



NEO

**Industrial
2010**



Neo Industrial

Neo Industrial is a Finnish industrial investment and development company. Its strategy is to invest in synergistic companies and develop them systematically over the long term, increasing the return on invested capital.

An investment in Neo Industrial is an excellent investment in promising unlisted companies. Neo Industrial's B share is listed on the main market of NASDAQ OMX Helsinki.

STRATEGY

Our strategy is to make long-term investments in industrial companies. By further developing these companies, we aim to improve the return on invested capital through dividend streams and increase in value.

GOALS

- to improve Neo Industrial's profitability through successful investments
- to increase share value and tradability

WE INVEST IN

- companies that manufacture semi-finished and finished products
- industrial companies that have similar operational principles as well as mutual synergies in sales, marketing and distribution
- industrial companies with significant growth potential in their field

EXIT STRATEGY

We hold our investments until we are no longer able to increase the value of the company.

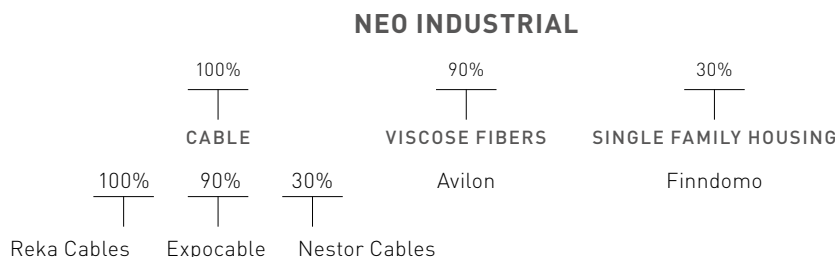
KEY FIGURES

	2010	2009
Net sales (EUR million)	83.4	69.1
• Cable	83.4	69.1
• Viscose Fibers*	0.0	0.0
• Other operations and eliminations	0.0	0.0
Operating profit (EUR million)	-11.0	-5.4
• Cable	-2.9	-4.1
• Viscose Fibers*	-6.7	0.0
• Other operations and eliminations	-1.4	-1.3
Share of the results of associates**	-1.3	-0.2
Operating result	-10.6	-3.9
Earnings/share (EUR)	-1.76	-0.65
Return on investment	-12.7 %	-3.0 %
Equity ratio	31.7 %	47.4 %

* Since September 2010.

** Includes Finndomo since May 2010.

WE BECAME A MULTI-INDUSTRY COMPANY IN 2010



PICTURED

Cable is Neo Industrial's largest segment, consisting of investments in three companies. Reka Cables, one of Finland's largest cable manufacturers, is owned entirely by Neo Industrial.

Solid growth in sight

THE YEAR 2010 MARKED MAJOR CHANGES FOR NEO INDUSTRIAL. WE BECAME A MULTI-INDUSTRY COMPANY, INVESTING STRONGLY IN FUTURE GROWTH, WHICH IS REFLECTED IN OUR KEY FIGURES. THE ROAD TO GROWTH REQUIRES COURAGE AND TRUST IN THE CHOSEN DIRECTION, AND WE HAVE BOTH.

In line with our strategy, Neo Industrial became a multi-industry company in 2010. In April, we invested in a 30 percent share of Finndomo, the leading Nordic manufacturer of prefabricated wooden homes. In September, we bought a viscose fiber plant in Valkeakoski from the bankruptcy estate of Kuitu Finland.

We believe Finndomo has great potential in the growing market for prefabricated homes. For this reason, we made an additional investment in the company in February 2011. After a long struggle with profitability, the company is showing clear signs of a turnaround. Finndomo's operations in Finland are already profitable, and restructuring will further improve its performance.

Avilon began to produce viscose fiber in January 2011, offering excellent growth opportunities for Neo Industrial. The start-up investments for the plant have been made, production is at full speed, and the market seems promising. In addition to viscose fiber, Avilon produces fire-retardant fiber.

We can expect a good result from Avilon this year. The rapid growth in net sales is a positive challenge for the company. It has been rewarding to see that customers who visit the Valkeakoski plant find the fire-retardant Avilon fiber to be world-class.

This is a solid foundation for future success. The steep rise in the price of cotton, and the consequent problems with the price and availability of dissolving pulp, caught us by surprise, and our

organisation is still managing the after-effects. The demand for viscose fiber, however, is clearly increasing. It is entirely possible that we will already be expanding production in 2011.

In 2010, we also invested in the recovering cable business. Sales began to grow strongly in the fourth quarter, and net sales increased by 45 percent compared to 2009. All markets, including Russia, promise growth in 2011. The investments in Neo Industrial's Cable segment, as well as its restructuring, enable significant increases in production volumes.

Our road to success requires a great deal from our Board of Directors and management as well as our cash balance. Our Cable and Viscose Fibers segments are dependent on raw materials, and the management of price fluctuations presupposes successful risk management. Although our financing situation is difficult at present, the outlook for 2011 is favourable.

Now, even more than before, Neo Industrial offers interesting and rewarding opportunities to invest in promising unlisted companies. During these times of global competition, we are proud to say that we are a distinctly Finnish industrial investor and developer. For us, owners and investors are important stakeholders, and our strategy is to create profitable business and increase the value and liquidity of our share through active ownership.

Markku E. Rentto
MANAGING DIRECTOR
NEO INDUSTRIAL PLC

PICTURED

Managing Director Markku E. Rentto speaks for active ownership. Neo Industrial's shareholders contribute to new business and industrial development in Finland.





A turn for the better in Cable

THE MARKET FOR NEO INDUSTRIAL'S LARGEST SEGMENT, CABLE, IMPROVED TOWARDS THE END OF THE YEAR, AS DID PROFITABILITY. REKA CABLES, THE SEGMENT'S PRINCIPAL COMPANY, PRODUCES INSTALLATION, CONTROL, INSTRUMENTATION AND POWER CABLES FOR INDUSTRY, CONSTRUCTION AND ELECTRICITY SUPPLY.

Reka Cables is among the largest cable manufacturers in Finland. Our main markets are the Nordic and Baltic countries and Russia, and most of our customers are electrical wholesalers who supply cables to, for example, electrical contractors. Our Finnish plants are located in Hyvinkää, Keuruu and Riihimäki. Infrastructure development supports the segment's steady growth: cables are needed wherever electricity and data are transferred. Reka Cables' competitive strengths include flexible deliveries and high-quality customer service.

Our key figures for 2010 were better than those for the previous year, but the market remained challenging. Towards the end of the year, the segment enjoyed an upturn in sales and profitability. The testing equipment breakdown at the Riihimäki plant in June, however, significantly affected Reka Cables' sales and performance.

In Finland, the demand for construction cables revived in late 2010, and the electrical wholesale market grew slightly. The cable market also improved in other Nordic countries, Russia, Estonia and Lithuania. Sales in Russia grew compared to 2009, despite the effects of the mechanical failure in Riihimäki.

Until now, part of the raw materials for the segment's Russian plants has been transported to Finland for processing and then back to Russia for finishing. In 2010, however, Russia decided to cancel the exemption from duty on metals, so our operating model in Russia is likely to change this year.

The sharp rise in the prices of aluminium and copper posed

a significant challenge in 2010. We aim to control the situation through hedging and working capital management. The rise in the price of copper had the strongest effect on our Keuruu plant, where copper-based products constitute about 90 percent of the manufacture of installation cable products. To ensure short delivery times, we decided to move our copper wiredrawing operations from Hyvinkää to Keuruu. The Keuruu plant now serves the growing needs of construction more effectively than before.

Our Hyvinkää and Keuruu plants were well utilised after the market picked up in the summer. Our Riihimäki plant recovered from the breakdown, regaining delivery reliability. Expanded in 2008, this modern production plant is ready for rapidly increasing demand.

The segment's companies also include Nestor Cables, a manufacturer of telecommunications and fiber-optic cable. In 2010, the company's net sales grew by as much as 45 percent to EUR 29.0 million (19.9 million in 2009).

The market for the Cable segment improved in late 2010, as did profitability. In addition, significant non-recurring costs caused by production restructuring have largely been eliminated. We are convinced that the Cable segment will record a positive result in 2011.

Jorma Haapanen
DIRECTOR, SALES AND MARKETING
REKA CABLES LTD

PICTURED

Jorma Haapanen, Director of Sales and Marketing at Reka Cables, believes in flexible, high-quality customer service. Infrastructure development supports the growth of Neo Industrial's Cable segment.





A new beginning for Viscose Fibers

NEO INDUSTRIAL'S VISCOSE FIBERS SEGMENT WAS ESTABLISHED IN SEPTEMBER 2010 WHEN THE GROUP ACQUIRED A PRODUCTION PLANT IN VALKEAKOSKI FROM THE BANKRUPTCY ESTATE OF KUITU FINLAND LTD.

Established in 1936 as Kuitu Ltd, and later known as Säteri, Kuitu Finland was declared bankrupt in 2008. Neo Industrial acquired its production premises and the related leases, as well as movables and immaterial property rights, for EUR 10 million. Neo Industrial owns 90 percent of the new company.

The start-up costs of the Viscose Fibers segment were entered as expenses in the financial statements for 2010. Combined with the expenses of postponing the launch of production until January 2011, the start-up costs totalled EUR 6.7 million at the end of 2010. This constituted the segment's operating loss. The segment had no sales in 2010. Most of the costs were incurred in the fourth quarter of the year, and no significant costs are expected for 2011.

The new company was named after its brand. Ailon Ltd began operation in the autumn of 2010. By the end of the year, we had hired 135 people, mostly former employees of Kuitu Finland. In addition, the production plant employs about 80 people through subcontractors.

Ailon manufactures ordinary viscose fiber for the textile industry. It also produces fire-retardant viscose fiber, which is increasingly used in home and office furniture and vehicle interiors. We sell most of our ordinary viscose fiber to China, and our main market for fire-retardant fiber is the United States.

Ailon intended to begin production in December 2010, but the launch was delayed because of low availability of dissolving pulp, the main raw material. For a long while now, the

historic rise in the price of cotton and oil has been increasing the demand for, and the price of, dissolving pulp. At the same time, however, this serves as a foundation for Ailon's success: the rising prices of cotton and oil-based synthetic fibers boost the demand for viscose. We were able to ensure the availability of dissolving pulp in December, and production was launched successfully in January 2011. More production capacity for dissolving pulp is being built in Sweden and Canada, among other countries, which will further improve availability.

Efficient production, high quality and competent staff are the keys to Ailon's success in the fiber business. We also aim to lead the way in sustainable development by creating innovative technologies and products. You can read more about research and development at Ailon on page 12.

Ailon's current production capacity is about 30,000 tonnes of fiber per year. Our Valkeakoski plant has two production lines, one of which is currently operative. As demand increases, the launch of the second line only requires moderate investment. Based on earlier production at the plant, Neo Industrial estimates that, with one production line, Ailon can achieve net sales of about EUR 80 million in 2011. Ailon's successful start to 2011 means that this promises to be a positive and profitable year.

Heikki Hassi
MANAGING DIRECTOR
AVILON LTD

PICTURED

Heikki Hassi, Managing Director of Ailon Ltd, believes that efficiency, high quality and competent staff are the keys to success. Ailon also develops new, environmentally friendly viscose technology.



FINNDOMO

Revived demand for Single Family Housing

IN APRIL 2010, NEO INDUSTRIAL INVESTED IN A 30 PERCENT SHARE OF FINNDOMO LTD, THE LEADING NORDIC MANUFACTURER OF PREFABRICATED WOODEN HOMES. WITH THIS INVESTMENT, NEO INDUSTRIAL ESTABLISHED A NEW SEGMENT: SINGLE FAMILY HOUSING.

Finndomo develops, manufactures and markets wooden homes for small-house builders. Its brands are FinndomoKoti, Omatalo and Kotitalo in Finland and Hjärtevadshus and Modulenthus in Sweden. Based on customers' needs, the company delivers turnkey solutions and modular homes. Cost-efficient industrial production enables it to offer customer-orientated solutions at competitive prices. Recent market trends support its operating method: in addition to high quality, customers want customised solutions at affordable prices.

The revived small-house manufacturing market was reflected in increased orders and market shares for Finndomo in Finland and Sweden in 2010. The company strengthened its consumer brands by centralising the house packages distributed by K-rauta building and home improvement stores under the Omatalo brand. In addition, Finndomo entered into an agreement with Rautakesko on manufacturing Kotitalo homes to be sold by Rautia, a nationwide hardware and builders' supplies store chain. Finndomo also launched the FinndomoKoti brand, which consists of a selection of small houses sold directly by the company as well as its regional building projects.

Finndomo is the leading small-house supplier in regional building projects in Finland. Launched in the summer of 2010, the Myllykylä project in the Myllypuro district in Helsinki

consists of 125 apartments, the first of which were completed in the fourth quarter of 2010. In 2011, Finndomo will build 20 apartments in the Sundsberg district in Kirkkonummi. In addition, the company is contributing to many other projects that will be completed in 2011 and 2012.

Finndomo's production plants in Hartola and Sonkajärvi in Finland were well utilised in 2010. One of the company's production plants in Sweden, however, was closed temporarily, and production was optimised at its Hjärtevad and Hässleholm plants. Finndomo continued to harmonise its structural and design systems. This enabled the company to centralise the production of its more simple, traditional houses in Hjärtevad and other models in Hässleholm.

Finndomo's net sales increased in 2010. Although the company still operated at a loss, its result improved considerably compared with 2009. We will continue to enhance the efficiency of our operations in 2011. The small-house manufacturing market is projected to develop favourably in 2011, and we strongly believe that Finndomo's profitability will continue to improve.

Pertti Lehti
MANAGING DIRECTOR
FINNDOMO LTD

PICTURED

Pertti Lehti, Managing Director of Finndomo, wants to offer high quality at affordable prices in the market for prefabricated homes. The demand for customised solutions is increasing.

Avilon develops a cleantech innovation

THE GROWING NEED FOR CELLULOSE-BASED FIBERS ENSURES HIGH DEMAND FOR AVILON'S PRODUCTS. AVILON IS DEVELOPING A CLEANTECH INNOVATION THAT HAS THE POTENTIAL TO RADICALLY IMPROVE THE ENVIRONMENTAL SUSTAINABILITY AND COST-EFFICIENCY OF VISCOSE FIBER PRODUCTION.

Neo Industrial's newest segment, Viscose Fibers, manufactures cellulose-based fibers under the business name Avilon Ltd. The segment was established at a perfect time: the global demand for viscose and other cellulose-based fibers has increased significantly because of the rising prices of cotton and oil.

In addition to succeeding as a manufacturer, Avilon aims to fill a technology void. This global void is caused by fiber manufacturers' reluctance to invest in viscose technologies that use carbon disulphide, a toxic and explosive substance.

UREA REPLACES CARBON DISULPHIDE

In viscose fiber production, carbon disulphide is used to dissolve cellulose in sodium hydroxide to make a viscous solution that is forced through a sieve into a spinning acid bath. The acid solidifies the solution, and the fine filaments are cut into pieces of appropriate length.

Over the past two decades, nearly all viscose production has been discontinued in Western countries because of increasingly strict environmental regulations regarding the storage and handling of carbon disulphide. The investments needed for compliance have proven to be too large for many companies. Avilon has made these investments. In addition to Avilon, the only European companies that manufacture viscose are Lenzing in Austria and Sniace in Spain.

VTT Technical Research Centre of Finland has granted Avilon a patent license for developing a new process to make viscose-like fibers from cellulose. Instead of carbon disulphide, this carbamate process uses urea and new solutions to

dissolve cellulose in sodium hydroxide. Appropriate use of carbon disulphide in Avilon's plant in Valkeakoski requires no additional investments. Nonetheless, the company and the environment will benefit greatly from the new production process, which has the potential to reduce energy consumption by 40 percent and the need for expansion investments by more than 30 percent.

AVILON LEADS THE WAY

The products manufactured using the new process will be environmentally friendly and sustainable. The carbamate process can be used to manufacture all of Avilon's present products; only the production of the most demanding fire-retardant fibers needs additional development. The process will also enable the production of new types of fiber products. Cellulose carbamate, the intermediate product of the new process, is stable. This makes it storable, transportable and sellable, which are significant advantages over the carbon disulphide process.

In the future, Avilon can sell the technology it has developed and make it a new standard in the field. In addition to perfect timing, Avilon has decades of experience on its side, giving the company a technological edge over the competition. Avilon's production plant is fully equipped to develop carbamate and other fiber technologies.

The work to develop carbamate technologies has already moved beyond research laboratories. Since the beginning of 2011, Avilon has been testing the new process in its Valkeakoski plant. According to the current estimates, Avilon will be able to put the carbamate method into commercial use in 2013.

PICTURED

VTT has granted Avilon a patent license for developing a new process to make viscose-like fibers from cellulose, without using carbon disulphide. Since the beginning of 2011, Avilon has been testing the new process in its Valkeakoski plant.



Corporate governance and communications

Neo Industrial's administration is based on Finnish law and the company's Articles of Association. The company adheres to the Finnish Corporate Governance Code issued by the Securities Market Association in October 2008. It also complies with the regulations and recommendations for listed companies issued by the Financial Supervisory Authority as well as the NASDAQ OMX Helsinki regulations and insider instructions. Neo Industrial's corporate governance statement for 2010 is available on the company's website.

ANNUAL GENERAL MEETING

The general meeting is the company's highest decision-making body. Held once a year, the Annual General Meeting (AGM) deals with issues laid down in the Companies Act and the company's Articles of Association. For example, the meeting approves the financial statements and decides on dividend distribution and any changes in the Articles of Association. It also elects the chair, vice chair and other members of the Board of Directors, as well as the auditors, and decides on their remuneration.

BOARD OF DIRECTORS

According to the company's Articles of Association, Neo Industrial's Board consists of three to seven regular members and a maximum of three deputy members. The term of a membership begins after the AGM and normally expires at the close of the following AGM. The Board is responsible for the proper organisation of the administration and operations of the company. It also considers and decides on all major matters concerning operations. The Board appoints the managing director. In 2010, the Board of Directors met 16 times. The participation rate of the members was 92 percent. The members of the Board are presented on the company's website.

AUDIT COMMITTEE

The audit committee members and chair are appointed annually by the Board. The audit committee monitors the company's financial position, supervises financial reporting and evaluates the adequacy and appropriateness of internal supervision and risk management. It also evaluates compliance with laws and regulations, maintains contact with the auditor, examines the auditor's reports and evaluates any advisory services supplied by the auditor. The audit committee prepares the Board's proposal to the AGM concerning the appointment of the external auditor. The audit committee reports to the Board. In 2010, the audit committee convened four times. The participation rate of the members was 100 percent.

MANAGING DIRECTOR

Elected by the Board of Directors, the managing director is responsible for the day-to-day management of the company according to the instructions and orders issued by the Board. The managing director must ensure that the company's books comply with the law and that financial matters are handled in a reliable manner. The managing director is in charge of the

company's investment activities. The managing director is not a member of the Board.

INTERNAL SUPERVISION AND RISK MANAGEMENT

Internal supervision and risk management aim to ensure that the company operates efficiently and successfully, that the information given is reliable, and that appropriate regulations and operating principles are followed. The Board carries the ultimate responsibility for the supervision of bookkeeping and financial management, and the managing director is in charge of the practical organisation of the supervision system and risk management. The company's financial situation and progress are monitored monthly, and the information is published in the annual report and interim reports.

INTERNAL AUDIT

The Board has established an audit committee subordinate to the Board to carry out the company's internal audit. The operational internal audit is mainly undertaken using internal resources. Outside experts are used on a project basis.

INSIDER ADMINISTRATION

Neo Industrial complies with the Guidelines for Insiders issued by the NASDAQ OMX Helsinki. According to the law, the members of the Board, the managing director and the auditors are considered permanent insiders of the company and are registered in the company's public insider register. All employees of Neo Industrial are listed as permanent insiders in the company's public insider register. Other employees in the group handling key information are registered in the non-public company-specific insider register. The company maintains its insider register in the Netsire system of Euroclear Finland Ltd.

EXTERNAL AUDIT

The Annual General Meeting on 9 June 2010 elected Ernst & Young Ltd, Authorised Public Accountants as the company's auditor, with Heikki Ilkka, Authorised Public Accountant as responsible auditor.

COMMUNICATION

The goal of Neo Industrial's communication is to support the company's business strategy and increase interest in Neo Industrial as an investment and developer. The main objective of financial communication and Investor Relations is to provide sufficient information to the capital markets in order for them to make a well-founded assessment of Neo Industrial as an investment and as accurate a valuation as possible of Neo Industrial's shares and liquidity. Investor Relations supports value generation by providing correct and timely information about Neo Industrial's strategy, objectives, business operations, financial situation and operating environment. Neo Industrial is committed to open, comparable, consistent and proactive communication.

Investor information

ANNUAL GENERAL MEETING AND DIVIDEND PAYMENT

Neo Industrial's annual general meeting will be held on 30 March 2011 at 1 p.m. in Helsinki. Further information about the meeting will be provided closer to the event on the company's website. The Board of Directors will propose to the annual general meeting that it be authorised to decide on a dividend payment of a maximum of EUR 0.25 per A and B share.

BASIC SHARE INFORMATION

Neo Industrial's B shares are listed on the main market of NASDAQ OMX Helsinki (small companies, finance sector).

- Trading code: NEO1V
- ISIN code FI0009800296
- Number of shares: 5 880 760 B shares
- Voting allocation: 1 vote/share
- Share capital on 31 December 2010: 24 082 000 (A and B shares in total)

INVESTOR RELATIONS

Neo Industrial observes a 3-week silence period: company representatives do not comment on the company's results for 3 weeks before the publication of an interim report or the financial statements.

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FINANCIAL CALENDAR IN 2011

Neo Industrial will publish three interim reports in 2011 as follows:

- January–March on 5 May 2011
- January–June on 4 August 2011
- January–September on 10 November 2011

Neo Industrial's financial reviews are published in Finnish and English. The reviews are available on the company's website immediately after publication.

CHANGE OF ADDRESS

Shareholders should notify their book-entry securities account operator of address changes. Neo Industrial does not keep a record of the addresses of its shareholders.

CONVERSION OF SHARE CERTIFICATES TO BOOK-ENTRY SECURITIES

Conversion of Neo Industrial's share certificates into book-entry securities was carried out on 29 November 1997. Shareholders who still have printed share certificates are kindly requested to convert them to book-entry securities. Only shares that are in the form of book-entry securities receive dividends. More information concerning the conversion is available from any Osuuspankki branch. The shareholder is responsible for any costs arising from the conversion. The following shares have conversion rights:

- Metsämarkka B share certificates dated 1 February 1996 or later
- Metsä-Pohja shares (must first be converted to Metsämarkka shares with Neo Industrial)
- Lännen Metsä B shares dated 17 August 1994 or later
- Sijoitus Forestia A shares dated 9 August 1989 or later

For more investor information, please visit www.neoindustrial.fi.

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