



Interim Report Q1/2011

INCAP GROUP INTERIM REPORT JANUARY–MARCH 2011: REVENUE INCREASED AND OPERATING PROFIT IMPROVED YEAR-ON-YEAR

- revenue in the first quarter stood at EUR 16.0 million, or 19% higher than during the comparable period in the previous year (1–3/2010: EUR 13.4 million)
- revenue increased particularly in product packages delivered to well-being technology customers
- operating profit (EBIT) was EUR -0.4 million (EUR -1.7 million)
- increase in material costs burdened the result
- earnings per share were EUR -0.05 (EUR -0.16)
- after the review period, Incap has signed financing agreements for a total of EUR 3.8 million

This interim report has been prepared in accordance with international financial reporting standards (IFRS) – IAS 34 Interim Financial Reporting standard. The accounting principles of the interim report are the same as those used in the preparation of the 2010 financial statements. Unless otherwise stated, the comparison figures refer to the same period in the previous year. This interim report is unaudited.

Sami Mykkänen, President and CEO of Incap Group: “Revenue developed favourably in all customer segments and despite the global shortage of materials, we were mainly able to satisfy the needs of our customers.”

“Although the financial result for the period showed a significant improvement year-on-year, we still cannot be satisfied with our profitability. Operating profit excluding non-recurring entries remained at the same level as in the previous quarter.”

“The global shortage of components led to an increase in the price of materials and logistics and slowed especially deliveries of well-being technology products, in which the demand was bigger than expected. We were confident the situation would gradually improve by spring 2011, but the reduction in production capacity in Japan further impaired the availability of certain electronics components.”

“Incap’s outlook is now clearly better than a year ago, giving good conditions for achieving profitable growth. In order to improve profitability and to secure positive earnings development, we will increase materials procurement from Asia, use competitive tendering to select materials suppliers and pass on the increases in costs to customer prices”.

Revenue and earnings in January–March 2011

Demand for Incap's services continued stable in the first quarter. Revenue stood at EUR 16.0 million or 19% higher than during the comparable period in 2010 (1–3/2010: EUR 13.4 million). Revenue increased steadily in each month during the review period, reaching almost the same level as in the previous quarter October–December 2010. The company's delivery capacity improved during the review period, although a shortage of materials continued to hamper production planning and deliveries.

Revenue from well-being technology products exceeded expectations, and the order book for the next few months is at a good level. Demand for rotor components picked up markedly, although the total demand by European energy efficiency customers remained somewhat below targeted levels. The revenue of the Indian unit developed at a level higher than in the corresponding period last year.

Negotiations were conducted with several customers on starting cooperation or expanding existing scope of deliveries, and new products reached prototype and testing stage. Incap and Kemppi Oy signed a contract on cooperation on manufacturing services, and the first volume deliveries from Incap's Indian unit took place in March. Cooperation covering design and manufacture of a smart charging device for electric cars with a remarkable Indian manufacturer of electric cars is proceeding favourably.

Profitability improved compared with the corresponding period last year and the operating result for January–March was EUR -0.4 million (EUR -1.7 million), representing -3% of the revenue (-12%). Profitability continued to be burdened by the poor availability of certain components, which temporarily increased material and logistics costs. In order to adjust capacity to the fluctuating materials flow, the company increased the share of outsourced work, which temporarily weakened the sales margin.

Quarterly comparison (EUR thousands)	1–3/ 2011	10–12/ 2010	7–9/ 2010	4–6/ 2010	1–3/ 2010
Revenue	16,005	16,149	13,741	15,836	13,436
Operating profit/loss (EBIT)	-423	14	-471	-1,097	-1,670
Net profit/loss	-951	-427	-1,067	-1,490	-1,899
Earnings per share, EUR	-0.05	-0.03	-0.08	-0.12	-0.16

Personnel expenses decreased by some 20% or EUR 0.7 million year-on-year, which was mainly attributable to the merger of two electronics plants. Incap expects the merger to generate cost savings of some EUR 3 million in 2011 compared with 2009.

Incap joined the Cleantech Finland network, a global network for Finnish companies providing ecological solutions and technology, coordinated by Finpro. Manufacturing services for equipment in energy efficiency and environmental technologies are a strategic focus area of Incap, and global demand for products in this field is expected to grow strongly.

Negotiations on the sale of the sheet-metal mechanics manufacturing business in Helsinki ended without result in February. The company's intention remains to develop the Helsinki plant into a unit that specialises in assembly.

Measures aimed at selling the Vuokatti factory building were continued. The price estimate by an external valuer clearly exceeds the book value of the property.

The value of inventories decreased by some 2% to EUR 12.8 million (EUR 13.1 million). Compared with the turn of the year, the value of inventories decreased by some EUR 0.3 million (31 December 2010: EUR 13.1 million).

Net finance costs increased to EUR 0.5 million (EUR 0.2 million). Depreciation stood at EUR 0.6 million (EUR 0.7 million). Losses before tax amounted to EUR 1.0 million (EUR -1.9 million). The loss for the period was EUR 1.0 million (-1.9 million).

Return on investment was -4% (-22%) and return on equity was -75% (-138%). Earnings per share were EUR -0.05 (EUR -0.16).

Balance sheet

The Group's balance sheet total was EUR 40.8 million (EUR 40.8 million). The Group's equity at the close of the period was EUR 4.5 million (EUR 4.5 million). Debt totalled EUR 36.3 million (EUR 36.3 million), of which interest-bearing debt made up EUR 22.5 million (EUR 22.1 million). Of the total debt, EUR 28.4 million (25.5 million) were current liabilities. Equity of the parent company totalled EUR 14.7 million, representing 72% of the share capital (EUR 11.1 million, 54%).

The Group's equity ratio was 11.0% (11.1%). Interest-bearing net liabilities totalled EUR 21.9 million (EUR 21.7 million) and the gearing ratio was 487% (477%). The earnings development and financing of the business operations acquisition in India in 2007 contributed to the high gearing ratio.

Financing and cash flow

The Group's quick ratio was 0.5 (0.5) and the current ratio 1.0 (1.0). Cash flow from operations was EUR -0.5 million (EUR -0.3 million) and the change in cash and cash equivalents showed an increase of EUR 0.1 million (a decrease of EUR 0.1 million).

Financing negotiations were continued, and after the review period, Incap signed financing agreements for a total of approximately EUR 3.8 million. Of this financing, EUR 1.5 million was a counter-cyclical guarantee granted by Finnvera. EUR 2 million of long-term financing and EUR 1 million of a short-term factoring credit were received from a Finnish bank, and some EUR 0.8 million short-term credit from an Indian bank.

Capital expenditure

Investments amounted to EUR 0.1 million (EUR 0.1 million) and include investments related to the modernisation of machinery.

Personnel

At the end of the review period, Incap Group had a payroll of 721 employees (774). The average number of personnel was 727 (734). Compared with the end of 2010, the number of personnel was reduced by 46 employees. At the end of the review period, approximately 22% of the personnel worked in Finland (39%), 29% in Estonia (23%) and 49% in India (38%).

Share-based incentive systems

During the period under review, the Board of Directors distributed 75,000 B options under the option scheme 2009 to the President and CEO and the management team members as well as a total of 126,000 of C options to the company's key employees.

The subscription period of 2004C expired on 30 April 2011. No option rights were used for subscriptions, since the target share price defined in the terms was not realised. At the same time, the stock option scheme 2004 was ended.

Annual General Meeting 2011

Incap Corporation's Annual General Meeting was held in Helsinki on 13 April 2011, after the review period. The Annual General Meeting adopted the consolidated financial statements for the financial year ending on 31 December 2010 and, in accordance with the proposal of the Board of Directors, decided that no dividend be distributed and that the loss for the financial year, a total of EUR 1,561,513.95, be transferred to retained earnings.

The Annual General Meeting discharged the members of the Board of Directors and the President and CEO from liability. Raimo Helasmäki, Kari Häyrynen, Kalevi Laurila, Susanna Miekko-oja and Lassi Noponen were re-elected to the Board of Directors. At its organisation meeting, the Board of Directors elected Kalevi Laurila as Chairman and Susanna Miekko-oja as Vice Chairman of the Board.

Ernst & Young Oy, Authorised Public Accountants, was re-elected as the company's auditor.

The Annual General Meeting authorised the Board of Directors to decide, within one year of the Annual General Meeting, on increasing the share capital through one or more rights issues so that the total number of shares to be subscribed for on the basis of the authorisation is a maximum of 2,168,100, from which a maximum of 300,000 shares can be used in stock options.

Shares and shareholders

Incap Corporation has one series of shares, and the number of shares at the end of the period was 18,680,880 (12,180,880). During the period, the share price varied between EUR 0.49 and EUR 0.63 (EUR 0.60 and 0.75). The closing price for the period was EUR 0.52 (EUR 0.67). During the review period, the trading volume was 270,349 shares or some 1% of outstanding shares (15%).

At the end of the period, the company had 1,080 shareholders (1,158). Foreign or nominee-registered owners held 0.6% (0.9%) of all shares. The company's market capitalisation on 31 March 2011 was EUR 9.7 million (EUR 8.0 million). The company does not own any of its own shares.

Short-term risks and factors of uncertainty concerning operations

The risks and uncertainty factors related to Incap's operations are described in more detail in the financial statements release published on 23 February 2011. No significant changes have taken place with regard to these factors during the review period. The financing agreements signed after the end of the review period shall, however, reduce remarkably the risks involved with financing.

The most significant short-term risks are associated with the development of customer demand, the costs of materials and availability of certain components.

Incap has a financing agreement in force until 31 May 2012, which covers the loans related to the financing of the Indian subsidiary and Incap's credit line and factoring credit line. The financing agreement includes the following covenants:

	<u>Equity ratio</u>	<u>net IBD/EBITDA</u>	<u>Net capital expenditure</u>
31 December 2010	7.4 %	20.6	EUR 1 million/12 months
30 June 2011	11.6 %	4.1	EUR 1 million/12 months
31 December 2011 onwards	10.9 %	5.6	EUR 1 million/12 months

When calculating the covenants, the factoring credit line in use is not included. The equity ratio on 31 March 2011 was 11.0% and net IBD/EBITDA was 0.2. The covenants will be next reviewed on 30 June 2011 and then every six months. According to the current forecast, it is likely that the covenants will not be met on 30 June 2011.

In order to estimate its liquidity Incap has drawn up a cash flow forecast by quarter, expanding up to the financial statements for the year 2011. The cash flow forecast is based on the result estimate for 2011 and on the actual turnover of sales receivables and accounts payable, as well as on the targeted turnover of inventories. Based on this cash flow forecast, Incap's need for working capital is increasing towards the year end. Incap trusts that, based on the financing agreements it has signed, the company can cover the financing need for the future growth provided that the Group's result does not remarkably stay behind the estimated targets for result and turnover of inventories. The most important factor related with financing is the turnover rate of inventories. If the turnover rate of inventories stays in the present level, it would not alone call for additional financing. The Group's existing working capital will be sufficient for the next 12 months provided that the present financing agreements remain valid even in case of eventual breakdown of covenants. Furthermore, Incap has continued actions that were started at the end of last financial year to sell the factory real estate in Vuokatti. Real estate and the loans related to it have been described as non-current assets held-for-sale in the financial statements. Estimated price as given in the certificate of valuation of an external surveyor exceeds clearly the book value of the real estate.

Financing negotiations conducted with different parties ended after the review period on 3 May 2011, at which time Incap signed financing agreements amounting to EUR 3.8 million. Finnvera granted the company a counter-cyclical guarantee of EUR 1.5 million, and EUR 2 million of long-term financing and EUR 1 million of a short-term factoring credit were received from a Finnish bank. In addition, the Indian subsidiary has signed a loan agreement with a local bank in India on a short-term credit of some EUR 0.8 million.

The deferred tax assets recognised in the consolidated balance sheet (EUR 4.2 million) are based on the Board of Directors' assessment of future earnings development at Incap Corporation and the Indian subsidiary. On 31 March 2011, confirmed tax losses for which no deferred tax asset was recognised amounted to EUR 8.0 million. Should future development not correspond to the Board's estimate, the ensuing write-down of deferred tax assets in the consolidated balance sheet would have a considerable impact on Incap Group's equity ratio and, consequently, on the Group's equity and, for example, the covenants in the above financing agreements.

Outlook for the rest of 2011

Incap's estimates for future business development are based on its customers' forecasts and the company's own assessments. The general economic situation has improved, and demand for Incap's services is expected to develop favourably. However, the shortage of certain

semiconductor components is predicted to continue, which may affect Incap's deliveries and revenue development.

Incap will repeat its guidance issued on 23 February 2011 according to which the company estimates that its revenue in 2011 will increase from the EUR 59.2 million achieved in 2010. The Group's full-year operating result (EBIT) in 2011 is expected to be positive and, thus, clearly higher than in 2010 (EUR -3.2 million).

INCAP CORPORATION
Board of Directors

Further information:

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PRESS CONFERENCE

Incap will arrange a conference for the press and financial analysts on 4 May 2011 at 10:00 a.m. at the World Trade Center, Helsinki, in Meeting Room 4 on the 2nd floor at Aleksanterinkatu 17, FI-00100 Helsinki.

ANNEXES

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- 2 Consolidated Balance Sheet
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INCAP IN BRIEF

Incap Corporation is an internationally-operating contract manufacturer whose comprehensive services cover the entire life-cycle of electromechanical products from design and manufacture to maintenance services. Incap's customers include leading equipment suppliers in energy-efficiency and well-being technologies, for which the company produces competitiveness as a strategic partner. Incap has operations in Finland, Estonia and India. The Group's revenue in 2010 amounted to EUR 59.2 million, and the company currently employs approximately 730 people. Incap's share is listed on the NASDAQ OMX Helsinki. Additional information: www.incap.fi.

Annex 1

CONSOLIDATED INCOME STATEMENT (IFRS)

(EUR thousand, unaudited)	1–3/2011	1–3/2010	Change %	1–12/2010
REVENUE	16,005	13,436	19	59,162
Work performed by the enterprise and capitalised	0	0		0
Change in inventories of finished goods and work in progress	34	629	-95	188
Other operating income	38	56	-32	372
Raw materials and consumables used	11,270	9,581	18	40,828
Personnel expenses	2,916	3,629	-20	12,437
Depreciation and amortisation	552	722	-24	2,831
Other operating expenses	1,762	1,857	-5	6,849
OPERATING PROFIT/LOSS	-423	-1,670	-75	-,3,223
Financing income and expenses	-528	-229	130	-,1,724
PROFIT/LOSS BEFORE TAX	-951	-1,899	-50	-,4,947
Income tax expense	0	0		64
PROFIT/LOSS FOR THE PERIOD	-951	-1,899	-50	-4,884
Earnings per share	-0.05	-0.16	-69	-0.33
Options have no dilutive effect in accounting periods 2009 and 2010				
OTHER COMPREHENSIVE INCOME	1–3/2011	1–3/2010	Change %	1–12/2010
PROFIT/LOSS FOR THE PERIOD	-951	-1,899	-50	-4,884
OTHER COMPREHENSIVE INCOME:				
Translation differences from foreign units	-185	-7	2,694	-24
Other comprehensive income, net	-185	-7	2,694	-24
TOTAL COMPREHENSIVE INCOME	-1,136	-1,906	-40	-4,908
Attributable to:				
Shareholders of the parent company	-1,136	-1,906	-40	-4,908
Non-controlling interest	0	0		0

Annex 2

CONSOLIDATED BALANCE SHEET (IFRS)

(EUR thousand, unaudited)	31.3.2011	31.3.2010	Change %	31.12.2010
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	5,416	9,690	-44	6,026
Goodwill	1,009	1,033	-2	1,040
Other intangible assets	579	960	-40	705
Other financial assets	314	14	2,094	314
Deferred tax assets	4,158	4,203	-1	4,209
TOTAL NON-CURRENT ASSETS	11,476	15,900	-28	12,294
CURRENT ASSETS				
Inventories	12,759	13,083	-2	13,062
Trade and other receivables	13,924	11,444	22	14,823
Cash and cash equivalents	680	415	64	476
TOTAL CURRENT ASSETS	27,363	24,943	10	28,362
Non-current assets held for sale	1,936	0		1,936
TOTAL ASSETS	40,774	40,842	0	42,592
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Share capital	20,487	20,487	0	20,487
Share premium account	44	44	0	44
Reserve for invested unrestricted equity	4,084	0		4,084
Exchange differences	-633	-466	36	-483
Retained earnings	-19,488	-15,523	26	-18,510
TOTAL EQUITY	4,494	4,542	-1	5,622
NON-CURRENT LIABILITIES				
Deferred tax liabilities	0	70	-100	0
Interest-bearing loans and borrowings	7,397	10,777	-31	9,403
NON-CURRENT LIABILITIES	7,397	10,847	-32	9,403
CURRENT LIABILITIES				
Trade and other payables	13,736	14,137	-3	14,961
Current interest-bearing loans and borrowings	14,634	11,316	29	12,007
CURRENT LIABILITIES	28,370	25,453	11	26,969
Liabilities relating to non-current assets held for sale	513	0		598
TOTAL EQUITY AND LIABILITIES	40,774	40,842	0	42,592

Annex 3

CONSOLIDATED CASH FLOW STATEMENT (EUR thousands, unaudited)

	1–3/2011	1–3/2010	1–12/2010
Cash flow from operating activities			
Net income	-423	-1,670	-3,223
Adjustments to operating profit	219	728	23
Change in working capital	-95	883	644
Interest and other payments made	-193	-247	-1,840
Interest received	8	9	27
Cash flow from operating activities	-484	-297	-4,369
Cash flow from investing activities			
Capital expenditure on tangible and intangible assets	-54	-51	-486
Proceeds from sale of tangible and intangible assets	15	0	591
Other investments	0	0	-159
Loans granted	0	-1	-5
Sold shares of subsidiary	0	0	0
Repayments of loan assets	3	1	0
Cash flow from investing activities	-37	-51	-59
Cash flow from financing activities			
Proceeds from share issue	0	0	4,084
Drawdown of loans	1,267	965	5,825
Repayments of borrowings	-429	-450	-4,338
Repayments of obligations under finance leases	-226	-258	-1,064
Cash flow from financing activities	612	257	4,507
Change in cash and cash equivalents	91	-91	79
Cash and cash equivalents at beginning of period	476	661	661
Effect of changes in exchange rates	122	-142	-228
Changes in fair value (cash and cash equivalents)	-9	-13	-36
Cash and cash equivalents at end of period	680	415	476

Annex 4

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (EUR thousand, unaudited)

	Share capital	Share premium account	Reserve for invested unrestricted equity	Exchange differences	Retained earnings	Total
Equity at 1 January 2010	20,487	44	0	-459	-13,629	6,443
Change in exchange differences				-7		-7
Options and share-based compensation	0	0		0	5	5
Other changes	0	0		0	0	0
Net income and losses recognised directly in equity	0	0		-7	5	-2
Net profit/loss	0	0			-1,899	-1,899
Total income and losses	0	0		-7	-1,895	-1,901
Equity at 31 March 2010	20,487	44	0	-466	-15,523	4,542
Equity at 1 January 2011	20,487	44	4,084	-483	-18,510	5,622
Share issue						0
Transaction costs for equity			0			0
Change in exchange differences				-151	-34	-185
Options and share-based compensation	0	0		0	7	7
Other changes	0			0		0
Net income and losses recognised directly in equity	0	0	0	-151	-27	-178
Net profit/loss	0	0			-951	-951
Total income and losses	0	0	0	-151	-978	-1,129
Equity at 31 March 2011	20,487	44	4,084	-633	-19,488	4,494

Annex 5

GROUP KEY FIGURES AND CONTINGENT LIABILITIES (IFRS)

	31.3.2011	31.3.2010	31.12.2010
Revenue, EUR million	16.0	13.4	59.2
Operating profit, EUR million	-0.4	-1.7	-3.2
% of revenue	-2.6	-12.4	-5.4
Profit before taxes, EUR million	-1.0	-1.9	-4.9
% of revenue	-5.9	-14.1	-8.4
Return on investment (ROI), %	-4.3	-21.5	-10.6
Return on equity (ROE), %	-75.2	-138.3	-81.0
Equity ratio, %	11.0	11.1	13.2
Gearing, %	486.6	477.3	383.0
Net debt, EUR million	21.7	24.4	21.7
Net interest-bearing debt, EUR million	21.9	21.7	21.5
Average number of shares during the report period, adjusted for share issues	18,680,880	12,180,880	14,682,250
Earnings per share (EPS), EUR	-0.05	-0.16	-0.33
Equity per share, EUR	0.24	0.37	0.30
Investments, EUR million	0.1	0.1	0.5
% of revenue	0.3	0.4	0.8
Average number of employees	727	734	780
CONTINGENT LIABILITIES, EUR millions			
FOR OWN LIABILITIES			
Mortgages	11.4	12.0	14.5
Other liabilities	2.1	2.9	2.4
Nominal value of currency options, EUR thousand	1,778.9	455.5	1,881
Fair values of currency options, EUR thousand	-9.4	-4.1	-5.5

Annex 6

QUARTERLY KEY FIGURES (IFRS)

	1–3/ 2011	10–12/ 2010	7–9/ 2010	4–6/ 2010	1–3/ 2010
Revenue, EUR million	16.0	16.1	13.7	15.8	13.4
Operating profit, EUR million	-0.4	0.0	-0.5	-1.1	-1.7
% of revenue	-2.6	0.1	-3.4	-6.9	-12.4
Profit before taxes, EUR million	-1.0	-0.5	-1.1	-1.5	-1.9
% of revenue	-5.9	-3.0	-7.8	-9.4	-14.1
Return on investment (ROI), %	-4.3	2.1	-6.8	-111.3	-21.5
Return on equity (ROE), %	-75.2	-28.3	-68.0	-14.6	-138.3
Equity ratio, %	11.0	13.2	14.6	10.1	11.1
Gearing, %	486.6	383.0	338.1	523.1	477.3
Net debt, EUR million	21.7	21.7	23.1	24.7	24.4
Net interest-bearing debt, EUR million	21.9	21.5	20.7	22.3	21.7
Average number of share issue-adjusted shares during the financial period	18,680,880	14,682,250	13,334,726	12,854,913	12,180,880
Earnings per share (EPS), EUR	-0.05	-0.03	-0.08	-0.12	-0.16
Equity per share, EUR	0.24	0.30	0.30	0.30	0.37
Investments, EUR million	0.1	0.2	0.1	0.1	0.1
% of revenue	0.3	1.3	1.1	0.4	0.4
Average number of employees	727	767	787	791	734