

# Synergic Industrial Investments

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## Neomarkka in Brief

Neomarkka Plc is an investment company that invests mainly in industrial companies that offer synergistic advantages. The objective is through active ownership to develop purchased companies and add value to them. Return on the investments is generated through dividends and capital growth. The company may also invest in listed and unlisted securities and in real estates. Neomarkka's B shares are quoted on the main market of the NASDAQ OMX Helsinki.

The importance of the transmission of electricity and data in the world is increasing all the time as new applications and innovations are adopted in industry, at home and in the workplace. Neomarkka's investments at the moment have all been made in the cable industry. Cables are needed everywhere where electricity and bit move such as in building infrastructure and communication networks. In Neomarkka's view the largest growth potential is to be found in Russia.

### Dividend Policy

Neomarkka's target is to use at least 30% of its annual net profit for dividend payments.

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This brochure includes a summary of Neomarkka Plc's financial information.

The Official/complete annual report has been published in a separate review and can also be seen on Neomarkka's website.

## Managing Director's Review

We have succeeded in implementing our new strategy during the last year. We have strengthened cable activities and our position in Russia through corporate acquisitions, and in the spring of 2008 we sold all of the remaining high risk securities we owned.

The financial results however were clearly below the objectives set. The year began strongly and demand for all products and on all markets was good. The world markets for aluminium and copper have been volatile throughout the year, but the collapse in prices at the end of the year, the delays in the installation of new equipment at the Riihimäki factory and the additional costs resulting from that, as well as the weakening of the ruble that started at the end of the autumn, had a significant effect on operating profit.

Neomarkka's turnover was EUR 116.2 million, almost at the EUR 120 million level of turnover estimated in the outlook for the future. The decline in metals' prices put a burden of over EUR 5 million on operating profit of which a good EUR 4 million was incurred in the fourth quarter.

The cable industry's operating profit was slightly positive, but including the losses from investments in securities, Neomarkka's operating loss for the financial year was EUR -1.3 million and the loss for the financial year was EUR -4.9 million.

The result for the financial year was a disappointment and to a large extent the consequence of a general exceptionally fast weakening of markets around the world, which is seen in Neomarkka's results in the weakening of raw material prices and the weakening of the ruble.

### Strategy implemented consistently

In accordance with Neomarkka's strategy, we invest in industrial companies. The objective is through successful investment activity and active ownership to develop purchased companies and increase the value and liquidity of shares.

The company's first industrial sector is the cable industry of which Reka Cables, acquired in June 2007, is the backbone. In October of the same year we invested in a 30% share of Nestor Cables who manufacture communication cables. In August 2008, a majority share of the Russian OAO Expocable was acquired to strengthen Neomarkka's business activity in Russia.

### Strong foothold in Russia

Neomarkka is continuing investments of almost EUR 20 million in purchasing Expocable as well as for procurement of machinery and equipment. Expocable manufactures special cables for use in such applications as oil and gas refineries which complements our product range particularly in medium voltage cables and strengthens our local competitive position. The company's production plant is located in Podolsk on the next site to our other factory. The location has already enabled significant synergies; the factories among other things have common energy management and administration has been combined.

After the acquisition of Expocable, Neomarkka's cable business is closer to its objective of becoming one of the top five Russian cable manufacturers.

## Key Figures

	2008	2007	2006
Turnover, EUR million	116.2	62.4	8.0
Operating profit, EUR million	-1.3	4.2	6.6
Operating profit, % turnover	-1.1	6.7	82.5
Profit before tax, EUR million	-5.9	1.9	5.0
Return on investment, %	neg.	4.4	6.6
Equity ratio, %	47.2	56.1	59.7
Net-debt-equity ratio, %	21.5	13.7	54.4
Equity/share, EUR	8.32	9.91	10.04
Earnings/share, EUR	-0.83	0.19	0.64
Dividend/share, EUR	0.25*	0.50	0.30

\* Proposal by the Board of Directors to the Annual General Meeting

As a market area, Russia is significant for us in every way, since the development of the country's infrastructure is just starting to develop. For the time being, the tight economic situation in Russia has not had a significant effect on Expocable's order book.

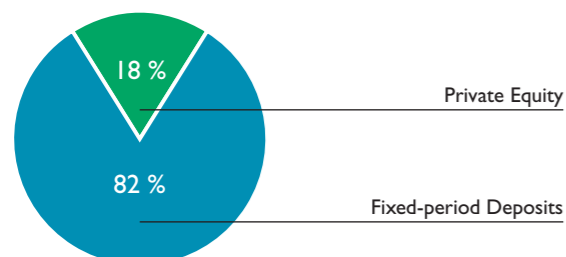
**Strategy is further refined**

Our objective is to continue to grow the cable business and above all in Russia. Over the long term, our objective is to also invest in another sector on the condition that the investment provides synergies with our current investments. In the autumn we chose CAG Management Oy, who specialise in corporate restructuring, as our partner. Their task is to map out potential investment targets and analyse them. The recession offers an opportunity to map out a broader range of different acquisition targets which it would not have been economic to invest in a year ago, or they would not even have been available. Our objective however is to progress carefully with the approved strategy.

**High risk securities investments have been sold**

Neomarkka has divested all of its high risk securities investments during 2008. We still hold shares in unlisted telephone companies to a value of about EUR 3.7 million. The intention is to hold these shares for the time being. Other assets are invested mainly in securities based on funds and short-term money market investments.

Investments in Securities 31 Dec 2008



**Machinery investments finalised**

The significant investments that were begun in 2007 in the Reka Cables' Riihimäki and Podolsk factories to increase production have been completed. The production equipment provides the conditions for flexible use of capacity in these factories. Machinery procurement and supplementary investments in Expocable's Russian factory are at the planning stage.

**Risks associated with ordinary business**

Our main risks are linked to the operational risks of the cable industry: price volatility in raw materials prices and exchange rates, which can be surprising and significant as last year showed, and country risk. The business is particularly sensitive to copper and aluminium price developments.

The cable sector is also sensitive to general developments in economic conditions. Decreasing constructional activity is reflected in the demand for cables used in construction which can be seen in the current economic cycle.

The sector is also exposed to momentary seasonal variations. Demand traditionally weakens because of weather conditions in

the wintertime. These seasonal variations are compensated through lay-offs. The need for lay-offs last year affected 110 people in the Hyvinkää and Keuruu factories. The length of lay-offs is less than 90 days. Some of the lay-offs continued into the early months of 2009. New negotiations were begun with staff in January with the aim of preparing to adjust operations further.

The company's capability to make successful corporate acquisitions can also be regarded as an operational risk for Neomarkka and there are risks associated with financing.

**Members of the Board of Directors bought Neomarkka shares**

During the year, in accordance with the decision of the AGM in June, each member of the Board of Directors bought Neomarkka shares to the value of about EUR 30,000. The objective was to commit the members of the Board to the long term development of the business through an ownership stake. The AGM also decided that in addition to the annual and attendance fees, Board members would also receive a performance related fee linked to the annual return on the B shares.

On 16<sup>th</sup> December 2008, Jorma Wiitakorpi, the chairman of the Board of Directors, announced that he is withdrawing from the work of the Board of Neomarkka Plc for the time being. During this time the Board of Neomarkka Plc will be led by vice chairman Matti Lainema.

**New production capacity ready**

Neomarkka's market position in the cable industry is strong. We have a lot of new, modern capacity. The Podolsk factory and Expocable as well as the additional capacity at the Riihimäki factory enable a broader product range than previously to be offered to the Russian market. When construction and demand recover again, the new production capacity will be available.

Our affiliated company, Nestor Cables, specialises in fibre optic cables used in communication. 2009 will be the company's first full operating year. The operation is thus just beginning, but the markets are significant and growing all the time.

The owned companies have a broad product range which enables the companies to provide cables for construction, industry and electricity distribution in addition to communication networks. Outside Finland the most significant growth potential is in high voltage cables and fibre optic cables and the market areas are the Nordic countries, the Baltic States and Russia.

**2009 will be challenging**

Because of the general uncertainty in the global economy, construction and industrial output have waned. Investments are being postponed and hardly any new investment decisions are being made. The situation is worldwide and affects almost everything. Various stimulus packages to support the financing of business have been drawn up in the EU area as well as in Russia, and even though interest rates and

the price of oil have fallen, their effects are not yet visible at the time of writing. It will probably be necessary to wait the whole of this year for the upturn.

Neomarkka's basic business is on healthy foundations, demand for products has remained relatively stable for the time being in all markets and Russian demand for cables manufactured by Expocable for the energy industry has been better than expected. The company's strong financial position and positive cash flow gives effective margin.

The year will, however, be challenging. The exchange rate of ruble, which is important for us, has continued to weaken during the first months of the year which, along with the volatility of raw material prices and the uncertainties of demand, will affect the result for the year now started.

However, I am convinced that we have the possibilities for better profitability and good results in the future, once general market conditions are more favourable and we are able to fully exploit the investments we have made.

The equity markets have probably long discounted the weakened expected results and if the outlook for the upturn at the end of the year in the real economy strengthen, the conditions for an increase in prices will be in place.

*Markku E. Rentto*  
Managing Director

**Investment strategy objectives:**

- To improve Neomarkka's profitability through successful investment activity.
- To increase the value of shares and increase trading of the shares on the Helsinki exchange.

**In accordance with the basic strategic principles investments are made:**

- In industrial companies which manufacture final products or semi-manufactured products.
- In industrial companies whose operating logic is congruent with previous investments and enables synergy benefits in such things as sales and marketing as well as in distribution with companies already acquired.
- In industrial companies who have significant growth potential in their sector.

**Exit**

- Investments are long-term and exiting from them does not occur until Neomarkka is not longer able to add value to the company in question.



## REKA CABLES AND EXPOCABLE

Reka Cables is a wholly owned subsidiary of Neomarkka. It owns a majority of shares in Expocable. The companies concentrate on the manufacture of installation, signal, instrumentation and power cables. The production units are located in Hyvinkää, Keuruu, Riihimäki and Podolsk in Russia. Customers are industry, construction and electricity distribution. The company takes power where you need it!

Reka Cables' objective is to grow in the Nordic countries, the Baltic States and Russia. Growth in the Nordic countries is based on strong knowledge of the market and production skills as well as good cooperation with electrical wholesalers, contractors and electricity companies. Russian growth potential is above all in building the infrastructure of local electricity companies. The challenge of sales in Russia is to create strong image and position as a local manufacturer in Russia.

Reka Cables has sales companies in Sweden, Estonia, Russia and Denmark. They are responsible for the sales in their areas.

All the factories are up-to-date production facilities that exploit modern technology. The company manufactures cables according to the standards of several different countries and about half of production is exported. The size of the company provides sufficient resources and enables profitable, flexible production.

The range includes electrical cables for low voltages below 1 kV to 145 kV high voltage cables. There are about 2,000 different prod-

ucts in this segment which are marketed under four different brand names: Standard installation cables, fire resistant cables, halogen free cables, medium and high voltage cables.

Two of Finland's leading electrical and telecommunications equipment wholesalers, SLO Oy and Onninen, rewarded Reka Cables as one of their suppliers with a Certificate of Merit in recognition of their good operational capabilities and high level cooperation as a supplier.

### Research and development

A central part of competition and Reka Cables' success is product development and quality. Processes are certified and, among other qualities the durability and fire resistance of the products are continually tested in the company's own laboratories located in the factory complex. Product development requires good skills in cable technology, materials technology and installation techniques.

### The Russian Podolsk factory

The Podolsk production facility started operations in the autumn of 2007. At the moment the factory uses modern western production techniques to manufacture medium voltage cables. The products are partly the same as those produced by the Riihimäki factory. Production in 2008 at the factory suffered to some degree when the cables intended for further processing at Podolsk were delayed in produc-

### PRODUCTS

PRODUCTS	Voltage level	Use
Reko-standard cables	300 V - 1000 V	General construction.
Halogen-free – Rekoclean-cables	75 V - 1000 V	Buildings, industry, hospitals etc. Places where fire safety is required.
Palonkestävät – Flamex-kaapelit	450 V - 1000 V	Buildings, industry, hospitals and similar places where electrical supply must be safeguarded during a fire.
Dryrex medium and high voltage cables	10 kV - 145 kV	Electricity distribution.
Expocable's products	75 V - 1000 V	Signal cables for the oil and gas industry as well as nuclear power plants. Special cables for ships.

tion at Riihimäki because of a delay in equipment installation that was part of the factory expansion. Customers are Russian contractors, industry and electricity companies.

### Expocable's factory

Expocable manufactures special cables such as signal and instrumentation cables for use by oil and gas plants and nuclear power stations. The company was founded in 1992 as a consequence of the major wave of privatisation that swept through Russia at that time. The company has significant scientific and technological skills which makes

it possible for them even to produce unique cables for space equipment for example.

Expocable is a significant supplier to the Russian markets in its own product segment. Its turnover is about EUR 5.5 million. The company's factory is on the site next to Reka Cables' Podolsk factory which means the factory site can be developed as a single entity. The acquisition strengthened the company's position as a Russian local manufacturer and made a wider product range available to Russian customers.



## NUMBER ONE SUPPLIER

### – the result of skill and the will to succeed

The Irish energy company Electricity Supply Board (ESB) has chosen Reka Cables as the primary supplier of the 1 kV underground cables needed for the modernisation of its the distribution network which will take place from 2006 - 2011.

Long-term large contracts are what cable suppliers want, but requests for tender are quite rare. Tough competition keeps delivery times short.

"In choosing Reka Cables the strengths were the credible size of the company, its ability to respond flexibly to the needs of the customer as well as the quality and provenance of the product. The fact that decisions were made in the same place as manufacture was also important", comments Reka Cables' regional export manager, Sirpa Pötry.

For Reka Cables, the contract represents a deal of about EUR 20 million which is spread over several years. The contract provides the basic framework which simplifies and speeds up the individual deliveries that will be made under the contract. The deal provides the Hyvinkää factory a basic loading and partly evens out the seasonal variation at the change of the year. Long-term, 3-5 year, contracts account for about 20% of Reka Cables' turnover. Long-term contracts are important; there is no competition for the duration of the contract and during it there is the possibility of developing cooperation with the customer and broadening the product offer with new products.

In addition to energy companies, power plants also offer significant contracts. With climate change, wind turbine parks in particular have come strongly to the fore as a source of energy. Reka Cables has products to offer here as well. It manufactures signal cables for the wind turbine structures and feeder cables from the wind turbine to the electrical substation.



**FROM OVERHEAD POWER LINES TO UNDERGROUND CABLES**

Strong winds and the damage they do to overhead power lines have increased everywhere, including in Finland. The need to move from overhead power lines to underground cables has increased because electricity companies are obliged to compensate customers for damage resulting from power failures. In addition, large cities need more building land. In some areas, overhead power lines and high voltage distribution lines are an obstruction to building. In addition, there are still a lot of old cables being used whose reliability no longer meets today's demands and a change to plastic insulated cables is ahead. The need to use underground cables is clear, but will happen slowly because digging ditches and installing underground cables in them is costly. The electricity companies are in the key position regarding this change.

**NESTOR CABLES**

Nestor Cables manufactures fibre optic and copper cables for building communication networks as well as instrumentation cables used in industrial automation. Neomarkka owns 30% of the company. The company was founded in October 2007, and its Oulu cable factory, which represents the sectors most modern technology was commissioned during the spring and summer of 2008. The sales and marketing functions are concentrated in Espoo. Customers include telecommunication operators, contractors and wholesalers as well as industry.

Over the past 10 years, the development of telecommunications traffic and electronic messaging has been fast and widespread. In the future, connection speeds will increase further and a new generation of broadband will be born, based on the use of fibre optic cable connections to homes and distributor units in buildings. This is referred to as FTTH – Fibre to the Home – infrastructure. Nestor Cables is a supplier of fibre optic cables and copper cables in the Nordic countries, the Baltic States and Russia among others. The construction of communication networks is continuing in all these markets and various investments in broadband are increasing. The growth potential is significant in Russia. Sweden though has also established its FTTH broadband strategy, which offers Nestor Cables an interesting market

**PRODUCTS**

- Fibre optic cables
- Products for fibre optic networks
- Special fibre optic cables
- Copper telecommunication cables
- Instrumentation cables

**Voltage level**

- 75 - 300 V
- 75 - 1000 V

**Use**

- For underground, duct, aerial, waterway and internal installation.
- Passive components for optical telecoms networks, continuation, termination and connection products for fibre optic cable networks.
- Special applications such as defence forces.
- Underground, duct, aerial, waterway and internal installation.
- Automation, process control and audio systems.



area. The demand for fibre optic cables also increases the need to replace overhead cables with underground optical cables. Nestor Cables' strengths are good service and high quality products as well as reliable delivery. The quality operation is based not only on modern production equipment, but also on a skilled and experienced workforce as well as a documented way of operating which was built on the principles of sustainable quality management and observes the international ISO 9001 and ISO 14001 standards; Product and logistics development is carried out in cooperation with customers.

In the spring of 2008, the company was awarded a prize as an

ethically operating company because it employed skilled workers from the Oulu area in the new company and showed social responsibility in maintaining and developing cable manufacturing skills.

In 2008, the company's turnover was about EUR 7.7 million and it employed an average of 75 people.



**FIBRE TO THE HOME - FTTH**

Optical networks have been constructed for years in Finland, mainly as telecommunications backbones and area networks. FTTH means that homes are linked to the general backbone network by using fibre optic cable connections instead of copper cables. FTTH connections are exactly the same speed in both directions. In current broadband connections (copper cables), the speed in the return direction (home to the network) is just a small fraction of the speed of the connection from the network to home.

The data transfer speeds possible with optical cable are in practice infinite which is why the useful age can be calculated as being several decades. FTTH therefore means a new communication network infrastructure which will serve the needs of several generations throughout its life. Optical fibre is also the only technology known that is also economically feasible to make continually the increasing data transfer speeds possible that will be required by current and future communication services.

## Administration and Communication

Neomarkka's administration is based on Finland's laws and the company's Articles of Association. The company complies with the recommendations that came into force on 1.7.2004 regarding the governance and steering systems of listed companies, and adheres to the new Corporate Governance code that was approved in October 2008. The company complies with the regulations and instructions of the Financial Supervision Authority and the rules and regulations, as well as insider instructions, of the NASDAQ OMX Helsinki exchange. The members of the Board of Directors, the Managing Director and auditors, as well as Neomarkka's employees, are registered as insiders. The company specific, non-public insider register includes people who may work with the Group's key information as well as personal insiders, i.e. people who may have inside information on a temporary basis because of employment or some other contract. The company maintains its insider register in the Netsire system at Euroclear Finland Ltd (previously the Finnish Central Securities Depository Ltd).

An Audit Committee has been set up, reporting to the Board of Directors, for internal auditing. Operational aspects of internal audit-

ing are carried out primarily within the organisation. External experts are used on a project basis. The Audit Committee's tasks include monitoring the company's financial situation, overseeing the financial reports and assessment of the sufficiency and pertinence of internal control and risk management.

The objective of Neomarkka's external communications is to provide the markets with sufficient information about the company's business, financial position and changes occurring in the markets.

Neomarkka's web pages are at the following address: [www.neomarkka.fi](http://www.neomarkka.fi). The web pages present such things as further information about the Corporate Governance of the company and all the information that the company is obliged to provide as a listed company.

Neomarkka Plc's Annual General Meeting will be held on 10 June 2009 at 12.00 in Hyvinkää.



## Information for Shareholders

### Annual General Meeting and dividend payment

Neomarkka Plc's Annual General Meeting will be held on 10.6.2009 at 12.00 in Hyvinkää. Further information about the AGM will be given closer to the time on the company's internet pages at [www.neomarkka.fi](http://www.neomarkka.fi).

The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.25 per share be paid for the 2008 financial year (2007: EUR 0.50).

### Basic share information

Neomarkka's shares are quoted on the main market of NASDAQ OMX Helsinki.

Trading code:	NEMBV
ISIN code	FI0009800296
Number of shares:	5,880,760 B shares
Voting allocation:	1 vote / share
Share capital 31.12.2008:	24,081,440 (A and B shares in total)

### Investor relations

Neomarkka observes a two week silence period, i.e. company representatives do not comment on the company's results for two weeks before the publication of an interim report or the financial statements.

Investor relations are handled by the Managing Director Markku E. Rentto, tel. +358 207 209 191, email: [markku.e.rentto@neomarkka.fi](mailto:markku.e.rentto@neomarkka.fi).

### Financial reports for 2009

Neomarkka will publish three interim reports in 2009. The interim reports will be published as follows:

January - March	7.5.2009
January - June	6.8.2009
January - September	12.11.2009

Neomarkka publishes its financial reviews in Finnish and English. The reviews are available on the company's internet pages [www.neomarkka.fi](http://www.neomarkka.fi) immediately after publication and can be ordered from the same address.

### Changes of address

Shareholders are requested to inform their book entry account management organisation of any changes of address and they will pass this information automatically to the company.

### Converting from share certificates to book-entries

The conversion from Neomarkka shares to book-entries was made on 29.11.1997. Shareholders who still have printed share certificates are requested to convert them to book-entries. Dividends are only paid to shares that are in book-entry form. Further information about converting share certificates to book-entries can be obtained from any branch of the Cooperative Bank (Osuuspankki). The share owner is responsible for any charges resulting from the conversion.

The following shares have conversion rights:

- Metsämarkka B share certificates that are dated 1.2.96 or later.
- Shares in the Metsä-Pohja company, but these must first be converted in the company to Metsämarkka shares.
- Lännen Metsä B share certificates that are dated 17.8.94 or later.
- Sijoitus Forestia A share certificates that are dated 9.8.89 or later.

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