of limit loand will be ended during March 2020 due the breakage of the Group equity covenant.

Regarding Neo Industrial Plc's short-term loan on 31.12.2019 the equity ratio covenant was met but net debt to ebitda covenant term was not met. Confirmation has been acquired from the creditor, that the loan of EUR 1.2 million will be due according to the original contract in 2020.

The covenant terms of the Bonds (ownership, equity ratio, net debt to ebitda) were met at 31.12.2019.

The Bonds are guaranteed by subsidiary Reka Cables Ltd. The net proceeds of the bonds will be used for the financing of eligible expenditures as set out in the Green Bond Framework related to the enhancement of the environmental credentials of Reka Cables’ portfolios of products; and the improvement of Reka Cables’ environmental performance in respect to its production facilities and processes. Part of the Bonds can be used for refinancing as described in the contract terms.

EUR 1,000	Balance sheet value	Cash flow	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
31/12/2019						
Bank loans	6,317	6,317	1,378	1,456	1,650	1,833
Other loans	2,215	9,248	1,087	0	7,034	1,128
Lease liabilities	9,462	11,248	2,296	2,273	4,745	1,934
Accounts payable and other liabilities	19,480	19,480	19,480	0	0	0
Total	37,475	46,293	24,241	3,728	13,428	4,895
Commodity derivatives	183	183	197	-14	0	0
Financial derivatives	-178	-178	-178	0	0	0

EUR 1,000	Balance sheet value	Cash flow	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years
31/12/2018						
Bank loans	3,000	3,000	3,000	0	0	0
Other loans	6,664	6,664	2,414	1,641	1,481	1,128
Finance lease agreements	3,345	4,665	455	910	1,699	1,600
Accounts payable and other liabilities	17,483	17,483	17,483	0	0	0
Total	30,493	31,811	23,352	2,551	3,180	2,728
Commodity derivatives	-232	-232	-159	-73	0	0
Financial derivatives	42	42	42	0	0	0

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

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. Major part of the sales receivable are not due. Age analysis of sales receivable is presented in enclosure 2.6. Taken all market areas into the consideration the largest customer Group´s share of the Group´s turnover was 20.2 % , the share of the second largest was 11.1 % and the share of the third largest was 10.3 %. Other separate customer´s share of the Group´s turnover was under 10 %.

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.

Accounting policy

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.

With the customer-specific hedges the hedge accounting is used. In Hedge accounting the change in open customer-specific derivatives is recorded to equity via the comprehensive income. Other hedges are included to the operating result.

Gains and losses arising from fair value measurement are recognised in accordance with the derivative's use as follows:

- With the customer-specific hedges the hedge accounting is used. In Hedge accounting the change in open customer-specific derivatives is recorded to equity via the comprehensive income.
- Derivatives that hedge turnover are included in turnover.
- 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.

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

EUR 1,000	**Positive current values**	**Negative current values**	**Current net values 2019**	**Current net values 2018**	**Nominal values 2019**	**Nominal values 2018**
Currency derivatives						
Forward exchange agreements		-178	-178	42	0	0
Raw material options						
Metal derivatives	204	-20	183	-232	5,829	3,436
Total derivatives	204	-198	5	-190	5,829	3,436

Raw-material derivatives and currency derivatives have been valued using third-party market value reports (hierarchy level 2).

2.15. 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.

2.16. Fair values of financial assets and liabilities

Derivatives are presented in note 2.14. 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. Direct transaction costs related to a specified loan, are included to the original allocated acquisition costs of a financial liability and are noticed as interest costs by using effective interest method.
Fair values and those hierarchy levels are not presented as the bookkeeping values are rather close to the fair values.

Hedge accounting according to IFRS 9 is used for the customer-specific hedges and the change in open customer-specific derivatives is recorded to equity via the comprehensive income. Other hedges are included to the operating result in a way described more specifically in note 2.14.

3. Other notes

3.1. Contingent liabilities and commitments

Accounting policy

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 this note.

EUR 1,000	**31/12/2019**	**31/12/2018**
Loans from financial institutions	7,254	3,000
Bond	7,034	0
Loans from others	0	3,117
Granted business mortgages	21,000	4,000
Granted real estate mortgages	7,151	0
Book value of pledged securities	26,165	26,165
Granted guarantees	0	3,117
Guarantees and payment commitments	226	2,726
Lease liabilities		243

Previously granted business mortgages, total EUR 23 million are existing and EUR 2 million are under company's own control.

Investment commitments
On December 2019 the investment commitments for tangible fixed assets amounted to EUR 0.4 million (0.3).

Commitments to rental agreements less than 12 months or low value were on December 31, 2019 total EUR 0.1 million.

3.2. Group structure

The Neo Industrial Group’s internal parent companies, subsidiaries and associated companies 31.12.2019:

Company name	Home country	Domicile	Group's equity share (%)	Group's share of votes (%)
Parent company: Neo Industrial Oyj	Finland	Hyvinkää		
Neo Industrial Plc's subsidiaries and associated companies:				
Alnus Oy	Finland	Helsinki	100.00	100.00
Metsämarkka 1 Oy	Finland	Hyvinkää	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
Riihimäen Kaapelitehdas Oy	Finland	Riihimäki	20.19	20.19

The Group decided to continue carrying out the simplifications of the Group structure and started in October 2018 the merge process of two companies. Merges was realised in the end of March 2019.

3.3. Related-party events

The Group´s related parties include the subsidiaries and associated companies, other companies belonging to the Reka Group, Reka Pension Fund, the Group´s Board of Directors and management group. The management group consists of Managing Director 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.

Related-party transactions

Transactions with the Reka Group

EUR 1,000	1-12/2019	1-12/2018
Payments to Lease liabilities and interest expenses (2018: Rental expenses)	-262	-513
Other purchases	-149	-752
Other income	44	1
Interest revenues	25	0
Interest expenses	-138	-130
Purchase of real estate	5,300	0
Sales receivables and other receivables at end of the period	1,032	287
Loans	0	3,117
Other debts at the end of the period	139	16

Neo Industrial's Cable segment was tenant of Reka Ltd's premises in Keuruu. The Neo Industrial Group bought Keuruu plant real estate in June 2019. The Group arranged its loan to Reka Group in financial arrangements in summer 2019.

The Neo Industrial Group uses the Reka Group level finance and supporting systems as well as related licenses and virtual servers.

Transactions with Reka Pension Fund

EUR 1,000	**1-12/2019**	**1-12/2018**
Purchase of shares	1,255	0
Paid pension expenses	-3,438	-2,521

Reka Group's pension insurances were transferred into Reka's Pension Fund in 31 December 2015. Because of the transfer, pension liabilities of Neo Industrial Group have been processed in IFRS through benefit-based calculation. The transfer in 31 December 2015 caused an IFRS booking with EUR -0.5 million result. In 2019 IAS 19 based IFRS booking decreased pension costs by EUR 0.1 (-0.6) million as well as financial costs and liabilities by EUR 0.2 (-0.7) million that was booked through consolidated statement of comprehensive income. In addition, EUR -0.9 (0.0) million of extra pension costs were paid in 2019.

Transactions with associated companies

EUR 1,000	**1-12/2019**	**1-12/2018**
Sales		
Nestor Cables Ltd	54	29
Leasing rents (2018: Other rents)		
Riihimäen Kaapelitehdas Ltd	1,024	1,008

Neo Industrial Plc sold its shares of Riihimäen Kaapelitehdas Ltd in August 2019. Shares were bought in 2016. The cable segment bought in August 2019 share of Riihimäen Kaapelitehdas Ltd. Riihimäen Kaapelitehdas Ltd is a company who owns premises in Riihimäki where Reka Cables Ltd is tenant. Other owners of Riihimäen Kaapelitehdas Ltd are Riihimäen Tilat ja Kehitys and Reka Pension fund.

Management fringe benefits

EUR 1,000	**2019**	**2018**
Salaries and other short-term fringe benefits	698	459
Pension benefits, defined contribution plans	81	58
Total	779	518

The Group's Board of Directors and management group has been defined as key persons and to the Group's related parties.

Annual remuneration is paid to the members of the Board of Directors. In addition to that separate meeting attendance remuneration is paid and travel expenses are compensated. The Board of Directors has bonus system and the terms of the bonus system is decided each year in the Annual General meeting. The Board of Directors do not have any other benefits. Part of the yearly and bonus remunerations can be paid via shares according to the decisions made in the AGM. Payments by shares are always released separately.

AGM in 2019:

- The AGM confirmed the annual remuneration of EUR 10,000 for the members of the Board of Directors, EUR 12,500 for the chairman of the Board, and an attendance remuneration of EUR 600 per each meeting for the Board and committees, and that the members of the Board are compensated for their travel expenses.
- Circa 40 per cent of the annual remunerations will be paid with the shares of the company. Transfer to the shares is made by using the average share price of Neo Industrial Plc´s B-share in May 2019 and the shares will be handed over in June 2020.
- The AGM confirmed that the members of the Board be paid a bonus based on the development of the company´s B share price, the amount of which is EUR 1,000 for the chairman of the Board and EUR 500 for the members of the Board, multiplied by annual return based on the share price development of Neo Industrial Plc´s class B share share (average share price in May 2020 – average share price in May 2019). Should the annual return exceed 50 percent, the bonus shall be paid in accordance with 50 percent. Thus, the highest multiplier is 50.

- The AGM decided that cirka 40 per cent of the bonuses will be paid with the shares of the company. Transfer to the shares is made by using the average share price of Neo Industrial Plc´s B-share in May 2020 and the shares will be handed over in June 2020.

Due to Neo Industrial's ownership structure company's member of the Board of Directors can be member of the Board of Directors in subsidiaries and get compensation. In addition, the Board of Directors can decide of separate remuneration, when member of the Board of Directors is taking additional measures and time for implementing company's important project (financing, acquisition, contract).

Members of the management group have target bonus agreements.

Salaries and other fringe benefits by person:

EUR 1,000	**2019**	**Of which paid by shares**	**2018**
Salaries and fees:			.
Ralf Sohlström, Managing Director	270		325
Jukka Poutanen, Managing Director	134		0
Sari Tulander, CFO	59		24
Termination benefits	107		
Board of Directors:			
Markku E.Rentto	38	5	22
Jukka Koskinen	59	4	56
Marjo Matikainen-Kallström	17	4	17
Ari Järvelä	15	4	16
Total	698	17	459

The amounts above include statutory pension insurances as follows: Ralf Sohlström EUR 47 thousand (58) and Jukka Poutanen EUR 24 thousand (0).

During January 1, 2019 - July 31, 2019 the Group CFO was not employed by the company and therefore her rewards are handled as other purchases with other related parties, in total EUR 19 thousand (31 Dec 2018:38). The Group CFO is employed by the company since August 1, 2019.

Transactions with other related parties

EUR 1,000	**1-12/2019**	**1-12/2018**
Other purchases	41	52
Other debts at the end of the period	0	7

Other related parties consist of companies, that have ownership connection through the owner who has significant decision power, or that belong to the related-party companies via the management.

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

3.4. Major events after the end of the financial period

Neo Industrial Plc’s subsidiary Reka Cables Ltd has received in January 2020 a substantial contract for underground power cables from Scandinavia. The total value of the contract is approximately EUR 9 million. The deliveries will be made during 2020-2022.

INCOME STATEMENT OF THE PARENT COMPANY (FAS)

	Notes	1/1-31/12/2019	1/1-31/12/2018
TURNOVER	1	356,300.20	329,500.20
Other operating income	2	829,775.74	92,107.12
Personnel expenses	3	-138,094.77	-69,899.98
Depreciation and impairment	4	-23,470.97	-18,409.81
Other operating expenses	5	-749,965.15	-887,869.78
OPERATING RESULT		274,545.05	-554,572.25
Financial income and expenses	6	1,024,414.91	931,776.05
RESULT BEFORE TAXES AND APPROPRIATIONS		1,298,959.96	377,203.80
Appropriations	7	-4,193.92	662,651.40
Taxes	8	-226,174.47	-209,556.06
RESULT FOR THE PERIOD		1,068,591.57	830,299.14

BALANCE SHEET OF THE PARENT COMPANY (FAS)

	Notes	31/12/2019	31/12/2018
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	9	195,486.34	185,612.00
Tangible assets	10	242,923.32	231,013.57
Other investments	11	170,791.48	1,450,956.63
		609,201.14	1,867,582.20
CURRENT ASSETS			
Non-current receivables	12	21,760,000.00	20,944,000.00
Current receivables	13	13,912,238.52	13,582,170.36
Cash and cash equivalents		6,237,216.50	419,298.78
		41,909,455.02	34,945,469.14
ASSETS		42,518,656.16	36,813,051.34
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
Retained profit		1,302,669.45	574,289.43
Other unrestricted equity		435,611.31	435,611.31
Result for the period		1,068,591.57	830,299.14
		28,175,966.91	27,209,294.46
ACCUMULATED APPROPRIATIONS	15	24,037.55	19,843.63
OBLIGATORY PROVISIONS	16	4,093,785.59	4,280,324.08
NON-CURRENT LIABILITIES	17	8,538,360.73	1,134,557.59
CURRENT LIABILITIES	18	1,686,505.38	4,169,031.58
LIABILITIES		42,518,656.16	36,813,051.34

PARENT COMPANY CASH FLOW STATEMENT (FAS)

EUR 1,000	**1/1-31/12/2019**	**1/1-31/12/2018**
Cash flow from operating activities:		
Payments received from operating activities	144,902.67	409,848.76
Payments paid on operating activities	-1,400,922.31	-1,453,294.88
Paid interests and other financial expenses	-366,259.46	-481,113.70
Interests received and other financial income	60.68	72,833.42
Direct taxes paid	-212,935.71	-236,882.11
Cash flow from operating activities	**-1,835,154.13**	**-1,688,608.51**
Cash flow from investments:		
Investments in tangible and intangible fixed assets	-45,255.06	-170,090.59
Sales of associated company shares	2,016,681.04	0.00
Loans granted	-3,200,000.00	0.00
Loan repayments	3,735,982.26	15,659.46
Cash flow from investments	**2,507,408.24**	**-154,431.13**
Cassh flow from financing activities:		
Increase in loans	10,600,000.00	3,181,793.96
Decrease in loans	-6,002,417.27	-1,267,412.59
Dividends paid and other distribution of profits	-118,919.12	-475,760.40
Group contributions received/paid	667,000.00	703,425.21
Cash flow from financing activities	**5,145,663.61**	**2,142,046.18**
Change in cash and cash equivalents	**5,817,917.72**	**299,006.54**
Cash and cash equivalents at the beginning of the period	419,298.78	120,292.24
Cash and cash equivalents at the end of the period	**6,237,216.50**	**419,298.78**

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 recognized 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 recognized at fair value. Realised and unrealised gains and losses from changes in fair value are recognized 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 statutory pension insurance for staff has been transferred to Reka Pension Fund on 31.12.2015. Pension expenses are recognized as costs in the financial year during which they are accumulated.

Accrual of financial expenses
Transaction costs directly due to acquisition of loans, which are clearly related to certain loan, are booked to accrued income and accrued to financial expenses during loan period.

Comparability of the profit

Profit is comparable to previous year's profit.

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. Turnover

	2019	2018
Turnover from consulting and management services	356,300.20	329,500.20
	356,300.20	329,500.20

2. Other operating income

	2019	2018
Rental income from other companies	93,259.85	86,733.18
Profit on sales of assets	736,515.89	0.00
Other income	0.00	5,373.94
	829,775.74	92,107.12

3. Personnel expenses

	2019	2018
Salaries and fees	129,543.07	69,899.98
Pension expenses	7,691.88	0.00
Other personnel expenses	859.82	0.00
	138,094.77	69,899.98
of which		
Management´s salaries and fees	55,794.74	0.00
Board of Directors´ fees	82,300.03	69,899.98
	138,094.77	69,899.98

4. Depreciation and impairment

	2019	2018
Depreciation on intangible assets	2,216.69	0.00
Depreciation on machinery and equipment	3,510.85	3,510.83
Depreciation on other tangible assets	13,730.83	12,558.29
Depreciation on buildings	4,012.60	2,340.69
	23,470.97	18,409.81
Total depreciation and impairment	23,470.97	18,409.81

5. Other operating expenses

	2019	2018
Rents	181,173.36	176,538.39
Voluntary personnel expenses	1,455.39	560.00
Audit of the accounts	74,531.88	32,951.23
Consultant services	165,801.33	288,084.14
Sales and marketing	59,939.75	24,702.25
Machinery and property maintenance costs	139,934.55	114,368.42
Change in obligatory provisions	13,461.51	1,884.01
Other expenses	113,667.38	248,781.34
	749,965.15	887,869.78

Fees paid to the auditors

The amounts are included in other operating expenses	2019	2018
Annual audit of the accounts	28,697.00	22,724.23
Tax services	40,142.00	7,437.00
Other services	0.00	2,790.00
	68,839.00	32,951.23

6. Financial income and expenses

Financial income	2019	2018
Dividend yield from others	56.12	52.44
Interest and financial income from Group companies	1,376,622.99	1,251,718.34
Interest and financial income from other companies	4.56	0.15
	1,376,683.67	1,251,770.93
Financial expenses		
Interest and financial expenses to Group companies	-78,488.39	-53,777.18
Interest and financial expenses to other comapanies	-273,780.37	-266,217.70
	-352,268.76	-319,994.88
Total financial income and expenses	1,024,414.91	931,776.05

7. Appropriations

	2019	2018
Change in cumulative accelerated depreciation	-4,193.92	-4,348.60
Group contributions received	0.00	667,000.00
Total appropriations	-4,193.92	662,651.40

8. Taxes on the income statement

	2019	2018
Income taxes	226,174.47	209,556.06
Taxes total	226,174.47	209,556.06

NOTES TO THE BALANCE SHEET

9. Intangible assets

Intangible assets	2019	2018
Acquisition costs 1/1	185,612.00	155,012.00
Increase	12,091.03	30,600.00
Acquisition costs 31/12	197,703.03	185,612.00
Accumulated depreciation 1/1	0.00	0.00
Depreciation according to plan	-2,216.69	0.00
Accumulated depreciation 31/12	-2,216.69	0.00
Book value 31/12	195,486.34	185,612.00

10. Tangible assets

Land and water areas	2019	2018
Acquisition costs 1/1	29,685.00	0.00
Increase	0.00	29,685.00
Acquisition costs 31/12	29,685.00	29,685.00
Book value 31/12	29,685.00	29,685.00

Buildings	2019	2018
Acquisition costs 1/1	100,315.00	0.00
Increase	0.00	100,315.00
Acquisition costs 31/12	100,315.00	100,315.00
Accumulated depreciation 1/1	-2,340.69	0.00
Depreciation according to plan	-4,012.60	-2,340.69
Accumulated depreciation 31/12	-6,353.29	-2,340.69
Book value 31/12	93,961.71	97,974.31

Machinery and equipment (EUR 1,000)	2019	2018
Acquisition costs 1/1	186,419.71	176,929.12
Increase	33,164.03	9,490.59
Acquisition costs 31/12	219,583.74	186,419.71
Accumulated depreciation 1/1	-83,065.45	-66,996.33
Depreciation according to plan	-17,241.68	-16,069.12
Accumulated depreciation 31/12	-100,307.13	-83,065.45
Book value 31/12	119,276.61	103,354.26

11. Other investments

Holdings in Group companies:

	2019	2018
Acquisition costs 1/1	1,450,956.63	1,450,956.63
Decrease	-1,280,165.15	0.00
Acquisition costs 31/12	170,791.48	1,450,956.63

Holdings in Group companies	Business ID	Share capital EUR 1,000	Number of shares 2019	Number of shares 2018
Alnus Oy, Helsinki	0762281-4	168	1,000	1,000

Neo Industrial Plc owns the whole share capital of its subsidiary Alnus Ltd. Neo Industrial Plc sold in August 2019 its share of Riihimäen Kaapelitehdas Ltd which was bought in 2016.

12. Non-current receivables

	2019	2018
Subordinated loan receivables from Group companies	13,600,000.00	13,600,000.00
Non-current interest receivables from Group companies	8,160,000.00	7,344,000.00
Total	21,760,000.00	20,944,000.00

13. Current receivables

	2019	2018
Sales receivables	13,573.26	1,014.45
Sales receivables from Group companies	488,679.21	385,473.50
Current loan receivables from Group companies	11,028,809.50	11,564,791.76
Interest receivables from Group companies	1,292,602.36	779,308.14
Accrued income from Group companies	240,024.77	667,000.00
Other receivables	2,280.00	16,816.92
Accrued income	846,269.42	167,765.59
Total	13,912,238.52	13,582,170.36

Material items of accrued income

	2019	2018
Accrued income from Group companies	240,024.77	667,000.00
Accrued accounts payable	126,346.04	0.00
Accrued Green Bond expenses	364,325.00	0.00
Other accrued income	355,598.38	167,765.59
Total	1,086,294.19	834,765.59

14. Shareholders´equity

	2019	2018
Share capital 1/1		
Series A	558,400.00	558,400.00
Series B	23,523,040.00	23,523,040.00
Share capital 31/12	24,081,440.00	24,081,440.00
Premium fund 1/1	66,400.00	66,400.00
Premium fund 31/12	66,400.00	66,400.00
Reserve fund 1/1	1,221,254.58	1,221,254.58
Reserve fund 31/12	1,221,254.58	1,221,254.58
Restricted equity 31/12	25,369,094.58	25,369,094.58
Own shares 1/1	0.00	0.00
Payments by own shares	0.00	0.00
Own shares 31/12	0.00	0.00
Retained profit 1/1	1,404,588.57	1,033,049.83
Payments by own shares	17,000.00	17,000.00
Dividends paid	-118,919.12	-475,760.40
Retained profit 31/12	1,302,669.45	574,289.43
Other unrestricted equity 1/1	435,611.31	435,611.31
Other unrestricted equity 31/12	435,611.31	435,611.31
Result for the period	1,068,591.57	830,299.14
Unrestricted equity 31/12	2,806,872.33	1,840,199.88
Shareholders´equity 31/12	28,175,966.91	27,209,294.46

The parent company´s share capital by share series	Number	**2019** Shareholders´ equity	Number	**2018** Shareholders´ equity
Series A (20votes/share)	139,600	558	139,600	558
Series B (1 vote/share)	5,880,760	23,523	5,880,760	23,523
	6,020,360	24,081	6,020,360	24,081

15. Accumulated appropriations

	2019	2018	Change
Difference between depreciation accoring to plan and depreciation in accordance with the Finni: Business Tax Act (EVL)	24,037.55	19,843.63	4,193.92

16. Obligatory provisions

	2019	2018
Rental loss provision	693,785.59	680,324.08
Payment guarantee for the purchase price of premises (Avilon Fibres	3,400,000.00	3,600,000.00
Total obligatory provisions	4,093,785.59	4,280,324.08

In Financial Statement of year 2012 company booked through income statement the guarantees given on behalf of Avilon Fibres Ltd, totalling EUR 5.3 million. Part of the related industrial premises was sold in 2017 and guarantee obligation has been lowered by related sales price (EUR 0.2 million).

The remaining amount of the guarantee at 31 December 2019 is EUR 3.4 million, which is paid annually by amounts of EUR 0.2 million until year 2035.

17. Non-current liabilities

	2019	2018
Green Bond	7,400,000.00	0.00
Other liabilities	1,138,360.73	1,134,557.59
Total	8,538,360.73	1,134,557.59

18. Current liabilities

	2019	2018
Bank loans	1,183,355.00	0.00
Accounts payable	314,681.65	72,035.97
Accruals and deferred income	173,207.90	97,290.19
Other short-term liabilities	7,200.00	0.00
Other liabilities to Group companies	8,060.83	1,999,705.42
Other liabilities	0.00	2,000,000.00
Total	1,686,505.38	4,169,031.58

The short-term interest-bearing loans have covenants, of which all were not fulfilled at the end of the closing of the financial year. The breakage of the covenant terms did not cause any immediate repayment of the short-term interest-bearing loans in the balance sheet at 31 December 2019. In enclosures of the Group Financial statements more information is available regarding covenants.

Material items of accrued liabilities

	2019	2018
Personnel expenses allocated by period	62,505.52	45,075.00
Tax liability	51,889.82	38,651.06
Other accrued liabilities	58,812.56	13,564.13
Total	173,207.90	97,290.19

19. Contingent liabilities

Financial lease and other lease liabilities

	2019	2018
Maturing within 1 year	180,758.48	179,161.68
Maturing in 1 to 5 years	723,033.92	716,646.72
Maturing after 5 years	1,928,090.45	2,090,219.60
Total	2,831,882.85	2,986,028.00

20. List of bookkeeping books and vouchers

List of bookkeeping books and vouchers and their preservation:

Journal and general ledger	in electric format
Sales receivable and accounts payable	in electric format
Bank statements	in electric format
Sales invoices	in electric format
Purchase invoices	in electric format
Travel invoices	in electric format
Payroll	in electric format
Memorandums	in electric format
Note vouchers	in electric format

Bookkeeping books and vouchers are preserved at archive (Kankurinkatu 4-6, 05800 Hyvinkää).

During financial year 2019 the following voucher classes were used:

1	General ledger
10	Payroll seasoning
26	Payments of sales receivable
32	Payments of accounts payable
35	Purchase invoices
40	Sales invoices
60	Memorandums
90	Seasonal vouchers
96	Payroll
99	Note vouchers

21. Board’s proposal to the Annual General meeting

The parent company’s unrestricted equity stood at EUR 2,806,872.33 including the result of the review period EUR 1,068,591.57. The Board proposes to the Annual General Meeting that no dividends will be paid for 2019. EUR 0.02 per share was paid for 2018.

Signatures of the Financial Statement and Board of Directors´ report

Espoo, 27 February 2020

MARKKU E.RENTTO Markku E. Rentto Chairman	JUKKA KOSKINEN Jukka Koskinen
MARJO MATIKAINEN-KALLSRTÖM Marjo Matikainen-Kallström	ARI JÄRVELÄ Ari Järvelä
JUKKA POUTANEN Jukka Poutanen Managing Director	

AUDITOR'S NOTE

We have issued the auditor's report today.

Helsinki, 3 March 2020

KPMG OYAB
Authorized Public Audit Firm

LEENAKAISA WINBERG
Leenakaisa Winberg
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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Neo Industrial Plc (business identity code 0693494-7) for the year ended 31 December 2019. The financial statements comprise consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity, consolidated cash flow statement and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement and notes.

In our opinion

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

the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 1.5 Other operating expenses to the consolidated financial statements.

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

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Revenue recognition (Refer to Accounting policies for the consolidated financial statements and note 1.1)	
Revenue recognition is one of our focus areas due to following, for example: Volumes of individual sales transactions are relatively large. The Group uses different pricing models, client contract templates as well as sales channels. Part of the client contracts include terms for storing products on behalf of the client. The user rights in the sales-related IT systems are relatively extensive.	Our audit procedures covered assessment of the sales-related internal control environment, as well as testing of the operating effectiveness of the associated key controls. We also carried out both analytical and substantive audit procedures. Our audit procedures included key person interviews and assessment of the appropriateness of the revenue recognition principles and practices applied. We inspected the contents of the essential sale agreements and tested the consistency of the accounting with the terms of sale in the agreements. As part of our year-end audit procedures we tested the recognition of revenues on accrual basis. Our work also included consideration of rebates and discount practices and the process for recognising credit notes, as well as testing of related controls and accounting material. In addition, we considered the appropriateness of the Group's disclosures in respect of revenues.

Financing arrangements of the Group (Refer to Accounting policies for the consolidated financial statements and notes 2.10 and 2.14)

In recent years the liquidity position of the Group has been occasionally challenging and the Group has continued arrangements relating to its financing during 2019. As a result of the financial arrangements during financial year 2019 the Group has:

- raised new bank loans, including both short-term and long-term portions, totaling EUR 6.3 million as of 31 December 2019.

- fully settled the old loan of EUR 3.1 million granted by Reka Group.

Furthermore, at the end of the financial year 2019, the Company issued EUR 10 million in senior secured green bonds ("the Bonds"). The tenor of the Bonds is five (5) years.

At the year-end 2019 total amount of EUR 2.6 million of the Bonds are stored and the carrying amount of the Bonds determined by using the effective interest method was EUR 7.0 million as of 31 December 2019.

Bank loans include financial covenants. At the year-end the Group did not meet all the financial covenant clauses relating to short-term loans.

- Regarding the limit loan the Group has agreed with the creditor that the amount in use will be repaid in March 2020 and the line of credit will not be in use after that.

- A confirmation has been obtained from the creditor that the parent company's short-term bank loan of EUR 1.2 million will be due according to the original contract in 2020.

We discussed regularly the ongoing and planned financing arrangements with the Group management.

Our audit procedures included assessment of the administrative and contractual documents regarding the executed financing arrangements. We also assessed the reasonableness of the cash flow estimates prepared by the Group management.

In addition, we considered the appropriateness of the Group's disclosures in respect of financing.

Related party transactions (Refer to Accounting policies for the consolidated financial statements and note 3.3)

Related party transactions are one of our focus areas due to following, for example: The Group has significant transactions with its related parties. Due to the above-mentioned reasons the accuracy and the adequacy of the financial statement information on related party transactions is emphasized.	We assessed the Group's process for identifying related parties and recording and disclosing related party transactions in the financial statements. Our audit procedures included assessment of the administrative documents and agreements with related parties to understand the nature of the transactions. We also assessed uniformity of accounting treatment regarding related party transactions with the underlying material. In addition, we considered the appropriateness of the Group's disclosures in respect of related party transactions.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 29 March 2012, and our appointment represents a total period of uninterrupted engagement of 8 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors. We have obtained the report of the Board of Directors prior to the date of this auditor's report. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 3 February 2020

KPMG OY AB

LEENAKAISA WINBERG
Authorised Public Accountant, KHT

SHAREHOLDERS 31.12.2019

Neo Industrial Plc´s ten largest shareholders on Decmber 31 2019

	A-class shares	B-class shares	Shares total	Proportion of equity %	Prpportion of votes %
Reka Oy	139,400	2,916,387	3,055,787	50.76	65.77
Neo Industrial Oyj		68,610	68,610	1.14	0.79
Sinkko Erkki		53,000	53,000	0.88	0.61
Alkem Oy		40,000	40,000	0.66	0.46
Haloan Oy		32,500	32,500	0.54	0.37
Vehviläinen Teemu		31,100	31,100	0.52	0.36
Lainema Matti		30,000	30,000	0.50	0.35
Tikkanen Vesa		22,701	22,701	0.38	0.26
Rentto Markku E.		22,588	22,588	0.38	0.26
Käkelä Aulis		22,450	22,450	0.37	0.26
Other shareholders	200	2,641,424	2,641,624	43.88	30.51
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	204	1.88	3,354,243	55.72	69.25
Financial institutions and insurance companies	8	0.07	77,337	1.29	1.08
Public organisations	60	0.55	44,980	0.75	0.52
Non-profit organisations	185	1.70	105,924	1.76	1.22
Households	10,402	95.70	2,410,577	40.04	27.80
Outside Finland	10	0.09	6,046	0.10	0.12
Nominee registered	7	0.00	21,253	0.35	0.25
Not in the book-entry securities system			0	0.00	0.00
Total	10,869	100.00	6,020,360	100.00	100.00

Ownership by the amount held

Shares held	Share-holders no.	Share-holders %	Shares total	Proportion of equity %	Proportion of votes %
1 - 50	4,762	43.81	135,286	2.25	1.57
51 - 100	2,685	24.70	233,872	3.89	2.71
101 - 1 000	2,989	27.50	984,575	16.35	11.36
1 001 - 10 000	409	3.76	1,063,933	17.67	12.28
10 001 -	24	0.22	3,602,694	59.84	72.08
Not in the book-entry securities system			0	0.00	0.00
Total	10,869	100.00	6,020,360	100.00	100.00

Management's shareholding

The members of the Board, the Managing Director and the CFO directly owned and controlled a total of 2,958,529 (2,955,200) of Neo Industrial's B shares on 31 December 2019. Neo Industrial held 68,610 (72,439) of its own shares on 31 December 2019.

Shares and share capital

Neo Industrial Plc's share capital was EUR 24,081,440 (24,081,440) on 31 December 2019. 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 68,610 (72,439) B shares owned by Neo Industrial. The company's Articles of Association do not include any redemption clauses. There are no shareholder agreements.