NEO INDUSTRIAL GROUP

BALANCE SHEET 01/01–31/12/2011

CONTENTS

BOARD OF DIRECTORS' REPORT
1/1–31/12/2011

Neo Industrial Group's performance as a multi-industry company strongly reflects the financial success of its portfolio companies. The Group established its Cable segment by investing in Reka Cables and the associated company Nestor Cables in 2007 and in Expokable in 2008. In 2010, the Group established two new segments. The Single Family Housing segment was created when Neo Industrial invested in the small-house manufacturer Finndomo. Finndomo Ltd is an associated company of Neo Industrial. Neo Industrial's Viscose Fibres segment was established in the autumn of 2010 when the group acquired a production plant in Valkeakoski from the bankruptcy estate of Kuitu Finland Ltd.

The year 2011 was very challenging for Neo Industrial, with all of its segments showing a loss.

The Cable segment exceeded EUR 100 million in net sales, recording an increase of 23 percent. Its operating profit, however, decreased when compared to 2010. The weak performance resulted from strong fluctuations in metal prices, the machinery breakdown at the Keuruu plant and a tight liquidity situation, which impacted production efficiency.

In the Viscose Fibres segment, production began in early 2011, after having been postponed in the previous year because of poor availability of raw materials. In addition to start-up costs, the segment's result was affected by the rapid increase in the spot prices of dissolving pulp. In response to the price and availability concerns related to dissolving pulp, its primary raw material, the segment developed and implemented a technology that enables it to replace dissolving pulp with paper-grade pulp. Because of the recession, the market for fire-retardant fibre – the main product of Avilon Ltd's plant in Valkeakoski – was smaller than expected, which increased the importance of regular viscose fibre. However, the market for regular viscose fibre weakened considerably. Since July 2011, the Valkeakoski plant has been under a production curtailment shutdown, which still continues. In September, Avilon's market-related difficulties resulted in such a tight liquidity situation that the company filed a petition for corporate reorganisation in order to secure its long-term operating conditions.

The growth outlook for the Single Family Housing segment weakened at the beginning of the year, and the overall volume of operations decreased when compared to 2010. The segment's operations and their divestment in Sweden weakened the result. Its companies in Finland showed a loss because of decreases in volumes and construction projects.

The Neo Industrial Group's net sales in 2011 were EUR 121.2 million (83.4 million in 2010). Its operating result was EUR -29.1 million (-10.6 million). The loss largely resulted from the Viscose Fibres segment, which – in addition to containing loss-making operations – saw the estimate of deferred tax assets updated, with the result that the deferred tax assets recorded in the previous year's financial statements were recorded as write-offs in the income statement. Purchase price allocations related to Swedish operations, recorded in accordance with IFRS in conjunction with the Finndomo investment in 2010, were recorded as impairments through profit or loss. In addition, based on test calculations related to the Single Family Housing segment, EUR 2.5 million was recognised in impairment under "Share of the results of associates".

SEGMENTS

CABLE

Net sales for the Cable segment in 2011 were EUR 102.9 million (83.4 million). The segment recorded a growth of 23 percent when compared to 2010. Net sales in October–December 2011 were EUR 24.5 million (23.7 million), with a growth rate of 3 percent when compared to 2010. Declines in metal prices reduced the growth rate in late 2011. The Cable segment's operating result in 2011 was EUR -3.4 million (-2.9 million). In October–December, the operating result was EUR -1.0 million (-0.3 million). Despite strong growth, the segment's operating result was weak because of strong fluctuations in metal prices, write-offs in Russia, production interruptions and inefficient production.

In the second half of 2011, profitability decreased because of the decline in metal prices, which had a direct effect on the market value of open metal derivatives. On 31 December 2011, the value of open metal derivatives was EUR 1.4 million lower than at the end of the previous year. This decrease has in part weakened the operating result and in part increased financial expenses.

Furthermore, the segment's profitability suffered from the breakdown of a copper wire drawing machine at Reka Cables' plant in Keuruu in the third quarter. In addition to the Keuruu factory, the production unit in question delivers copper wire to other plants. The four-week breakdown resulted in lost sales and delayed deliveries in all of the segment's plants in Finland. Delays in deliveries were experienced in the fourth quarter as well. Reka Cables will apply for interruption insurance compensation for the machinery breakdown in Keuruu. The compensation is estimated at EUR 0.8 million and is recognised accordingly. On the date of the financial statements, the insurance company estimated the compensation at EUR 0.3 million. Reka Cables' estimate of the compensation is based on the extent of the breakdown: it affected operations and deliveries at all of Reka Cables' three production plants. If the actual compensation turns out to be less than EUR 0.8 million, the difference will be recognised in 2012.

Growth and strong fluctuations in metal prices resulted in stricter payment terms. Payment times became shorter after credit limits had been reached, which added to the difficulties in optimising production efficiency. Overtime and other restrictions related to the labour negotiations in the autumn contributed to the delays in deliveries caused by the machinery breakdown in Keuruu.

In Hyvinkää, Reka Cables moved its aluminium wire drawing operations to another plant and to one in Riihimäki. This production restructuring resulted in a cost of approximately EUR 0.3 million in 2011.

Production volumes in the segment's plants in Finland increased when compared to 2010. Demand was lively, especially in Finland, among wholesalers and contractors alike. In other Nordic countries, sales did not develop as expected. In the Baltic countries, however, sales grew throughout the year.

In Russia, the demand for power cables was low, resulting in net sales lower than those in the previous year. Overall, the segment's plants in Russia recoded a loss, although the net sales of Expokabel – a subsidiary manufacturing special cables for the oil and gas industry and nuclear plants – increased by 24 percent, exceeding EUR 7.5 million.

The net sales of Nestor Cables – a manufacturer of telecommunications and fibre-optic cable – grew by 2.8 percent to EUR 29.6 million (28.8 million in 2010). Nestor Cables showed a loss in the review period. The uncertain financial market affected customers' investment decisions, and cable projects were postponed to 2012.

VISCOSE FIBRES

Net sales for the Viscose Fibres segment in 2011 were EUR 18.4 million (0.0 million). The operating result was EUR -11.0 million (-6.8 million). In October–December, net sales were EUR 1.5 million (0.0 million) and the operating result was EUR -2.1 million (-6.4 million). A total of approximately EUR 0.8 in impairments of inventories based on changes in currency rates and the market prices of materials were recorded in the fourth quarter of 2011.

Avilon Ltd – a Valkeakoski-based company manufacturing and selling regular and special viscose fibres – showed a loss in 2011 for the following reasons: the start-up costs of the production plant; the postponement of the launch of production from December 2010 to mid-January 2011; poor availability of dissolving pulp and the related decline in the capacity utilisation rate toward the end of the first quarter; the maintenance shutdown in early April; and the deterioration of the market situation in July and the production curtailment shutdown that ensued.

The market for fire-retardant viscose fibre, Avilon's specialty product, deteriorated with the United States housing market practically throughout the year, contrary to what customers indicated in the first quarter. In early 2011, Avilon lost some of its market share in fire-retardant fibres due to difficulties in the availability of dissolving pulp. Launched in May, the new PPV technology, which is used for converting paper-grade pulp into raw material suitable for viscose production, permanently solved Avilon's problems related to raw materials.

The share and importance of regular viscose fibre increased after the market for fire-retardant fibre, Avilon's primary product, slumped in the United States. However, the market for regular viscose fibre weakened considerably. Since July 2011, the Valkeakoski plant has been under a production curtailment shutdown, which still continues. In early autumn, Avilon's market-related difficulties resulted in such a tight liquidity situation that the company filed a petition for corporate reorganisation in order to secure its long-term operating conditions.

During the fourth quarter, Avilon served its customers by selling fire-retardant fibre stock that had been manufactured before the shutdown. Confirmed orders will be delivered in early 2012. Feedback from customers indicates the new technology has improved product quality. In the future, Avilon's range of specialty products will be expanded to cover new areas. At the moment, antimicrobial fibres seem to offer the most significant potential in this respect.

The segment seeks to relaunch production at the Valkeakoski plant as soon as production is deemed to be profitable – that is, as soon as sufficient demand for specialty products and financing for the relaunch have been secured. The plans related to the corporate reorganisation procedure are being prepared, and the decision about the completion of the reorganisation programme is expected to be made earlier than 30 August 2012, which was the estimated completion date in the autumn of 2011.

During the review period, Avilon held emission rights, all of which it sold at a total price of EUR 2.2 million. Emission rights used by Avilon are recognised as a cost provision of EUR 0.3 million.

The new PPV technology, which is used for converting paper-grade pulp into raw material suitable for viscose production, has attracted great interest in the field. Licence sales were negotiated actively in August and September and continue to be negotiated, but Avilon's corporate reorganisation procedure has delayed progress. In addition to the PPV technology, the Viscose Fibres segment's portfolio includes carbamate technology, which is under development, as well as new applications for fire-retardant fibre and other special fibres.

SINGLE FAMILY HOUSING

Net sales for Finndomo, the company constituting Neo Industrial's Single Family Housing segment, were EUR 86.1 million in 2011 (93.0 million in May–December 2010). Finndomo has been an associated company of Neo Industrial since May 2010. Net sales in October–December 2011 were EUR 18.7 million (39.6 million), with a decrease of 52.7 percent when compared to 2010.

The corporate reorganisation of Finndomo AB, Finndomo's business operations in Sweden, was completed. Related to the reorganisation, Finndomo recognised a total of EUR 2.7 million of write-offs of accounts receivable. Neo Industrial's share of the amount recognised as a cost is the same as its share of ownership: 30.3 percent. In conjunction with the divestment of Finndomo's operations in Sweden, the capital assets recognised as part of the purchase price allocation carried out by Neo Industrial in 2010, related to Swedish brands and other capital assets, were recognised as write-offs. Their effect on Neo Industrial's operating result was EUR -1.2 million.

In line with its new strategy, Finndomo is focusing on its core business, the production and sale of prefabricated homes in Finland. In addition, the company will deliver products to Russia and the Baltic countries.

Consumer uncertainty about economic development in the eurozone was reflected in the demand for prefabricated homes in the second half of 2011, and the positive growth predictions made in early 2011 turned negative.

During the second half of the year, the company increasingly invested in improving customer service and expanding the scope of its deliveries, as more and more customers became interested in turnkey solutions. With this in mind, Finndomo introduced a new maintenance concept in the autumn. This additional service ensures a sufficient level of maintenance and technical functionality for prefabricated houses, in addition to comfortable living.

Moreover, Finndomo further specified its regional building concept. Instead of acting as both a developer and a contractor, which ties up capital and resources, Finndomo will focus on developing residential areas with small wooden homes and act as a modular home and component supplier in regional building projects.

In order to free up capital, Finndomo has liquidated real estate and plots and enhanced the collection of accounts receivable.

MAJOR EVENTS DURING THE FINANCIAL PERIOD

In January, Neo Industrial announced that Avilon would launch its production of fire-retardant fibre. Fire-retardant fibre is used for interior design and protective clothing, for example. The main market is the United States. Neo Industrial also announced that Avilon was developing carbamate technology for the environmentally sound production of viscose.

In February, Neo Industrial made an additional investment of EUR 2.8 million in Finndomo, the company constituting its Single Family Housing segment, in order to strengthen the company's financial position.

In May, Neo Industrial announced that Avilon had made a groundbreaking innovation for producing dissolving pulp from paper-grade pulp. The new technology permanently solves problems related to the primary raw material in viscose production.

In July, Neo Industrial announced that Avilon would discontinue production until further notice because of the weak market.

In September, Neo Industrial announced that Avilon would file a petition for corporate reorganisation in order to secure its long-term operating conditions. The petition was accepted on 5 October 2011.

In October, Neo Industrial announced changes in Avilon's management. Sari Tulander, M.Sc. (Econ), who also serves as CFO of Neo Industrial, was appointed as Managing Director of Avilon. She replaced Heikki Hassi, long-term Managing Director of Avilon, who will focus on the development and commercialisation of technologies in the Viscose Fibres segment.

In November, Neo Industrial issued a loan that entitles investors to a cash compensation based on the value of the underlying shares. Due 2016, the loan was issued at a principal amount of EUR 6 million and offered to institutional investors. The purpose was to improve the company's liquidity position and the flexibility of its business development. The issue was carried out successfully, and the subscription was accepted immediately.

MAJOR EVENTS AFTER THE FINANCIAL PERIOD

Reka Cables launched employee cooperation negotiations in January 2012 in order to ensure its competitiveness, considering seasonal changes and sales development. Because of the increased order backlog, the adjustments will be carried out as working-time and holiday adjustments and by partly shifting to four-day workweeks. No layoffs were needed.

Avilon has continued to invest in expanding its special product range. Antimicrobial fibres, in particular, seem to have significant potential in this respect.

The District Court of Pirkanmaa accepted the extension to the deadline by which Avilon must submit its proposed corporate reorganisation programme. The new deadline is 7 May 2012. Working in collaboration with the reorganisation administration, the company seeks to complete its proposed reorganisation programme well before the due date. The goal is to have the reorganisation programme confirmed by the District Court of Pirkanmaa in the early autumn of 2012 at the latest.

Finndomo will enhance its efficiency by centralising its operations. Its headquarters will be moved from Vantaa to Sonkajärvi, and its financial administration will be relocated from Jyväskylä to Sonkajärvi, where financial planning operations will also be located. The production line in Hartola will operate under the Sonkajärvi plant. The locations in Vantaa, Jyväskylä, Kuopio and Lahti will be closed.

Finndomo filed a petition for corporate reorganisation on 15 February 2012 to ensure the continuity of its operations. The company decided to file for reorganisation after the negotiations on a financial arrangement to ensure its short-term liquidity and normal business continuity miscarried in their final stages.

FINANCIAL STATEMENT 2011

The consolidated financial statements have been prepared in keeping with the International Financial Reporting Standards (IFRS). Consolidated net sales (IFRS) in 2011 were EUR 121.2 million (83.4 million). The Consolidated income statement (IFRS) shows a loss of EUR 25.4 million (a loss of EUR 10.6 million).

CONSOLIDATED FINANCIAL STATUS AND PERFORMANCE INDICATORS (IFRS)

	2011	2010	2009
Net sales (EUR million)	121.2	83.4	69.1
Operating profit, % of net sales	-12.9	-13.2	-7.8
Share of the result of associates	-8.9	-1.3	-0.2
Return on equity, %	neg.	neg.	neg.
Return on capital employed, %	neg.	neg.	neg.
Equity ratio, %	12.7	31.7	47.4
Earnings per share, EUR	-4.6	-1.76	-0.65

SHARE PRICE AND TRADING VOLUME

In 2011, a total of 410,027 (381,127) of Neo Industrial's B shares were traded on NASDAQ OMX Helsinki for a total of EUR 2.4 million (2.5 million), representing 6.9 percent (6.3 percent) of the total number of shares. At the end of trading on 31 December 2011, the share price was EUR 2.50 (5.60), and the average share price for 2011 was EUR 5.87. The lowest quotation in 2011 was EUR 2.00 (5.40), and the highest was EUR 9.43 (8.20). The company's market capitalisation was valued at EUR 15.3 million (33.3 million) on 31 December 2011.

GROUP STRUCTURE AND SHAREHOLDERS

Neo Industrial Plc is the parent company of the group, which includes the Neo Industrial wholly owned subsidiaries Novalis Plc, Alnus Ltd and RRR Finland Ltd as well as Carbatec Ltd and its subsidiaries and associated companies. The parent company is domiciled in Hyvinkää. Carbatec Ltd is Avilon Ltd's parent company.

On 31 December 2011, Neo Industrial had 12,293 shareholders. The largest shareholder, Reka Ltd, held 50.76 percent of the shares and 65.77 percent of the votes. Neo Industrial Plc is therefore part of the Reka Group. Reka Ltd is domiciled in Hyvinkää.

At the end of the year, the combined holding of the ten largest shareholders was 60.8 percent of the shares and 72.7 percent of the votes.

The Members of the Board, CEO and CFO directly owned and controlled a total of 2,965,162 of Neo Industrial's B shares on 31 December 2011.

RISKS AND UNCERTAINTY FACTORS

Neo Industrial's financial risks include currency, interest rate, commodity, liquidity, credit and investment market risks. Financial risks and the related protection measures are described in more detail in notes to the 2011 financial statements. The company's future risk factors are related to the business development of its portfolio companies.

The Group's liquidity situation is tight in places. Avilon's corporate reorganisation procedure has made financial negotiations more difficult for other companies. In the Cable segment, the liquidity situation has tightened particularly because of growth and strong fluctuations in metal prices.

Challenges for the 2012 financial period include ensuring growth in the Cable segment and securing Avilon's operating conditions in the short and long terms. In 2012, the company seeks to secure additional funding and renegotiate payment terms. Negotiations with financiers, suppliers and customers are in progress, and Avilon's management believes they will be successful. If the company fails to secure additional funding, it is possible that its business operations will be reorganised. In the financial statements, Avilon's assets have been recognised in accordance with the continuity principle. Any changes that Avilon's corporate reorganisation may cause in the company's liabilities have not been taken into account.

In the Cable segment, the most significant risks are related to market development as well as fluctuations in the prices of raw materials and currencies. Along with the increased volume of operations, fluctuations in metal prices increase the need for working capital in operational activities. Combined with strong seasonal fluctuation, this adds pressure to liquidity management.

In the Single Family Housing segment, the most significant risks are related to the development of demand and the competition situation as well as the production capacity utilisation rate, fluctuations in the prices of raw materials and the level of success in implementing a more cost-efficient operating model.

The Viscose Fibres segment is a new business subject to the risks associated with any business start-up. Its main risks include market and competitor development and currency fluctuations as well as fluctuations in the prices of raw materials, along with the availability of raw materials. The Viscose Fibres segment's most important raw materials are pulp and sodium hydroxide.

In 2011, Neo Industrial's audit committee reviewed business risks, financing, liquidity, and test calculation procedures as well as the effects of various financial arrangements and structural changes on reporting. The results of earlier risk assessments were considered in guiding internal auditing measures.

Neo Industrial believes in the growth and development of the Russian cable market. The company has made significant investments in making use of business opportunities in Russia. The investments entail the risk that growth in Russia will not meet expectations.

RESEARCH AND DEVELOPMENT

The Neo Industrial Group invested a total of EUR 5.2 million in research and product development in 2011 (EUR 0.3 million in 2010). Of this total, EUR 0.5 million was targeted at the Cable segment (0.3 million in 2010) and EUR 4.7 million at the Viscose Fibres segment. The investment in the Cable segment is recognised as costs. Of the investment in the Viscose Fibres segment, EUR 1.0 million is recognised as costs and EUR 3.8 million was capitalised on the balance sheets.

PERSONNEL

During the financial year, the Group employed an average of 605 (539) people. At the end of 2011, the Group employed 612 (614) people, of whom 467 (476) worked in the Cable segment, 131 (135) in the Viscose Fibres segment and 14 (3) in Group administration. In 2011, the Group paid a total of EUR 16.2 million (12.8 million) in performance-based salaries and fees.

ENVIRONMENT

Neo Industrial is a multi-industry group, and environmental concerns are important in all of its segments. Reka Cables cares for the environment and continually improves the environmental efficiency of its operations. Its environmental management system has ISO 14001 certification.

Avilon began operation with the plant's earlier environmental permits. In December 2010, the company applied for new environmental permits under its own name in accordance with standard permit renewal practices. In addition, Avilon is preparing to have the ISO 14001 and ISO 9001 certifications issued to Kuitu Finland Ltd transferred under its name.

ANNUAL GENERAL MEETING

Neo Industrial's Annual General Meeting (AGM) was held in Helsinki on 30 March 2011.

The AGM approved the 2010 financial statements and discharged the Board of Directors and CEO from liability for the year 2010. The AGM approved the Board's proposal that the Board be authorised to decide on paying dividends from the company's unrestricted shareholders' equity up to EUR 0.25 per share. The authorisation was valid until 13 December 2011. The Board did not use the authorisation.

The AGM confirmed the fees for members of the Board and committees as well as the performance-based bonuses for Board members.

As proposed, the AGM confirmed the number of Neo Industrial's Board members at six (6), reappointing the following people to the Board: Matti Lainema (Chair), Pekka Soini (Vice-Chair), Ilpo Helander, Risto Kyhälä, Taisto Risto and Raimo Valo. No deputy members were appointed.

The AGM approved the proposal that Authorized Public Accountants Ernst & Young Ltd, with Authorized Public Accountant Heikki Ilkka as responsible auditor, be elected as the auditor of the company until the end of the 2012 AGM.

As proposed by the Board of Directors, the AGM decided that the Board be authorised to decide on the acquisition of the company's own shares. The Board was also authorised to decide on the acquisition of the company's B shares through contractual trade from shareholders other than the largest one if the contractual trade includes at least 15,000 B shares and the purchase price corresponds to the market price at the time of the acquisition. The authorisations are valid until the next AGM.

As proposed by the Board of Directors, the AGM decided that the Board be authorised to decide on an issue of new B shares and a transfer of treasury B shares either against or without payment. The Board of Directors may also decide on a share issue to the company itself without payment. In addition, the Board was authorised to issue special rights in accordance with Section 1 of Chapter 10 of the Finnish Limited Liability Companies Act that enable holders to receive new B shares or treasury B shares against payment. The authorisations are valid for a maximum of 5 years from the time of the AGM's decision.

In addition, the AGM approved the Board of Directors' proposal to change Section 14 ("Invitation to the Shareholders' Meeting") of the Company's Articles of Association.

AUDIT COMMITTEE

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

CORPORATE GOVERNANCE STATEMENT

The Corporate Governance Statement of Neo Industrial Plc has been prepared in accordance with recommendation 51 of the Finnish Corporate Governance Code. Reviewed by the audit committee, the statement has been issued as a separate report. The report is available on Neo Industrial's website at www.neoindustrial.fi. The Finnish Corporate Governance Guide 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 2011, its total share capital was EUR 24,082,000, and the number of shares was 6,020,360. The total number of shares includes 91,727 B shares owned by Neo Industrial. The holding represents 1.5 percent of the company's share capital and 1.1 percent of the votes. The company held no A shares. Neo Industrial Plc's B shares (NEO1V) are listed on the main list of NASDAQ OMX Helsinki.

Company shares	31/12/2011	31/12/2010	31/12/2009
Company share capital (EUR)	24,082,000	24,082,000	24,082,000
A shares (20 votes per share)	139,600	139,600	139,600
B shares (1 vote per share)	5,880,760	5,880,760	5,880,760
Total	6,020,360	6,020,360	6,020,360
B shares held by the company	91,727	92,727	61,407

ACQUISITION AND TRANSFER OF THE COMPANY'S OWN SHARES

In 2011, Neo Industrial exercised the authorisation issued by the Annual General Meeting on 30 March 2011 to transfer treasury B shares against or without payment. During the year, the company sold 1,000 B shares at a total price of EUR 8,000. The value of these shares was EUR 2,500 on 31 December 2011. At the end of 2011, the company held a total of 91,727 B shares.

DIVIDEND POLICY

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

DIVIDEND PROPOSAL

The parent company's distributable funds at the end of 2011 are EUR 23,793,515.36 of which loss for the period is 4,694,521.98. The Board proposes to the Annual General Meeting that no dividends be paid for 2011.

No dividends were paid for 2010.

NEAR-TERM OUTLOOK

The global economy is currently causing significant uncertainty, which may affect all of Neo Industrial's segments.

In the Viscose Fibres segment, demand and price development are difficult to predict. The decision to relaunch production depends on the demand for high-margin specialty products as well as on securing sufficient funding. The segment seeks to expand its product range to increasingly cover specialty products, of which antimicrobial special fibres appear to hold the most potential. The segment's result is affected by the market situation, the continuing shutdown and the progress of the new technology business. The company reorganisation plan also covers future considerations, including opportunities related to markets, product groups and technology expansions.

Demand in the Cable segment is expected to increase during the first half of 2012, if not beyond. The segment expects to record a positive result in 2012.

The market for the Single Family Housing segment is expected to be smaller in 2012 when compared to 2011. Finndomo divested operations and property that were not part of its core business and weakened its profitability, which will improve its economy. Finndomo's corporate reorganisation is expected to decrease sales in 2012, at least at the beginning of the year. However, the reorganisation and new operating method will lay the foundation for better performance and service abilities.

Throughout the year, the company will pay special attention to liquidity and funding for growth. To ensure liquidity and to facilitate strong growth in the different segments, Neo Industrial will carry out negotiations on financing and payment terms as well as boost inventory turnover and free up capital assets.

ANNUAL GENERAL MEETING 2012

Neo Industrial Corporation's Annual General Meeting will be held in Helsinki on 29 March 2012 at 1.00 pm. A separate invitation will be published later.

Helsinki, 28 February 2012
Neo Industrial Plc
Board of Directors

CONSOLIDATED INCOME STATEMENT (IFRS)

EUR 1,000	**1.1. - 31.12.2011**	**1.1. - 31.12.2010**
TURNOVER	**121 186**	**83 421**
Change in inventories of finished products and production in progress	-399	-3 209
Production for own use	53	52
Materials and services	-100 135	-60 649
Personnel expenses	-19 366	-14 897
Depreciation and impairment	-6 223	-4 909
Other operating income and expenses	-10 726	-10 849
	-136 796	-94 460
Operating loss	**-15 609**	**-11 040**
Financial income	919	2 340
Financial expenses	-5 478	-2 734
	-8 857	-1 332
Profit or loss before taxes	**-29 025**	**-12 765**
Taxes	-79	2 175
Profit or loss for the period	**-29 104**	**-10 591**
Profit or loss attributable to		
Equity holders of the parent	-27 288	-10 416
Minority interests	-1 816	-175
	-29 104	-10 591
Earnings per share attributable to the shareholders of the parent (EUR)		
before and after dilution, EUR	-4,60	-1,76
Number of shares	5 929 483	5 926 793

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

Profit or loss	-29 104	-10 591
Other comprehensive items		
Translation differences related to foreign units	-473	977
Total	-473	977
Total comprehensive income	-29 577	-9 614
Total comprehensive income attributable to		
Equity holders of the parent	-27 761	-9 450
Minority interest	-1 816	-164
	-29 577	-9 614

CONSOLIDATED BALANCE SHEET (IFRS)

EUR 1,000	31.12.2011	31.12.2010
ASSETS		
Non-current assets		
Goodwill	3 477	3 624
Other intangible assets	10 618	7 765
Tangible assets	39 690	43 719
Holdings in associates	6 369	4 668
Receivables	122	1
Derivative contracts	0	66
Deferred tax assets	2 610	3 040
Total non-current assets	**62 884**	**62 883**
Current assets		
Inventories	17 008	17 529
Available-for-sale financial assets	0	0
Sales receivables and other receivables	16 189	19 880
Tax receivables from the profit	15	17
Derivative contracts	10	1 174
Other financial assets	0	2 894
Cash and cash equivalents	1 793	2 734
Total current assets	**35 016**	**44 229**
Total Assets	**97 900**	**107 112**

SHAREHOLDERS' EQUITY AND LIBILITIES

EUR 1,000	31.12.2011	31.12.2010
Shareholder's equity		
Share capital	24 082	24 082
Premium fund	66	66
Reserve fund	1 221	1 221
Own shares	-591	-599
Translation differences	-1 712	-1 239
Retained profit	-38 417	-11 492
Other unrestricted equity	28 903	21 327
Equity attributable to sharehoders of the parent	**13 552**	**33 366**
Minority interest	-1 100	573
Total shareholders´ equity	**12 452**	**33 939**
Non-current liabilities		
Deferred tax liabilities	3 607	4 047
Provisions	756	839
Interest-bearing liabilities	27 960	25 905
Non-interest-bearing liabilities	1 426	1 584
Derivative contracts	913	
Current liabilities		
Tax liabilities from the profit	33	24
Reserves	100	0
Short-term interest-bearing liabilities	22 365	16 314
Derivative contracts	139	0
Accounts payable and other liabilities	28 149	24 459
Total liabilities	**85 448**	**73 172**
Shareholders´ equity and liabilities	**97 900**	**107 112**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY (IFRS)

EUR 1,000	A	B	C	D	E	F	G	H	I	J
Shareholders' equity 31/12/2009	24 082	66	1 221	-381	-2 013	21 327	-308	43 993	1 444	45 437
Translation differences					774			774		774
Profit/loss for the period							-10 416	-10 416	-164	-10 580
Dividends paid							-1 483	-1 483		-1 483
Acquisition of own shares				-218				-218		-218
Change in minority interest							757	757	-757	
Minority interest							-41	-41	50	9
Shareholders' equity 31/12/2010	**24 082**	**66**	**1 221**	**-599**	**-1 239**	**21 327**	**-11 491**	**33 366**	**573**	**33 939**

EUR 1,000	A	B	C	D	E	F	G	H	I	J
Shareholders' equuity 31/12/2010	24 082	66	1 221	-599	-1 239	21 327	-11 491	33 366	574	33 939
Translation differences					-473			-473		-473
Profit/loss for the period							-27 288	-27 288	-1 816	-29 104
Diovidends paid								0		0
Acquisition of own shares								0		0
Sales of own shares				8				8		8
Change in minority interest							362	362	142	505
Share of associate changes						7 575		7 575		7 575
Shareholders' equity 31/12/2011	**24 082**	**66**	**1 221**	**-591**	**-1 712**	**28 903**	**-38 416**	**13 552**	**-1 100**	**12 452**

Letter code explanationst:

A Share capital
B Premium fund
C Reserve fund
D Own shares
E Translation differences
F Other unrestricted equity
G Retained profit
H Total
I Minority interest
J Total shareholders' equity

Shareholders' equity in Finndomo was strengthened during the review period. In addition to receiving an equity investment by its principal owners, Finndomo saw its reserve for invested non-restricted equity increase by EUR 25 million. Neo Industrial's share of this increase is 30.3 percent, amounting to EUR 7.6 million

CONSOLIDATED CASH FLOW STATEMENT

EUR 1,000	1.1. - 31.12.2011	1.1. - 31.12.2010
Cash flows from operating activities		
Payments received from operating activities	127 339	83 306
Payments paid on operating activities	-130 728	-81 138
Paid interests and other financial expenses	-2 648	-1 164
Interests received and other financial incomes	740	415
Direct taxes paid	-35	59
Net cash provided by operating activities	**-5 332**	**1 478**
Cash flows from investing activities		
Acquisition of subsidiaries and new business	-2	0
	0	0
Acquisition of associates	-2 982	-6 000
Investments in tangible assets	-1 442	-7 271
Sales of tangible assets	82	0
Investments in intangible assets	-3 785	-178
Sales of intagible assets	0	0
Proceeds from sales of other investments	0	3 679
Casg-equivalent withdrawals	2 889	7 443
Investments in other financial assets	0	-3 000
Loans granted	-493	-309
Repayment of loan receivables	2 019	0
Net cash provided by investing activities	**-3 714**	**-5 636**
Cash flows from financing activities		
Acquisition of own shares	0	-217
Sales of own shares	8	0
Increase in loans	16 149	8 091
Decrease in loans	-7 013	-1 877
Payments of finance lease activities	-1 031	-719
Dividends paid	0	-1 483
Net cash provided by financing activities	**8 114**	**3 794**
Change in cash and cash equivalents	**-932**	**-364**
Cash and cash equivalents at beginning of the period	2 734	3 000
Exchange rate differences	-9	98
Cash flow for the period		
Change in cash and cash equivalents at the end of the period	**1 793**	**2 734**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Neo Industrial Plc is the parent company of the group, which includes the Neo Industrial wholly owned subsidiaries Novalis Plc, RRR Finland Ltd and Alnus Ltd as well as Carbatec Ltd and its subsidiaries. The parent company is domiciled in Hyvinkää. Neo Industrial Plc's address is Aleksanterinkatu 48 A, 00100 Helsinki. Neo Industrial Plc's B shares are listed on NASDAQ OMX Helsinki.

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

The Neo Industrial Group has three segments: Cable, Viscose Fibres and Single Family Housing. In addition to Finland, the Group operates in Russia, Sweden, the Baltic countries, Denmark and Norway.

2. Accounting policies

Principles of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), the IAS standards as well as SIC and IFRIC interpretations effective on 31 December 2011. International financial standards refer to standards and the related interpretations that are laid down in the Finnish Accounting Act and regulations based on the Finnish Accounting Act and that have been approved in accordance with the EU Regulation (EC) No 1606/2002. The notes to the consolidated financial statements also comply with Finnish accounting and companies' laws that supplement IFRS regulations.

The financial statements have been prepared on the assumption that the entity is a going concern. Avilon's assets have been recognised in accordance with the continuity principle. Any changes that Avilon's corporate reorganisation may cause in the company's liabilities have not been taken into account.
Challenges for the 2012 financial period include ensuring growth in the Cable segment and securing Avilon's operating conditions in the short and long terms. In 2012, the Group seeks to secure additional funding and renegotiate payment terms. Negotiations with financiers, suppliers and customers are in progress, and Avilon's management believes they will be successful. If the Group fails to secure additional funding, it is possible that its business operations will be reorganised.

The consolidated financial statements have been prepared based on original cost, except for the following assets that have been recognised at fair value: derivative contracts, cash and cash equivalents and other financial assets, as well as tangible and intangible assets recognised at fair value in the calculation of the acquisition cost of Reka Cables Ltd (2007), OAO Expokabel (2008) and Finndomo Ltd (2010) under IFRS 3.

Derivatives that hedge net sales are included in net sales and customer orders. 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 are recognised under each segment. Other derivatives are recognised in other operations and eliminations. In addition, segment-specific statements present the operating profit before and after open hedging instruments.

The Group has adopted the following standards and revisions:

- IAS 24 *Related Party Disclosures* – revised definition (effective for financial periods beginning on 1 January 2011 or later). Further specifies the definition of a related party.
- IAS 32 *Financial Instruments: Presentation* – an amendment to *Classification of Rights Issued* (effective for financial periods beginning on 1 February 2010 or later). The amendment concerns the classification of shares, options or subscription rights issued in a currency other than the current of the issuer. The amendment is not significant in terms of the Group's financial statements.

The following standards and interpretations were mandatory in 2011, but they were not relevant to the Group:

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for financial years beginning on 1 July 2010 or later). The interpretation clarifies accounting procedures in cases when a company renegotiates the terms of a financial liability and, as a result, issues equity instruments to the creditor to extinguish the financial liability in part or in full. Currently, the interpretation is not considered to have an effect on the Group's financial statements.

- Amendments to the interpretation of IFRIC 14 *Prepayments of a Minimum Funding Requirement* (effective for financial periods beginning on 1 January 2011 or later). The amendment addresses undesirable effects resulting from the interpretation IFRIC 14: IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. After the amendment, some prepayments for minimum funding contributions can be recognised as assets. The interpretation does not have an effect on the Group's financial statements.
- Improvements to IRFSs, May 2010 (generally effective for financial periods beginning on 1 July 2010 or later). Annual improvements to IFRSs are minor and less urgent amendments, which are compiled and implemented once a year. The amendments were not significant in terms of the Group's financial statements.

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

Principles of consolidation

Subsidiaries
The consolidated financial statements include the parent company, Neo Industrial Plc, and its subsidiaries. Subsidiaries are companies in which the Group has a controlling interest. A controlling interest is created when the Group holds more than half of the votes or otherwise has the right to decide on the principles of a company's economy and business. Potential voting power is taken into account when assessing the criteria for a controlling interest if the instruments of potential voting power can be implemented at the time of assessment.

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

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

Associated companies
Associated companies are companies over which the Group exercises significant influence. Significant influence is generally created when the Group holds more than 20 percent of the voting rights or otherwise has significant influence but not control. Associated companies have been consolidated using the equity method. If the Group's share of an associated company's losses exceeds the book value of the investment, the investment is recognised at zero value in 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 result of associates" after the operating profit.

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

Foreign currency items

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

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

Gains and losses arising from transactions denominated in a foreign currency and from the translation of monetary items are recognised in the income statement. The foreign exchange losses and profits from the Group's internal long-term 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 exchange rate on the balance sheet date. The use of different currency rates for translating the period's result for the income statement and the balance sheet causes a translation difference, which is recognised in equity. Translation differences arising from the elimination of the acquisition cost of foreign subsidiaries are recognised in equity. When a subsidiary is sold, the accumulated translation differences are recognised in the income statement as part of sales gains and losses.

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

If a subsidiary prepares its financial statements in the currency of a country with hyperinflation, the subsidiary's financial statements are translated using the rate on the balance sheet date. The Group does not currently include units reporting in hyperinflation currencies.

Tangible non-current assets

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

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

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

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

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

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

Borrowing costs

Borrowing costs are recognised in the financial period during which they are incurred. In 2011, the Group had no borrowing costs (arising from asset purchases) that were activated.

Intangible assets

Goodwill
Goodwill corresponds to the part of the acquisition cost that exceeds the Group's share of the net fair value of an acquired company's identifiable assets, liabilities and contingent liabilities at the time of acquisition.

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

Research and development expenses
Research and development expenses are recognised in the income statement as expenses, except for development costs that meet the capitalisation criteria of IAS 38 *Intangible Assets*. In that case, product development expenses are recognised in the balance sheet as intangible assets as of the moment when the product can be implemented technically, exploited commercially and expected to bring future financial benefit. Development costs that have been recognised as expenses previously will not be capitalised later. Depreciation will start as soon as the product is ready for use. The depreciation period is 3–5 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 in the income statement.

Emission rights

In the first quarter of 2011, the Group adopted new accounting principles for Avilon’s emission rights. Emission rights received are recognised as intangible assets and deferred income. Emission rights are valued at current fair value or other probable value. If the market value of the emission rights drops significantly below the book value and the decline is considered to be permanent, the impairment loss is recognised under rights that the Group does not intend to use internally. Deferred revenue is recognised in other operating income during the period for which the corresponding rights are granted. Expenses corresponding to actual emissions are recognised in the income statement under other operating expenses and appear in the balance sheet reserves. Emission rights that will not be used during the review period are recognised through profit or loss at the time that they are deemed to be surplus. Emission rights and the related provisions are derecognised when they are sold or submitted to cover obligations. Any gains or losses are recognised in the income statement.

Inventories

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

Lease agreements

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

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

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

Impairment

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

In the financial statements for 2011, the following units are classified as units generating cash flows: the Cable segment, the Viscose Fibres segment and the Single Family Housing segment. The Cable segment is divided into two groups: one consists of Reka Cables Ltd, Zao Reka Kabel and OAO Expokabel, and the other comprises Nestor Cables Ltd. For Reka Cables and Zao Reka Kabel, the indicators are permanent changes in the euro prices of principal raw materials and developments in the main markets. The interest rate level is not an indicator as such, but it may have an effect on the discount rate. For Nestor Cables Ltd, an associated company, indicators are not monitored in the same manner, because no goodwill is involved and the consolidation technique will take any loss immediately into account.

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 can never be reversed.

Pension arrangements

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

Provisions and contingent liabilities

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

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

A restructuring provision is made when the Group has prepared a detailed restructuring plan and announced it or begun to implement it. No provision is recognised for expenses related to Group operations continuing as normal.

A provision is made for loss-making contracts if the expenses required to fulfil the contractual obligations exceed the benefits from the contract.

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

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

Taxes

The tax expenses in the income statement consist of the income tax for the financial year and deferred taxes. The income tax for the financial year is calculated on the taxable income, using the tax rate in force in each country on the balance sheet date or on a subsequent tax rate. The taxes are adjusted by taxes potentially related to previous periods, with the exception of taxes recognised in equity for which the corresponding income or expense has been recognised directly in equity. In accordance with the prudence principle, some of the potential deferred tax assets of foreign subsidiaries have not been recognised.

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

Deferred tax assets 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. In accordance with the prudence principle, some of the deferred tax credits assets of foreign subsidiaries have not been recognised.

Revenue recognition

Products sold and services produced
Income from product sales is recognised when significant risks and benefits of ownership and the actual control over the products have been transferred to the buyer. This is usually done in conjunction with product delivery in accordance with contract terms. Income from services produced is recognised in the financial year when the service is performed.

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

Financial assets and liabilities

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

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

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

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

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

Loans and other receivables are recognised at the outstanding value of the receivable. Sales receivables are presented in gross amounts, and the financial liabilities under sales receivables are recognised in financial liabilities. The Group recognises an impairment loss on sales receivables if there is objective evidence that the receivable cannot be recovered in full. If the amount of impairment loss is reduced later, the recognised loss is reversed through profit or loss.

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

Financial liabilities
Financial liabilities are valued at allocated acquisition cost or at fair value excluding liabilities arising from finance leases under IAS 17. Liabilities arising from finance leases are recognised initially at the fair value of the asset leased or the present value of minimum lease payments, depending on which one is lower. Transaction costs are included in the initial book value of financial liabilities. Financial liabilities are included in current and non-current liabilities.

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

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

Operating result

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

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

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

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

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

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

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

Measurement of fair value of goods acquired in business combinations
In June 2007, the Neo Industrial Group acquired the Reka Cables Group. The seller was Reka Ltd, which is the parent company of Neo Industrial Plc. Although it was a business amalgamation of corporations under the same controlling interest, the management felt that the acquisition cost method under IFRS 3 needed to be applied. For this reason, the fair value of all assets acquired was measured in accordance with the provisions of IFRS 3. The Group has used an external advisor in estimating the fair values of tangible and intangible assets. The acquisition cost calculation for OAO Expokabel, acquired in August 2008 by purchasing a majority of the shares, was also performed in accordance with IFRS 3, as was the acquisition cost calculation for Finndomo in April 2010. The acquisition cost calculation for OAO Expokabel has been converted into euros using the exchange rate on the acquisition date.

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

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

Application of new and revised IFRS standards

The IASB has issued the following new or revised standards and interpretations that the Group has not yet applied. The Group will adopt these standards and interpretations on the date when they take effect. If this date is not the first day of the financial period, the Group will adopt them at the beginning of the following financial period, provided that the European Union approves these standards and interpretations.

- Three standards related to consolidated financial statements were issued in May 2011: IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. These standards will take effect on financial periods beginning on 1 January 2013 or later. Their effects on the Group are being evaluated.
- IFRS 13 *Fair Value Measurement*, a new standard, was issued in May 2011. The standard gives instructions on determining the fair value of various assets and liabilities for the balance sheet or notes to the financial statements. The effects of the standard on the Group are being evaluated.
- The effective date of IFRS 9 *Financial instruments* and its amendments has been postponed to 2015. The effects of the standard on the Group will be evaluated closer to the effective date.
- The amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* improve the transparency of notes to financial statements in conjunction with transfers and derecognitions of financial assets. The amendments allow users of financial statements to improve their understanding of transfers and derecognitions of financial assets, including any risks that may remain with the entity that transferred the assets. Currently, the interpretation is not considered to have an effect on the Group's financial statements. The effects of the amendments to IFRS 7 as they relate to IFRS 9, a new standard, will be evaluated closer to the effective date in 2015.
- The effects of the amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of*

Other Comprehensive Income on the Group are being evaluated.

- The amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* do not have an effect on the Group, because it does not currently have investment properties or non-current assets to be revalued. The situation will be re-evaluated in 2012, after the European Union has approved the amendments to IAS 12.
- The amendments to IAS 19 *Employee Benefits* are not currently considered to have an effect on the Group's financial statements.
- The effects of the amendments to IAS 27 *Consolidated and Separate Financial Statements* on the Group are being evaluated.
- The effects of the amendments to IAS 28 *Investments in Associates* on the Group are being evaluated.
- During 2012, the Group will begin to evaluate the effects of the amendments to IAS 32 *Financial Instruments: Presentation*, which will take effect in 2014.
- The amendments to IFRS 1 and IFRIC 20 will not have on effect on the Group's financial statements.

3. Segment information

In accordance with IFRS 8, segment-specific reporting is based on the management's internal reporting. Net sales by product group and sales area are presented as complementary information. The interface between the Viscose Fibres segment and other operations has been further specified in the financial statements. From 2012, customer-specific commodity derivatives and segment-specific currency hedging will be recognised under each segment. Other derivatives will be recognised in other operations and eliminations. In addition, segment-specific statements present the operating profit before and after open hedging instruments. The new division of derivatives is presented at the end of the related note to the financial statements.

2011 **EUR 1,000**	**Cable**	**Viscose-** **Fibers**	**Single Family** **Housing**	**Eliminations,** **other oper.**	**Group** **total**
Net sales	**102 871**	**18 354**	**0**	**-39**	**121 186**
Segment's oper.profit	**-3 408**	**-10 975**			**-14 383**
Unallocated items				-1 226	-1 226
Operating profit			**0**	**-1 226**	**-15 609**
Share of the results of associates	0		-8 857		-8 857
Unallocated items				-4 638	-4 638
Profit/loss for the period					**-29 103**
Assets					
Segment's assets	67 586	19 139	6 369		93 094
Unallocated assets				4 807	4 807
Total asssets	**67 586**	**19 139**	**6 639**	**4 807**	**97 900**
Liabilities					
Segment's liabilities	40 604	28 942			69 546
Unallocated liabilities			0	15 902	15 902
Total liabilities	**40 604**	**28 942**	**0**	**15 902**	**85 448**
Assets - Liabilities	**26 981**	**-9 803**	**6 369**	**-11 095**	**12 452**
Investments	**581**	**4 468**	**0**	**0**	**5 049**
Depreciation	**4 819**	**1 091**	**0**	**313**	**6 223**

2010 **EUR 1,000**	**Cable**	**ViscoseFibers**	**Single Family** **Housing**	**Eliminations,** **other oper.**	**Group** **total**
Net sales	**83 434**		**0**		**83 434**
Segment's oper. profit	**-2 939**	**-6 759**			**-9 698**

Unallocated items				-1 341	-1 341
Operating profit			0	-1 341	**-11 040**
Share of the results of associates	0		-1 332		-1 332
Unallocated items				1 780	1 780
Profit/loss for the period					**-10 591**
Assets					
Segment's asssets	81 573	13 182	4 668		99 424
Unallocated assets				7 688	7 688
Total asssets	**81 573**	**13 182**	**4 668**	**7 688**	**107 112**
Liabilities					
Segment's liabilities	57 648	14 689			72 337
Unallocated liabilities			0	836	836
Total liabilities	**57 648**	**14 689**	**0**	**836**	**73 173**
Assets - Liabilities	**23 926**	**-1 507**	**4 668**	**6 852**	**33 939**
Investments	**4 117**	**11 832**	**0**	**50**	**15 999**
Depreciation	**-4 841**	**0**	**0**	**-68**	**-4 909**

New reporting method for derivates

2011 **EUR 1,000**	**Cable**	**Viscose Fiber**	**Single Family Housing**	**Eliminations and other operations**	**Group total**
Operating profit before changes in the value of open derivatives	-2 976	-10 975		-976	-14 927
Changes in the value of open derivatives	-93			-589	-682
Operating profit after changes in the value of open derivates	-3 069	-10 975		-1 565	-15 609

2010 **EUR 1,000**	**Cable**	**Viscose Fiber**	**Single Family Housing**	**Eliminations and other operations**	**Group total**
Operating profit before changes in the value of open derivatives	-3 688	-6 759		-975	-11 422
Changes in the value of open derivatives	95			288	383
Operating profir after changes in the value of open derivates	-3 593	-6 759		-687	-11 040

Cable segment's net sales by product group, EUR million	1-12/2011	1-12/2010
LV energy	35.2	28.2
Power cable	67.7	55.,2
Total	**102.9**	**83.4**

Cable segment's net sales by area, EUR million	1-12/2011	1-12/2010
EU countries	89.2	65.5
Non-EU countries	13.7	17.9
Total	**102.9**	**83.4**

Viscose Fibres segment's net sales by area, EUR million	1-12/2011	1-12/2010
EU countries	3.8	0.0
Non-EU countries	14.6	0.0
Total	**18.4**	**0.0**

The Cable segment's four largest customers are Nokia Siemens Networks, Onninen Group, Rexel Group and Sonepar Group, each of which represents more than 10 percent of the segment's net sales. The largest customers of Viscose Fiber segment were Cetec-Rheinfaser, Filofibra and Milliken&Co.

On 31 December 2011, non-current assets other than financial instruments and deferred taxes were EUR 60.3 million. The assets are located in Finland (EUR 49.1 million) and Russia (EUR 11.2 million).

4. Net sales

EUR 1,000	2011	2010
Industrial business net sales	121,186	83,421
Total net sales	121,186	83,421

5. Other operating income and expenses

EUR 1,000	2011	2010
Gain on sales of fixed assets	0	74
Grants received	273	80
Rent income	285	88
Other income	1 470	2 447
Rent expenses	-1 609	-1 882
Machinery and real estate maintenance costs	-5 439	-4 730
Sales and marketing expenses	-466	-655
Other expenses	-5 240	-6 271
Total	-10 726	-10 849

The item "Other expenses" includes EUR 245,000 fees paid to auditors for the audit of the accounts (EUR 104,000) and EUR 97,000 in fees for other consulting services (EUR 47,000).

6. Depreciation and impairment

EUR 1,000	**2011**	**2010**
Depreciation		
Intangible non-current assets		
Customer relationships	-275	-275
Product brands and trademarks	-106	-106
Other intangible assets	-519	-236
Total	-900	-617
Tangible non-current assets		
Buildings	-2003	-1344
Machinery and equipment	-3018	-2246
Other tangible assets	-105	-702
Total	-5126	-4292
Impairment		
Buildings	-197	0
Depreciation and impairment total	-6 223	-4 909

7. Personnel expenses

EUR 1,000	**2011**	**2010**
Wages and salaries	16 209	12 821
Pension expenses – defined contribution	2 281	1 509
Other personnel expenses	876	567
Total	19 366	14 897

Average number of employees	**2011**	**2010**
Total	605	539
of which employed by the Cable segment	463	430

Management benefits are presented in note 31 (“Related-party transactions”).

8. Research and development expenses

The income statement includes EUR 1.5 million in research and development costs recognised as expenses (EUR 0.3 million in 2010).

9. Financial income and expenses

Financial income

EUR 1,000	**2011**	**2010**
Interest income	141	475
Income from interest derivatives	0	0
Income from metal derivatives	357	453
Income from financial derivatives	69	0
Exchange rate gains	343	135
Other financial income	9	1 277
Total	919	2 340

Financial expenses

EUR 1,000	**2011**	**2010**
Interest expenses	-1 818	-542
Interest expenses from activated financial lea	-1 131	-792
Expenses from metal derivatives	-686	-323
Exchange rate losses	-650	-500
Other financial expenses	-1 193	-576
Total	-5 478	-2 734

10. Taxes

EUR 1,000	**2011**	**2010**
Income tax for the financial year	-41	-5
Taxes from the previous financial years	0	2
Deferred tax from the profit	-38	2 178
Total	-79	2 175

Balancing assessment between taxes from income statement
and the Group's domestic rate (26%)

EUR 1,000	**2011**	**2010**
Profit before taxes	-25 271	-12 765
Share of the results of associates - tax deduction included	-5 103	-1 332
Profit before taxes and the results of associates	-20 168	-11 434
Tax calculated based on domestic tax rate	-5 244	-2 973
Effect of tax-free income	-100	-85
Effect of non-deductible expenses	342	122
Effect of the tax rates of foreign subsidiaries	222	103
Effect of unrecognised deferred tax receivables from taxable losses	3 118	346
Taxes from the previous financial years	1 744	477
Other items	-3	-165
Taxes in income statement	79	-2 175

With the exception of IFRS conversions, the deferred tax assets of the Russian companies are not included in financial statements on the closing date. Avilon has been granted special permission to utilise deferred tax assets for the loss it made in 2010. Special permission is not required for 2011. The change in recognising deferred tax assets was made because of Avilon's corporate reorganisation process, which is in progress. For this reason, the deferred tax assets related to Avilon's loss in 2010 were recorded as write-offs in the income statement in 2011, and no deferred tax assets were recorded related to the loss the company made in 2011.

11. Earnings per share

	2011	**2010**
Profit for the shareholders of the parent company, EUR 1,000	-23 534	-10 416
Weighted average number of outstanding shares during the period	5 929 483	5 926 793
Earnings per share, undiluted, EUR	-3,97	-1,76
Weighted average number of outstanding shares during the period, diluted	5 929 483	5 926 793
Earnings per share, diluted, EUR	-3,97	-1,76

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

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

12. Tangible non-current assets

EUR 1,000	**Land and water areas**	**Buildings**	**Machinery and equipment**	**Motor vehicles**	**Advances and incomplete acquisitions**	**Total**
Acquisition cost 1/1/2011	1 322	24 122	27 415	270	4 277	57 406
Investments	161	727	616	0	0	1 504
Decreases	0	0	4 221	0	-4 277	-56
Foreign exchange differences	0	-59	-107	0	0	-166
Acquisition cost 31/12/2011	1 483	24 790	32 145	270	0	58 688
Accumulated depreciations and impairments 1/1/2011	0	4 170	9 417	100	0	13 687
Depreciations	0	1 993	3 093	20		5 106
Impairments	0	197	0	0		197
Decreases	0	63	-63			0
Foreign exchange differences	0	30	-22			8
Accumulated depreciations and impairments 31/12/2011	0	6 454	12 425	120		18 999
Book value 1/1/2011	1 322	19 952	17 998	170	4 277	43 719
Book value 31/12/2011	1 483	18 337	19 720	150	0	39 690

EUR 1,000	Land and water areas	Buildings	Machinery and equipment	Motor vehicles	Advances and incomplete acquisitions	Total
Acquisition cost 1/1/2010	1 461	16 459	24 266	270	0	42 456
Investments	0	8 063	3 108	0	4 277	15 448
Investments through business acquisitions	0	0	0	0	0	0
Decreases	0	-912	-32	0	0	-944
Foreign exchange differences	-139	512	73	0	0	446
Acquisition cost 31/12/2010	1 322	24 122	27 415	270	4 277	57 406
Accumulated depreciations						
and impairments 1/1/2010	0	2 836	6 562	80	0	9 478
Depreciations	0	1 349	2 923	20		4 292
Impairments	0	0	0	0		0
Decreases		-68	0			-68
Foreign exchange differences	0	53	-68			-15
Accumulated depreciations						0
and impairments 31/12/2010	0	4 170	9 417	100		13 687
Book value 1/1/2010	1 461	13 623	17 704	190	0	32 978
Book value 31/12/2010	1 322	19 952	17 998	170	4 277	43 719

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

EUR 1,000	2011	2010
Buildings		
Acquisition cost 1/1	18 182	10 187
Investments through business acquisitions	0	0
Other investments	0	8 063
Decreases	0	-68
Acquisition cost 31/12	18 182	18 182
Accumulated depreciations 1/1	2 488	1 699
Decreases in accumulated depreciations	0	-68
Depreciations for the year	1 031	857
Accumulated depreciations 31/12	3 519	2 488
Book value 31/12	14 664	15 695
Machinery and equipment		
Acquisition cost 1/1	43	43
Investments through business acquisitions	0	0
Decreases	0	0
Acquisition cost 31/12	43	43
Accumulated depreciations 1/1	43	43
Depreciations for the year	0	0
Accumulated depreciations 31/12	43	43
Book value 31/12	0	0

13. Intangible non-current assets

EUR 1,000	**Goodwill**	**Other intangibles**	**Total**
Acquisition cost 1/1/2011	3 624	9 775	13 399
Investments	0	3 706	3 706
Business combinations	0	0	0
Decreases	0	0	0
Reclassifications	-142	142	0
Foreign exchange differences	-5	-144	-149
Acquisition cost 31/12/2011	3 477	13 480	16 957
Accumulated depreciations and impairments 1/1/2011	0	2 010	2 010
Depreciations	0	899	899
Foreign exchange differences	0	-47	-47
Accumulated depreciations and impairments 31/12/2011	0	2 862	2 862
Book value 1/1/2011	3 624	7 765	11 389
Book value 31/12/2011	3 477	10 618	14 095
Acquisition cost 1/1/2010	3 520	8 188	11 708
Investments	0	1 608	1 608
Business combinations	0	0	0
Decreases	0	-113	-113
Foreign exchange differences	104	92	196
Acquisition cost 31/12/2010	3 624	9 775	13 399
Accumulated depreciations and impairments 1/1/2010	0	1 394	1 394
Depreciations	0	617	617
Foreign exchange differences	0	-1	-1
Accumulated depreciations and impairments 31/12/2010	0	2 010	2 010
Book value 1/1/2010	3 520	6 793	10 314
Book value 31/12/2010	3 624	7 765	11 389

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

On the closing date of the financial period, under other intangible assets, the book value of intangible assets with indefinite useful lives was EUR 4.3 million (4.3 million).

The goodwill recognised in the financial statements arose from the acquisition of shares in Reka Cables Ltd and OAO Expokabel, and it has been allocated entirely to the Cable segment for impairment testing purposes. The recoverable amount has been determined based on value in use calculations. The calculations are based on forecasts approved by the management for a period of 4 years. Cash flows after the forecast period have been predicted using a 0% growth assumption. The projected cash flows are discounted at the present date. The discount rate after taxes is 8.12% for the Cable segment (8.52% in 2010) and 7.44% for the Viscose Fibres segment.

The following are the most significant factors used in the calculations related to the Cable segment: the prices of metals and other key raw materials in euros, the effects of demand and competition on market prices, the timing of infrastructure investments and the expansion of cooperation with key customers.

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

The Viscose Fibres segment has no goodwill. Carbatec Ltd's balance sheet includes intangible rights, the fair value of which has been confirmed by a third-party appraiser to exceed their balance sheet value. In addition, the balance sheet value of intangible rights has been tested against estimated future proceeds from licences. A test calculation has been carried out for Avilon Ltd's balance sheet values, because the company was accepted for corporate reorganisation. The following were the most significant factors used in the calculations related to Avilon: the development of the share of special fibres of the product range, the development of the product range and its demand, the effects of competition on market prices and the company's competitive ability in different product groups at the price levels of a European manufacturer.

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

Other operations include an impairment recognised in buildings (EUR 0.2 million), based on the difference between the income and expenses related to a long-term lease agreement.

The associated company Finndomo was tested using the same principles that were applied to test calculations related to the Cable segment. The discount rate after taxes was 8.02% (7.83% in 2010).
Calculations are affected by the following assumptions: Finndomo's corporate reorganisation will be reflected in sales in 2012. The company will no longer act as both a developer and a contractor in projects, and its net sales in Finland will decrease in 2012. After that, however, its net sales will begin to increase again. Exports will grow moderately throughout the period under estimation. The changes in the operating model will be carried out successfully and result in reduced costs and improved quality, which will be reflected in net sales and operating results in the following years. Growth has been considered to be moderate in the forecasts for the next few years, in terms of both the market and the market share. An impairment of EUR 2.5 million has been recognised at the Group and company level as a result of impairment testing.

14. Holdings in associates

EUR 1,000	**2011**	**2010**
At the beginning of the financial year	4 668	0
Share of the profit for the financial year	-6 537	-1 332
Value adjustments	-2 500	0
Investments	10 558	6 000
At the end of the financial year	6 369	4 668

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

Nestor Cables is domiciled in Oulu. Its assets on the financial statement are EUR 20.1 million (21.6 million in 2010), and its liabilities are EUR 23.2 million (22.4 million). Subordinated loans constituted EUR 4.6 million (4.6 million) of the liabilities. The company's net sales in 2011 were EUR 29.6 million (28.8 million in 2010), and its operating result was EUR -2.3 million (-0.5 million). The company launched production in 2008. Neo Industrial owns 30 % of Nestor Cables. The unrecognised share of Nestor Cables' loss in 2011 and cumulative loss is EUR 0.7 million, cumulative loss being 0.9 million, because the company's value in the consolidated balance sheet is EUR 0.

Finndomo Ltd is the parent company of the Finndomo Group. The company is domiciled in Sonkajärvi. The Finndomo Group's assets on the financial statement are EUR 38.8 million (88.1 million in 2010), and its liabilities are EUR 45.0 million (101.7 million). The company's net sales in 2011 were EUR 86.1 million (125.0 million in 2010), and its operating result was EUR -21.0 million (-16.1 million). Finndomo's financial agreements include limitations on the distribution of profits.

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

15. Other financial assets

EUR 1,000	Book value 2011	Book value 2010
Term deposits	0	2 894
Total	**0**	**2 894**

The term deposit in 2010 was pledged as security for a loan taken by Neo Industrial. The loan was repaid in full in 2011.

16. Available-for-sale financial assets

Available-for-sale financial assets are valued at acquisition cost if their fair values cannot be determined reliably (IAS 39.46). The company had no available-for-sale financial assets on the closing date of the financial period.

In 2010, the company sold the assets available for sale on its balance sheet. It gained a profit of EUR 224,000 from the sale of its shares in Finda Ltd and made a loss of EUR 54,000 from the sale of its shares in Oulu ICT Ltd. Total profit from sales was EUR 169,000.

17. Deferred tax assets and liabilities

Deferred tax assets from losses are recognised based on future profit expectations. With the exception of IFRS conversions, the deferred tax assets related to the operating results of the Russian subsidiaries are not included in financial statements.

Changes in deferred taxes during 2011:

EUR 1,000	**1/1/ 2011**	**Recognised in income statement**	**Foreign exchange differences**	**Acquired or sold businesses**	**31/12/ 2011**
Deferred tax receivables					
Provisions	326	-90		0	236
Derivatives at market value	0	0		0	0
Deferred tax receivables from loss	2 152	61			2 213
Other items	562	-412	11	0	161
Total	3 040	-441	11	0	2 610
Deferred tax liabilities					
Accumulated depreciations	-1 541	12	0	0	-1 529
Derivatives at market value	0	0	0	0	0
Purchase price allocation based on IFRS 3 and the related recognition of expenses	-2 517	431	0	0	-2 086
Full-cost valuation of inventories	0	0	0	0	0
Other items	11	-41	38	0	8
Total	-4 047	402	38	0	-3 607

Changes in deferred taxes during 2010

EUR 1,000	1/1/ 2010	Recognised in income statement	Foreign exchange differences	Acquired or sold businesses	31/12/ 2010
Deferred tax receivables					
Provisions	311	15		0	326
Derivatives at market value	0	0		0	0
Deferred tax receivables from loss	0	2 152			2 152
Other items	598	-39	3	0	562
Total	909	2 128	3	0	3 040
Deferred tax liabilities					
Accumulated depreciations	-1 294	-247	0	0	-1 541
Overvaluation of financial assets	0	0	0	0	0
Derivatives at market value	0	0	0	0	0
Purchase price allocation based on IFRS 3 and the related recognition of expenses	-2 718	201	0	0	-2 517
Full-cost valuation of inventories	0	0	0	0	0
Other items	0	110	-99	0	11
Total	-4 012	64	-99	0	-4 047

18. Inventories

EUR 1,000	2011	2010
Materials and supplies	6 661	6 780
Work in progress	4 126	4 335
Finished products	6 221	6 414
Total	17 008	17 529

In 2011, the Cable segment recognised a total of EUR 0.7 million (0.9 million) in inventory impairment. The impairment was based on defective commercial product quality, slow inventory turnover and valuation in excess of net realised value. The Viscose Fibres segment recognised a total of EUR 0.8 million in inventory impairment based on net realisation value assessment (EUR 0 in 2010).

19. Current receivables

Loans and other receivables were distributed as follows:

EUR 1,000	2011	2010
Sales receivables	12 240	11 986
Other receivables	3 947	7 894
Total	16 187	19 880

A total of EUR 10.5 million in sales receivables had not matured (10.5 million in 2010). Of the outstanding sales receivables, 82% (64%) had been due no longer than a month. A total of EUR 0.3 million (0.4 million) is more than 60 days past due.

Current receivables distributed by currency:

Current receivables by currency:

EUR 1,000	**2011**	**2010**
EUR	11 785	15 878
SEK	1 805	2 030
DKK	756	260
RUB	789	1 697
USD	815	0
NOK	199	0
GBP	38	0
Other	0	15
Total	16 187	19 880

The Cable segment has a partial factoring arrangement related to sales receivables. The entire amount of sales receivables was recognised, because the criteria for derecognition were not met. The credit facility used is recognised in current interest-bearing liabilities. In addition, the Cable segment has a sale of accounts receivable credit of EUR 3.5 million. The 90% share of sales receivables sold to the financing company within the credit facility is derecognised in the balance sheet under sales receivables on the date of the transaction.

20. Cash and cash equivalents

EUR 1,000	**2011**	**2010**
Cash on hand and in banks	1 793	2 734

21. Shareholders’ equity

EUR 1,000	**2011**	**2010**
Share capital 1.1.		
Series A	558	558
Series B	23 524	23 524
Share capital 31.12.	24 082	24 082
Premium fund 1.1.	66	66
Premium fund 31.12.	66	66
Reserve fund 1.1.	1 221	1 221
Reserve fund 31.12.	1 221	1 221
Own shares 1.1.	-599	-381
Sales of own shares	8	0
Purchase of own shares	0	-218
Own shares 31.12.	-591	-599
Retained earnings 1.1.	-11 492	407
Changes in non-controlling interests	904	0
Dividends paid	0	-1 483
Retained earnings 31.12.	-10 588	-1 076
Other unrestricted equity 1.1.	21 328	21 327
Share of changes in associates	7 575	0
Other unrestricted equity 31.12.	28 903	21 327
Translation differences	-1 712	-1 239
Profit for the financial year	-23 534	-10 416
Equity attributable to shareholders of the parent company 31.12.	17 847	33 366
Minority interest	-1 100	573
Shareholders' equity 31.12.	16 747	33 939

Share capital of the parent company by share type	2011		2010	
	Number	Share capital EUR 1,000	Number	Share capital EUR 1,000
Series A (20 votes per share)	139 600	558	139 600	558
Series B (1 vote per 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 2010), and the maximum number of B shares is 9.6 million (9.6 million). All issued shares are paid up in full.

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

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

Translation differences

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

Dividends

The Board proposes to the Annual General Meeting that no dividends be paid for 2011. No dividends were paid for 2010.

22. Provisions

Consolidated provisions consist of product warranty provisions, totalling EUR 0.9 million (EUR 0.8 million in 2010). Provisions are made based on claims made but not yet paid, and on assigned provisions based on experience from past years. The assigned provision takes into account any compensation obligations potentially occurring in the Cable segment over a period of ten years, unless otherwise agreed with the customer.

23. Interest-bearing liabilities

EUR 1,000	**2011**	**2010**
Long-term financial liabilities valued at allocated purchase price		
Bank loans	7 367	11 050
Other loans	1 559	
Loan partly tied to the performance of the company's share	5 031	
Finance leases	14 003	14 855
Total	27 960	25 905
Short-term financial liabilities valued at allocated purchase price		
Accounts with credit facility	5 802	5 720
Bank loans	0	3 900
Loans from other financial institutions	6 402	3 621
Other loans	7 133	
Finance leases	661	840
Amortisations of long-term loans	2 367	2 233
Total	22 365	16 314

Loans from other financial institutions include the credit facility related to the factoring of sales receivables, with the sales receivables serving as collateral. Other loans in short-term financial liabilities include loans related to Avilon's corporate reorganisation.

The Group's bank and financing loans have floating interest rates. Finance leases have fixed interest rates. In addition to a fixed interest rate, an effective interest rate applies to the convertible bond. The Group's average interest rate was 4.7 % on 31 December 2012 (4.4% on 31 December 2010).

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

EUR 1,000	**2011**	**2010**
Under 6 months	14 405	9 541
6 to 12 months	14 866	17 183
Over 12 months	21 054	15 495
Total	50 325	42 219

The item “Over 12 months” includes finance lease agreements. All loans are denominated in euros.

Maturing of finance lease agreements

EUR 1,000	**2011**	**2010**
Finance lease liabilities: total amount of minimum rents		
In 1 year	1 771	1 771
1 to 5 years	7 083	7 083
Over 5 years	17 397	19 169
Total	26 251	28 023
Non-cumulative financial expenses	-6 607	-7 481
Present value of finance lease liabilities	19 644	20 542
Finance lease liabilities: present value of minimum rents		
In 1 year	1 653	1 653
1 to 5 years	6 290	6 290
Over 5 years	11 701	12 599
Total	19 644	20 542

24. Accounts payable and other liabilities

EUR 1,000	**2011**	**2010**
Short-term financial liabilities valued at allocated purchase price		
Accounts payable	14 241	14 128
Other liabilities	13 907	10 331
Total	28 148	24 459

Essential items under other liabilities comprise periodised personnel expenses, periodised financial expenses and periodised annual customer discounts.

Non-interest-bearing current liabilities distributed by currency:

EUR 1,000	**2011**	**2010**
EUR	27 817	23 253
USD	90	968
Other	241	238
Total	28 148	24 459

25. Financial risk management

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

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

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

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

The U.S. dollar is important for the Group, because the prices of the metals and pulp it purchased are determined based on the dollar. On the other hand, the market prices of viscose fibres are also based on dollar prices. The combined effect of metal, pulp and viscose fibre prices and the USD/EUR ratio is essential to the Group. If the dollar had been 10% stronger against the euro on the closing date of the financial period, its effect through commodity derivatives on the operating result would have been EUR 0 (0.4 million in 2010). Had the dollar been 10% weaker, its effect would have been EUR 0 (-0.9 million).

SEK hedges are used to hedge net sales. If the Swedish krona had been 10% weaker on average in 2011, its effect on the operating result would had been EUR -0.8 million without hedging (-0.8 million in 2010). Had the krona been 10% stronger on average, its effect would have been EUR 0.9 million (0.9 million).

The significance of the Russian rouble is evident in the balance sheets of the companies in Russia and in the development of the operating result. The effect that the rouble, when weakening, has on the result depends on the extent to which services and materials can be acquired from local suppliers in roubles. In addition, the result is affected by how raw materials denominated in USD are priced by local material suppliers when the rouble depreciates. If the rouble had weakened by an additional 10% in 2011, its effect on balance sheet values would have been EUR -0.8 million (-0.6 million in 2010) and its effect on the operating result would have been between EUR -0.1 and -0.3 million (-0.1 and -0.2 million), depending on the operating model. If the rouble had strengthened by an additional 10%, its effect on balance sheet values would have been EUR 1.0 million (0.8 million) and its effect on the operating result would have been between EUR 0.1 and 0.3 million (0.1 and 0.3 million).

Interest rate risk
The Group's interest rate risks arise from borrowing and investments in securities.

The reference rates for external loans are the 1-week Euribor, 1-month Euribor, 3-month Euribor, 12-month Euribor and the Bank of Finland's base rate. The convertible bond and finance lease agreements have fixed reference rates. On the closing date of the financial year, the Group's average financing rate for external loans was 4.7 % (4.4% in 2010). If the average interest rate had been 1 percentage point higher, it would have affected the Group's result by EUR -0.5 million (-0.4 million).

Commodity risk
In the Cable segment, the key raw materials are metals (copper and aluminium) and plastics. Partial price hedging through commodity derivatives is used in metal purchases. In terms of metals, the development of dollar prices is

important for the Group, as is the development of the USD/EUR ratio. If the market value of aluminium had been 10% higher on the closing date of the financial period, its effect on the operating result in terms of commodity derivatives would had been EUR 0.2 million (0.1 million in 2010). If the market value of aluminium had been 10% lower, its effect would have been EUR 0.2 million (-0.3 million). If the market value of copper had been 10% higher on the closing date of the financial period, its effect on the operating result in terms of commodity derivatives would had been EUR 0.1 million (0.3 million in 2010). If the market value of copper had been 10% lower, its effect would have been EUR 0.1 million (-0.6 million).

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

In the Cable segment, unused credit facilities totalled EUR 3.3 million on 31 December 2011 (4.2 million on 31 December 2010). Factoring credit facilities represented EUR 3.1 million of this total (3.9 million). In addition, EUR 2.1 million of the sale of accounts receivable credit facility of EUR 3.5 million was unused. On the closing date of the financial year, the Viscose Fibres segment had no unused credit facilities (EUR 8.2 million on 31 December 2010).

EUR 1,000	**Balance sheet value**	**Cash flow**	**Under 1 year**	**1–2 years**	**2–5 years**	**Over 5 years**
31.12.2011						
Bank loans	9 733	10 348	2 864	7 484	0	0
Other loans	8 692	10 520	810	1 487	5 287	2 936
Loan partly tied to the performance of the company's share	5 031	8 250	606	625	7 020	0
Finance leases	14 664	26 251	1 771	1 771	5 312	17 398
Accounts with credit facility	5 802	5 802	5 802			
Sale of receivables credit facility	6 402	6 402	6 402			
Accounts payable and other facilities	28 148	28 148	28 148			
Derivative instruments						
Commodity derivatives	-128	-128	-128			

EUR 1,000	**Balance sheet value**	**Cash flow**	**Under 1 year**	**1–2 years**	**2–5 years**	**Over 5 years**
31.12.2010						
Bank loans	17 183	18 106	6 695	2 184	9 227	0
Finance leases	15 695	28 023	1 771	1 771	5 312	19 169
Accounts with credit facility	5 720	5 720	5 720			
Sale of receivables credit facility	3 621	3 621	3 621			
Accounts payable and other facilities	24 459	24 459	24 459			
Derivative instruments						
Interest rate derivatives	0	0	0			
Commodity derivatives	0	0	0			
Forward exchange agreements	26	26	26			

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

The Group's liquidity situation is tight in places. In 2012, the company seeks to secure additional funding and renegotiate payment terms. Negotiations with financiers, suppliers and customers are in progress, and Avilon's management believes they will be successful. If the company fails to secure additional funding, it is possible that its business operations will be reorganised.

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 and Avilon Ltd have 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. Most of the Group's sales receivables have not matured. Of the outstanding sales receivables, 82% (64%) have been due no longer than a month. A total of EUR 0.3 million (0.4 million) is more than 60 days past due.

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 the said investments. On the closing date of the financial period, the Group had no direct holdings of listed shares. The company has invested in direct corporate and unsecured bonds as well as bonds with credit risk swaps. The credit risk swaps are valid for less than a year and are focused on financially sound companies. On the closing date of the financial period, the Group had no active investments in bonds. The company has received collateral for the corporate loans it has granted.

Derivate financial instruments valid on 31.12.2011:

EUR 1,000	**Positive current values**	**Negative current values**	**Current net values 31/12/2011**	**Current net values 31/12/2010**	**Nominval values 31/12/2011**	**Nominal values 31/12/2010**
Financial derivatives						
Option contracts	0	-913	-913	0	0	0
Currency derivatives						
Forward exchange agreements	0	0	0	-26	0	1 545
Raw material options						
Metal derivatives	10	-138	-128	1 240	3 354	4 366
Total	10	-1051	-1 041			
<u>Less long-term derivatives</u>						
Metal derivatives	0	0				
Short-term share	10	-1051				

Derivatives have been valued using third-party market value reports (hierarchy level 2). The bond option is valued at the end of each quarter using the Black-Scholes model. The option is recognised at fair value in the balance sheet.

26. Capital management

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

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

27. Fair values of financial assets and liabilities

Most of the consolidated financial assets are included in financial assets recognised at fair value through profit and loss, specified in note 16. Derivatives are presented in note 26. Other cash and cash equivalents as well as receivables and liabilities are recognised in accordance with the amount open in the financial statements, excluding any credit losses. The Group does not apply hedge accounting. All income and expenses from derivatives are recognised through the income statement.

28. Other leases

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

EUR 1,000	**2011**	**2010**
In 1 year	817	1 139
1 to 5 years	204	275
Over 5 years	0	0
Total	1 021	1 414

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

The Group has leased most of its IT equipment and software, vehicles and forklifts. The average duration of these leases is three years.

The income statement for 2011 includes EUR 1.2 million in expenses based on other leases (1.1 million in 2010).

29. Contingent liabilities

EUR 1,000	**31/12/2011**	**31/12/2010**
Debts secured against business mortgages, securities or guarantees		
Loans from financial institutions	15 735	24 053
Loans to others	12 178	5 400
Granted business mortgages	41 820	21 820
Book value of pledged securities	25 885	25 712
Granted guarantees	20 935	18 933
Other collaterals		
Guarantees and payment commitments	2 353	3 173
Security deposits	0	2 894
Mortgages	4 700	3 000

The factoring credit was secured by a total of EUR 7.4 million of sales receivables on 31 December 2011 (EUR 6.0 million on 31 December 2010). The factoring credit stood at EUR 6.4 million on 31 December 2011 (EUR 3.6 million on 31 December 2010).

The above loans from credit institutions are related to the Cable segment and include covenants and terms. The main terms are:

- Neo Industrial Group's holding in the companies taking out the loans cannot fall below 100% without the financier's consent.
- The subordinated loan of EUR 13.6 million granted as internal financing by the Group can only be repaid after the loans mentioned above have been repaid.
- Metsämarkka 1 Group's equity ratio must be at least 21% in the financial statements for 2011 (23.5% in 2012, 25.0% in 2013, 28% in 2014 and 35.5% after that).
- Metsämarkka 1 Group's IBD/EBITDA ratio must be 6.8 or lower in 2011 (4.3 in 2012, 3.4 in 2013, 3.0 in 2014 and 2.0 after that).
- Distribution of profits in the financial agreement is subject to limitations or the financier's permission.

If the above mentioned companies fail to meet one or more of the criteria, the financier has the right to request renegotiation. If the negotiations do not result in an agreement, the financier has the right to have the loans included in the financial agreement fall due. The criteria related to key figures were not met on the closing date of the financial period. However, the bank has confirmed that this will not affect the maturity of the loans.

Financial lease liabilities are presented in note 23 and other lease liabilities in note 28.

Investment commitments

Investment commitments for tangible fixed assets amounted to EUR 0.2 million on 31 December 2011 (EUR 0.4 million on 31 December 2010).

Derivative contract liabilities are presented in note 26.

30. Related-party events

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

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

Company name	**Country**	**Domicile**	**Group's share of share capital (%)**	**Group's share of voting rights (%)**
Parent company: Neo Industrial Plc	Finland	Hyvinkää		
Neo Industrial Plc's subsidiaries and their subsidiaries and associates:				
Alnus Oy	Finland	Helsinki	100,00	100,00
Avilon Oy	Finland	Valkeakoski	100,00	100,00
Carbatec Oy	Finland	Valkeakoski	88,55	88,55
Metsämarkka 1 Oy	Finland	Hyvinkää	100,00	100,00
Metsämarkka 101 Oy	Finland	Hyvinkää	100,00	100,00
Novalis Oyj	Finland	Helsinki	100,00	100,00
Reka Kaapeli Oy	Finland	Hyvinkää	100,00	100,00
RRR Finland Oy	Finland	Hyvinkää	100,00	100,00
Reka Kabel Ab	Sweden	Gothenburg	100,00	100,00
Reka Kabel AS	Norway	Kolbotn	100,00	100,00
Reka Kabel A/S	Denmark	Roskilde	100,00	100,00
Reka Cables Polska SP.Z.O.O.	Poland	Dopiewo	100,00	100,00
OAO Expokabel	Russia	Podolsk	91,46	91,46
OOO Reka Kabel	Russia	St Petersburg	100,00	100,00
OOO Reka Kabel Holding	Russia	Moscow	100,00	100,00
OOO Reka Rubber	Russia	St Petersburg	100,00	100,00
ZAO Reka Kabel	Russia	Podolsk	90,00	90,00
Reka Cables Baltic OÜ	Estonia	Tallinn	100,00	100,00
Finndomo	Finland	Sonkajärvi	30,30	30,30
Nestor Cables Oy	Finland	Oulu	30,00	30,00

Related-party transactions

Transactions with Reka Group

EUR 1,000	**1-12/2011**	**1-12/2010**
Sales	20	15
Dividends	0	-764
Other purchases	-1 731	-1 516
Interest revenues	13	23

Loan receivables	493	0
Sales receivables and other receivables at end of the period	945	1 467
Finance leases (activated on the balance sheet)	-9 944	-10 983
Other debts at end of the period	-8	-1

Transactions with associates

Sales to Nestor Cables Ltd in 2011 totalled EUR 40,000 (EUR 0 in 2009), and purchases totalled EUR 2,000 (EUR 0). Receivables totalled EUR 3,000 at the end of the financial period (4,000 in 2010).

Transactione with other related parties

EUR 1,000	1-12/2011	1-12/2010
Interest revenues	73	162
Loan receivables	0	2000
Sales receivables and other receivables at end of the period	0	38

Management fringe benefits

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

	2011	2010
Salaries and other short-term employment benefits	341	392
Pension expenses – defined contribution plans	60	68

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

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

31. Major events after the end of the financial period

Reka Cables launched employee cooperation negotiations in January 2012 in order to ensure its competitiveness, considering seasonal changes and sales development. Because of the increased order backlog, the adjustments will be carried out as working-time and holiday adjustments and by partly shifting to four-day workweeks. No layoffs were needed.

Avilon has continued to invest in expanding its special product range. Antimicrobial fibres, in particular, seem to have significant potential in this respect.

The District Court of Pirkanmaa accepted the extension to the deadline by which Avilon must submit its proposed corporate reorganisation programme. The new deadline is 7 May 2012. Working in collaboration with the reorganisation administration, the company seeks to complete its proposed reorganisation programme well before the due date. The goal is to have the reorganisation programme confirmed by the District Court of Pirkanmaa in early autumn 2012 at the latest.

Finndomo will enhance its efficiency by centralising its operations. Its headquarters will be moved from Vantaa to Sonkajärvi, and its financial administration will be relocated from Jyväskylä to Sonkajärvi, where financial planning operations will also be located. The production line in Hartola will operate under the Sonkajärvi plant. The locations in Vantaa, Jyväskylä, Kuopio and Lahti will be closed.

Finndomo filed a petition for corporate reorganisation on 15 February 2012 to ensure the continuity of its operations. The company decided to file for reorganisation after the negotiations on a financial arrangement to ensure its short-term liquidity and normal business continuity miscarried in their final stages.

KEY FIGURES

Key figures from the income statement and balance sheet

EUR 1,000	2011	2010	2009
Net sales	121 186	83 421	69 095
Operating profit	-15 609	-11 040	-5 419
Operating profit %	-12,9	-13,2	-7,8
Profit before taxes	-29 025	-12 765	-4 163
% of net sales	-24,0	-15,3	-6,0
Profit for the financial years	-29 104	-10 591	-3 894
Return on equity, % (ROE)	neg.	neg.	neg.
Return on investment, % (ROI)	neg.	neg.	neg.
Equity ratio, %	12,7	31,7	47,4
Net-debt-to-equity ratio (gearing), %	389,8	107,8	41,6
Investments in tangible assets	1 504	15 241	3 135
Averarge number of employees	605	539	484

Key figures per share (series A and B)	**2011**	**2010**	**2009**
Equity per share, EUR	2,10	5,71	7,59
Earnings per share (EPS), EUR	-4,60	1,76	-0,65
Dividend per share, EUR		0,25	0,25
Dividend/earnings, %	neg.	neg.	neg.
Effective dividend yield, %		4,5	3,7
P/E ratio	neg.	neg.	neg.
Share performance, EUR			
- average quotation	5,87	6,32	5,76
- lowest quotation	2,00	5,40	4,45
- highest quotation	9,43	8,20	6,85
- quotation at the end of the period	2,50	5,60	6,85
Market capitalisation, EUR 1,000	15 292	33 295	40 667
Trading in shares			
B shares	410 027	381 127	278 431
- % of B shares	6,8	6,3	4,6
Adjusted and weighted average number of shares during the year	6 020 360	6 020 360	6 020 360
A shares	139 600	139 600	139 600
B shares	5 880 760	5 880 760	5 880 760
Adjusted number of shares at the end of the period	6 020 360	6 020 360	6 020 360
A shares	139 600	139 600	139 600
B shares	5 880 760	5 880 760	5 880 760

CALCULATION OF KEY FINANCIAL INDICATORS

Return on equity (ROE), %	=	Profit for the period Shareholders' equity (average)	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
Equity ratio, %	=	Shareholders’ equity + minority interest minus deferred tax liabilities Balance sheet total – advances received	x 100
Net-debt-to-equity ratio (gearing), %	=	Interest-bearing liabilities – cash in hand and at bank and other liquid financial and investment securities Shareholders' equity + minority interest	x 10
Earnings per share (EPS), EUR	=	Profit for the period for shareholders of the parent company Number of shares adjusted for share issues (average)	
Equity per share, EUR	=	Shareholders ´equity – minority interest minus deferred tax liabilities Number of shares adjusted for share issues at the end of the financial period	
Dividend per share, EUR	=	Dividend for the financial year Number of shares adjusted for share issues at the end of the financial period	
Dividend per earnings, %	=	Dividend per share Earnings per share	x 100
Effective dividend yield, %	=	Dividend per share Closing price at year-end adjusted for share issues	x 100
P/E ration	=	Closing price at year-end adjusted for share issues Earnings per share	
Market capitalisation	=	(Number of B shares – own B shares) x closing price at year-end + number of A shares x average share price	

PARENT COMPANY INCOME STATEMENT

EUR 1,000	1.1.- 31.12.2011	1.1.- 31.12.2010
Net Sales	463	231
Other operating income	127	
Materials and services	-3	0
Personnel expenses	-729	-409
Depreciation and impairment	-19	-1
Oher operating expenses	-1 163	-1 187
OPERATING PROFIT	-1 322	-1 366
Financial income and expenses	-3 915	2 016
PROFIT BEFORE EXTRAORDINARY ITEMS	-5 238	650
Extraordinary items	550	-485
PROFIT BEFORE TAXES AND APPROPRIATIONS	-4 688	165
Appropriations	-2	0
Taxes	-5	-5
PROFIT FOR THE FINANCIAL YEAR	-4 695	160

PARENT COMPANY'S BALANCE SHEET (FAS)

EUR 1,000			31/12/2011	31/12/2010
ASSETS				
NON-CURRENT FIXED ASSETS				
	Intangible rights		42	0
	Tangible assets		13	3
	Other investments		29 798	29 073
			29 584	29 076
CURRENT ASSETS				
	Long-term receivables		15 232	24 416
	Short-term receivables		10 338	12 141
	Financial market investments		0	2 894
	Cash in hand and at banks		44	3
			25 615	39 454
ASSETS			55 468	68 530
LIABILITIES				
SHAREHOLDERS' EQUITY				
	Share capital		24 082	24 082
	Premium fund		66	66
	Reserve fund		1 221	1 221
	Own shares		-591	-599
	Accrued earnings		7 161	7 001
	Other unrestricted equity		21 327	21 327
	Profit for the financial year		-4 695	160
			48 572	53 258
ACCUMULATED APPROPRIATIONS		15	2	0
MANDATORY PROVISIONS		16	197	0
NON-CURRENT LIABILITIES		17	5 944	2 250
CURRENT LIABILITIES		18	753	13 022
LIABILITIES			55 468	68 530

PARENT COMPANY CASH FLOW STATEMENT (FAS)

EUR 1,000	1.1.-31/12/2011	1.1.-31/12/2010
Cash flow from operations:		
Payments received from operations	753	194
Payments paid on operations	-1 428	-1 505
Paid interests and other financial expenses	-1 968	-125
Received interest and other financial income	1 836	653
Dividends received	0	140
Direct taxes paid	-7	70
Cash flow from operations	**-814**	**-573**
Cash flow from investments:		
Investments in tangible non-current assets	-49	0
Proceeds from sales of tangible non-current assets	25	0
Investments in intangible non-current assets	-53	0
Acquisition of subsidiaries' shares	-242	-6 502
Acquisition of associates' shares	-2 982	-6 000
Withdrawals from other financial assets	2 895	7 443
Investments in other financial assets	0	-3 000
Loans granted	-16 047	-5 297
Repayment of loan receivables	26 957	6 981
Cash flow from investments	**10 503**	**-6 375**
Cash flow from financing:		
Acquisition of own shares	0	-217
Sales of own shares	8	0
Increase in loans	6 514	14 583
Decrease in loans	-15 685	-5 878
Dividends paid and other profit	0	-1 483
Group contributions paid and received	-485	-770
Cash flow from financing	**-9 648**	**6 235**
Change in liquid assets	**41**	**-714**
Liquid assets at the beginning of the year	3	717
Liquid assets at the end of the year	**44**	**3**

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS (FAS)

ACCOUNTING POLICIES

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

Valuation principles

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

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

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

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

Comparability of the profit

Profit for the period is comparable to that for the previous financial year.

Comparability of data from the previous financial period

The data for the current and previous financial year are comparable.

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 income statement:

1. Net sales

EUR 1,000	**2011**	2010
Net sales from consulting and management services	463	231
	463	231

2. Other income from operations

EUR 1,000	**2011**	2010
Rent income from Group companies	60	0
Other rent income	63	0
Other income	4	0
	127	0

3. Personnel expenses

EUR 1,000	**2011**	2010
Salaries and wages	621	353
Pension expenses	89	46
Other personnel expenses	18	10
	729	409

Of which salaries and fees to the management		
Board of Directors	105	98
Johto	223	126
	328	224

Fees paid to auditors

The amounts are included in other operating expenses	**2011**	2010
Audit of the annual accounts	90	32
Other services	28	19
	118	51

4. Depreciation and impairment

	2011	2010
Depreciation from machinery and equipment	8	1
Depreciation from intangible rights	11	0
	19	1

5. Financial income and expenses

Financial income, EUR 1,000	**2011**	2010
Dividend income from Group companies	170	140
Interest and financial income from Group companies	1 376	1 548
Other interest and financial income	181	635
	1 727	2 323
Financial expenses		
Interest and financial expenses to Group companies	-209	-197
Other interest and financial expenses	-2 933	-109
	-3 142	-306
Total financial income and expenses	-1 415	2 017

6. Extraordinary items/income (+)**, expenses** (–)

EUR 1,000	**2011**	2010
Group contributions granted	0	-485
Group contributions received	550	0
Total extraordinary items	550	-485

7. Taxes on income

EUR 1,000	**2011**	2010
Income tax	-5	-5
Other taxes	0	0
Total taxes	-5	-5

Notes to the balance sheet

8. Intangible rights

Intangible rights, EUR 1,000	**2011**	2010
Acquisition cost 1/1	0	0
Investments	53	0
Accumulated depreciation	0	0
Depreciation according to plan	-11	0
Acquisition cost 31/12	42	0

9. Tangible assets

Machinery and equipment, EUR 1,000	**2011**	2010
Acquisition cost 1/1	5	5
Investments	49	0
Decreases	-31	0
Accumulated depreciation	-2	-1
Depreciation according to plan	-8	-1
Acquisition cost 31/12	13	3

10. Other investments

EUR 1,000	**2011**	2010
Acquisition cost 1/1	29 073	16 571
Investments	3 225	12 502
Acquisition cost 31/12	32 298	29 073

11. Non-current receivables

EUR 1,000	**2011**	2010
Loan receivables from Group companies	0	10 000
Subordinated loan receivables from Group companies	13 600	13 600
Interest receivables from the Group	1 632	0
Other non-current receivables	0	816
Total	15 232	24 416

12. Current receivables

EUR 1,000	**2011**	2010
Sales receivables	0	37
Sales receivables from Group companies	47	44
Loan receivables	40	2 309
Loan receivables from Group companies	8 700	8 596
Interest receivables from Group companies	302	651
Other receivables, Neo Industrial Group	720	0
Accruals	529	504
Tax receivables from advance taxes		
Total	10 338	12 141

Accrued receivables

EUR 1,000	**2011**	2010
Scheduled interest and other financial receivables	0	8
Accrued receivables from Group companies	373	355
Other accrued receivables	156	141
Total	529	504

13. Financial securities and term deposits

EUR 1,000	**2011**	2010
Market value	0	2 894
Book value	0	2 894
Surplus value	0	0

14. Shareholders' equity

EUR 1,000	**2011**	2010
Share capital 1/1		
Series A	558	558
Series B	23 524	23 524
Share capital 31/12	24 082	24 082
Premium fund 1/1	66	66
Premium fund 31/12	66	66
Reserve fund 1/1	1 221	1 221
Reserve fund 31/12	1 221	1 221
Own shares 1/1	-599	-381
Sales of own shares	8	0
Acquisition of own shares	0	-217
Own shares 31/12	-591	-599
Accrued earnings 1/1	7 161	8 484

Dividend paid	0	-1 483
Accrued earnings 31/12	7 161	7 001
Other unrestricted equity 1/1	21 327	21 327
Other unrestricted equity 31/12	21 327	21 327
Profit for the financial year	-2 195	160
Shareholders' equity 31/12	51 071	53 258

Parent company's restricted share capital by series

	2011		2010	
	Number	Share capital, EUR 1,000	Number	Share capital, EUR 1,000
Series A (20 votes per share)	139 600	558	139 600	558
Series B (1 vote per share)	5 880 760	23 524	5 880 760	23 524
	6 020 360	24 082	6 020 360	24 082

15. Accumulated appropriations

EUR 1,000	**2011**	2010	Change
Difference between scheduled depreciation and that in accordance with the Act on Taxation of Business Income	2	0	2

16. Mandatory provisions

EUR 1,000	**2011**	2010
Rental loss provision	197	0

17. Non-current liabilities

EUR 1,000	**2011**	2010
Loans from financial institutions	0	2 250
Convertible bonds	5 031	0
Derivative liabilities	913	0
Total	5 944	2 250

18. Current liabilities

EUR 1,000	**2011**	2010
Loans from financial institutions	0	500
Accounts payable	144	30
Accounts payable to Group companies	72	0
Accrued liabilities	537	310
Short-term loans to Group companies	0	12 182
Total	753	13 022

Essential items under accrued liabilities

EUR 1,000	**2011**	2010
Allocated personnel expenses	97	46
Other accrued liabilities	440	264
Total	537	310

19. Contingent liabilities

EUR 1,000		**2011**	2010
	Guarantees given on behalf of	17 171	16 113
	Total	17 171	16 113

Leasing and rental liabilities

EUR 1,000		**2011**	2010
	Maturity of under 1 year	146	175
	Maturity of 1 to 5 years	666	640
	Maturity of over 5 years	2996	3040
	Total	3808	3855

20. Derivative contracts

EUR 1,000	**2011**	2010
Nominal value		
Financial derivative	0	0
Fair value		
Financial derivative	-913	0

The loan, which is partly tied to the company’s share performance, is valued at the end of each quarter using the Black-Scholes model. The option is recognised at fair value in the balance sheet.

21. Additional information for shareholders

Neo Industrial Plc has a total of EUR 2.4 million in receivables from Avilon Ltd. Of this total, EUR 2.2 million is largely based on actualised guarantee liabilities, which were recognised in expenses. The outstanding receivables (EUR 0.2 million) on the balance sheet involve guarantee liabilities. If the full amount outstanding on 31 December 2011 had been recognised as a write-off, the company’s equity ratio would have been 86.0%. In addition, the company has a total of EUR 7.2 million of guarantee liabilities related to Avilon Ltd. These are included in the liabilities in note 19.

BOARD’S PROPOSAL TO THE ANNUAL GENERAL MEETING

The parent company’s distributable funds on 31 December 2011 amounted to EUR 23,793,615.36, of which loss for the financial period was EUR 4,694,521.98. The Board proposes to the Annual General Meeting that no dividends be paid for 2011.

Helsinki, 28 February 2012

Matti Lainema
Chair

Pekka Soini

Ilpo Helander

Risto Kyhälä

Taisto Riski

Raimo Valo

Markku E. Rentto
Managing Director

NOTES TO THE FINANCIAL STATEMENT

We have issued the auditor’s report today.

Helsinki, 5 March 2012

Ernst & Young Oy
Authorised Public Audit Firm

Heikki Ilkka
APA

Auditor's Report

To the Annual General Meeting of Neo Industrial Plc

We have audited Neo Industrial Plc's accounts, financial statements, report of the Board of Directors and administration for the period between 1 January and 31 December 2011. The financial statements include the Neo Industrial Group's balance sheet, income statement, consolidated statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and notes to the financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibilities of the Board of Directors and Managing Director

The Board of Directors and the Managing Director are responsible for preparing the consolidated financial statements and the report of the Board of Directors and for providing accurate and sufficient information in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. They are also responsible for ensuring that the financial statements and the report of the Board of Directors provide accurate and sufficient information in accordance with the related regulations in Finland. The Board of Directors is responsible for ensuring that accounting and asset management are monitored appropriately. The Managing Director is responsible for ensuring that accounting complies with legislation and that asset management has been organised in a reliable manner.

Auditor's responsibilities

Based on the auditing of the accounts, the auditor is obliged to issue a statement on the financial statements, consolidated financial statements and the report of the Board of Directors. The Auditing Act requires auditors to perform the audit in compliance with the principles of professional ethics. We have completed the audit in accordance with the Finnish Standards of Auditing, which require that we plan and perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement and whether the members of the Board of Directors or the Managing Director of the parent company are guilty of an act or negligence that may result in a liability for damages towards the company or have violated the Limited Liability Companies Act or the company's articles of association.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements 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 internal control in the company. An audit also includes evaluating the overall presentation of the financial statements as well as evaluating whether appropriate accounting policies have been used and whether the estimates made by management are reasonable.

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

Opinion on the consolidated financial statements

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 the International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of the Group's and the parent company's financial performance and financial position in compliance with the regulations governing the preparation of financial statements and reports of boards of directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Other opinions

Without adjusting our statement, we would like to call attention to note 2 (“Accounting policies”) and note 25 (“Financial risk management”). The financial statements have been prepared on the assumption that the entity is a going concern. The continuity of the company’s operations requires that it be able to acquire additional funding and renegotiate payment terms during 2012. Negotiations with financiers, suppliers and customers are in progress, and the company’s management believes these negotiations will be successful. If the company fails to secure additional funding, it is possible that it will not be able to liquidate its assets quickly enough or to a sufficient degree and repay its loans in ordinary business operations. This would jeopardise the continuity of the company’s operations in their current form.

Helsinki, 5 March 2012
Ernst & Young Ltd
Authorised Public Audit Firm
Heikki Ilkka
APA

SHAREHOLDERS ON 31 DECEMBER 2011

Largest shareholders	A shares	B shares	Total	Proportion of equity, %	Proportion of votes, %
1. Reka Ltd	39 400	2 916 387	3 055 787	50,76	65,77
2. Onninen-sijoitus Oy		250 000	250 000	4,15	2,88
3. CAG Management Oy		105 305	105 305	1,75	1,21
4. Neo Industrial Plc		91 727	91 727	1,52	1,06
5. Finnfoam Oy		61 512	61 512	1,02	0,71
6. Evli Wealth Manager		40 000	40 000	0,66	0,46
7. Sr Arvo Finland Value		14 776	14 776	0,25	0,17
8. Seneca Oy		13 500	13 500	0,22	0,16
9. Salaojituksen Tukisäätiö		13 280	13 280	0,22	0,15
10. Matti Lainema		12 700	12 500	0,22	0,16

Ownership by type of shareholder

Type of shareholder	Number of shareholders	Proportion of share-holders, %	Number of shares	Proportion of shares, %	Proportion of votes, %
Companies	275	2,2	3 809 945	63,2	74,5
Financial and insurance institutions	39	0,3	42 850	0,7	1,1
Public organisations	71	0,6	46 540	0,8	0,5
Households	11 639	94,7	1 757 383	29,2	20,3
Non-profit organisations	263	2,1	178 451	3,0	2,0
Outside Finland	6	0	16 076	0,3	0,2
Nominee registered			57 078	0,9	0,6
Joint account			112 037	1,9	1,3
Total	12 293	100	5 880 760	100	100
Amount issued			6 020 360	100	100

Ownership by the amount held

Number of shares	Number of shareholders	Proportion of share-holders, %	Number of shares	Proportion of shares, %	Proportion of votes, %
1–50	5 598	45,5	162 799	2,7	1,9
51–100	3 252	26,5	285 166	4,7	3,3
101–1 000	3 118	25,4	963 922	16,0	11,1
1 001–10 000	307	2,5	712 433	11,8	8,2
10 001–100 000	18	0,1	3 784 003	62,9	74,2
Total	12 293	100	5 908 323	98,1	98,7
of which nominee registered	3		57 078	0,9	0,6
Joint account			112 037	1,8	1,2
Amount issued			6 020 360	100	100

Management's shareholding
The Members of the Board, CEO and CFO directly owned and controlled a total of 2,965,162 of Neo Industrial's B shares on 31 December 2011. Neo Industrial held 91,727 of its own shares on 31 December 2011.

Shares and share capital
Neo Industrial Plc's share capital was EUR 24,081,440 on 31 December 2011. 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 represent 2,792,000 votes and B series represent 5,880,760 votes. The total number of shares includes 92,727 B shares owned by Neo Industrial. The company's Articles of Association do not include any redemption clauses. There are no shareholder agreements.