



Incap Corporation  
**Interim report Q3**

## INCAP GROUP INTERIM REPORT JANUARY-SEPTEMBER 2009: RESULT IMPROVED DESPITE DECREASE IN REVENUE

- Revenue in January-September was approximately EUR 52.0 million, down approximately 24% from the same period the previous year (Jan-Sep 2008: EUR 68.1 million)
- The focus of manufacturing activities shifted from telecommunications products to energy efficiency and well-being technology products in accordance with the strategy
- Operating profit (EBIT) improved from the same period the previous year, amounting to EUR 1.3 million negative (EUR 2.4 negative)
- The improvement of efficiency and adjustment of cost structure were continued in accordance with the reorganisation programme
- Prerequisites for future business growth were built in selected business areas in energy and well-being
- Net profit for the report period amounted to EUR 2.8 million negative (3.5 million negative).

This unaudited interim report has been prepared in accordance with international financial reporting standards (IFRS). Unless otherwise stated, the comparison figures refer to the same period the previous year.

Sami Mykkänen, the President and CEO of Incap Group: "The overall demand for Incap's services remained fairly steady despite the general economic recession. However, there was much customer-specific fluctuation in delivery volumes. The decrease in revenue was mainly due to a controlled winding down of the high-volume manufacturing of telecommunications products.

Profitability developed in the positive direction, and operating result improved each quarter of the year. Increased operational efficiency according to the reorganisation programme is beginning to show in the result.

The strategy selected last year has proven to be successful, and we can move on to developing profitable growth supported by it. In the selected business segments – energy efficiency and well-being technologies – the future prospects are good and the growth potential especially in Asia is of great interest to us. One step in this direction was concentrating product design activities on India, where we serve our customers globally. "

### Revenue and earnings in July-September 2009

Revenue during the third quarter totalled EUR 16.6 million, or approximately 22% less than in the same period the year before (7-9/2008: EUR 21.4 million). Despite the holiday season and production shutdowns, revenue remained at nearly the same level as during the second quarter. The demand for well-being technology products in particular was good.

Operating profit (EBIT) for July-September, EUR 0.3 million negative, was better than during the previous quarters of the year and the corresponding period the year before (EUR 0.4 million negative). Net profit for the third quarter was EUR 0.8 million negative, the same as a year

before (EUR 0.8 million negative) despite the decrease in revenue. Net profit was burdened by an increase in financing costs compared to the corresponding period last year. Earnings per share were EUR 0.07 negative (EUR 0.07 negative).

## Revenue and earnings in January-September 2009

Revenue for January-September was EUR 52.0 million, or about 24% lower than during the comparable period the year before (Jan-Sep 2008: EUR 66.1 million). The decline in revenue was the predicted decrease in manufacturing of telecommunications products by approximately EUR 12 million compared with the same period the previous year. Revenue also declined due to cutting down on small or unprofitable customer accounts at the beginning of the year in order to improve profitability.

The recession did not have a significant impact on the demand for Incap's services. Revenue from well-being technology products increased considerably compared with the year before, while the demand in the energy efficiency sector decreased somewhat in Europe. Deliveries from the Indian unit increased, but revenue in euros remained at last year's level due to exchange rate differences.

Operating loss was clearly reduced with operating profit amounting to EUR 1.3 million negative (EUR 2.4 million negative), representing 2.5% negative (3.5% negative) of revenue. The reorganisation programme was continued and cost savings were achieved in personnel and material costs and administrative expenses among others. Fixed costs for the period were approximately EUR 2.2 million lower than for the same period the previous year.

Net profit for the report period amounted to EUR 2.8 million negative (EUR 3.5 million negative). In particular, the net profit was burdened by net financing costs, which were approximately EUR 0.4 million higher than during the corresponding period the year before.

Earnings per share amounted to EUR 0.23 negative (EUR 0.29 negative), while equity per share stood at EUR 0.86 (EUR 1.24).

Quarterly comparison (EUR thousands)	7-9/ 2009	4-6/ 2009	1-3/ 2009	10-12/ 2008	7-9/ 2008	4-6/ 2008	1-3/ 2008
Revenue	16,613	16,928	18,479	25,789	21,395	26,412	20,330
Operating profit/loss	-314	-472	-518	-1,241	-442	-600	-1,329
Net profit/loss	-810	-1,035	-949	-1,915	-800	-1,005	-1,681
Earnings per share, EUR	-0.07	-0.08	-0.08	-0.16	-0.07	-0.08	-0.14

## Development of operations in January-September 2009

Incap developed its capacity for future growth in the company's business. The new production facilities in India were inaugurated during the period. The updated capacity of the plant will improve Incap's competitiveness significantly, as globally operating customers require their partner to provide local service near their main markets.

In order to improve the efficiency of its service capacity, Incap concentrated its product design in India and aims to double the number of designers to over 30 persons during next year. The Indian design team also serves customers located in Europe and the United States. All plants continue developing production-related manufacturability design in order to decrease product manufacturing costs.

The acquisition of new customers was expanded to China, where the company launched sales cooperation with a local partner. The aim is to secure new customers in Asia, mainly for Incap's Indian plant. In addition, the partner is surveying the overall market situation and Incap's business opportunities in China.

The development of materials management and procurement continued. The value of inventories fell from EUR 16.2 million at the turn of the year to EUR 14.7 million at the end of September.

The structural change in Incap's manufacturing capacity proceeded as planned. The operation of the Helsinki plant will focus on assembly and product integration in the future, and the manufacturing of certain high-volume sheet-metal parts is being transferred to Vaasa. Incap is investigating the possibilities of centralising the company's European electronics manufacturing in Estonia so that some of the products manufactured at the Vuokatti plant would be transferred to the Kuressaari plant and another party would be sought to continue some of the business activities in Vuokatti. The transfer of some products is already underway, and negotiations have been begun on other transfers with customers. Preliminary negotiations on a possible business transaction are currently underway.

## **Strategy**

The strategy that Incap selected last year has proven to be successful. Incap will focus on contract manufacturing of energy efficiency and well-being products where outlook on growth is favourable thanks to global mainstream trends. The company aims to be a leading manufacturing and technology partner for customer accounts in these sectors, providing them with life-cycle services of electromechanics and product entities. The company sees considerable growth potential for its services in Asia.

Incap develops its services according to the needs of its key customers. In sales and marketing, special focus will be on active management of customer relationships, expanding the service portfolio with existing customers and systematic acquisition of new customers. Incap will reinforce its product design activities that serve the customers globally.

Incap will continue measures aimed at improving profitability. The main emphasis in the improvement of efficiency will be on developing materials functions, completing the change in production structure, and productisation of services.

## **Financing and cash flow**

The Group's equity ratio was 24.6% (29.4%). Interest-bearing net liabilities totalled EUR 18.1 million (EUR 20.1 million) and the gearing ratio was 174% (133%). Net financial expenses stood at EUR 1.5 million (EUR 1.1 million) and depreciation and amortisation expense at EUR 2.1

million (EUR 2.1 million). Trade receivables continued to decline compared with the beginning of the year as well as the end of the second quarter, and no credit losses arose during the report period.

The Group's equity at the close of the period under review was EUR 10.4 million (EUR 15.2 million). Debt totalled EUR 32.0 million (EUR 36.4 million), of which interest-bearing debt amounted to EUR 19.3 million (EUR 20.7 million).

The Group's quick ratio was 0.6 (0.7) and the current ratio 1.3 (1.3). Cash flow from operations was EUR 1.9 million positive, or considerably better than for the corresponding period the previous year, when it was EUR 0.3 million. The change in cash and cash equivalents was an increase of EUR 0.5 million (a decrease of EUR 0.3 million).

### **Capital expenditures**

The Group's capital expenditures during the period amounted to EUR 1.0 million (EUR 1.5 million), of which the majority was connected with the operation of the Indian subsidiary.

### **Personnel**

Incap Group employed 773 people at the end of September 2009 (727 people at the beginning of the year). Of the personnel, 43% worked in Finland, 34% in India and 23% in Estonia. The number of personnel increased in India, where there were over 50 employees more at the end of September than at the beginning of the year. In addition to Incap employees, there were 59 employees hired from staffing agencies at the end of September.

Operations and capacity were adjusted to the demand, and at the end of September, 34 people were temporarily laid off. After the report period in October, the personnel of Group services and the plants in Helsinki and Vaasa were temporarily laid off for a week in December 2009 and for a week in January 2010. In addition, the personnel can be temporarily laid off based on monthly review until the end of May 2010 so that the maximum total duration of the temporary layoff is 64 working days. At the Vuokatti plant, the white-collar personnel were laid off for three weeks while the statutory negotiations with regard to the blue-collar workers will continue in November.

### **Shares and shareholders**

Incap Corporation has one series of shares, and the number of shares is 12,180,880. During the period under review, the share price varied between EUR 0.43 and EUR 0.99, and the last closing price of the period was EUR 0.69. During the period under review, the trading volume was 19.7% of outstanding shares.

At the end of the period under review, the company had 1,145 shareholders. Foreign or nominee-registered owners held 2.8% of all shares. The company's market capitalisation on 30 September 2009 was EUR 8.4 million. The company does not own any of its own shares.

### **Short-term risks and factors of uncertainty concerning operations**

The risks and factors of uncertainty relating to Incap's operations are described in more detail in the report by the Board of Directors dated 24 February 2009, and no significant changes have taken place with regard to these factors during the report period.

The most significant short-term risks are connected with the volume of business, profitability as well as financing arrangements. Incap's sales are spread over several customer sectors, which hedges the company against sharp seasonal changes. However, market visibility is very limited.

The company's financial position is influenced by the trends in the general financial market and the company's future earnings development. Incap aims at ensuring the company's liquidity by efficient working capital management and investigates different financing options in order to enhance the financial position. As one action to ensure its liquidity, Incap signed an agreement on factoring concerning its trade receivables in Finland with a financing company after the close of the report period.

## **Outlook**

Incap's estimates of the future business development are based on its customers' forecasts and the company's own assessments. Due to the continued uncertain economic situation, customers' views of the future market development are still cautious. Some device manufacturers in the electric power industry have predicted a slight decline in demand.

Incap expects that its revenue in 2009 will be approximately EUR 70 million. The operating profit for the latter half of the year will be better than during the first half of the year. Full-year operating profit (EBIT) is estimated to be clearly better compared with 2008.

According to Incap's previous estimate on 5 August 2009, the Group's revenue in 2009 would be lower than in 2008, when it totalled EUR 93.9 million. Operating profit for the latter half of the year was estimated to be better than during the first half of the year. Full-year operating profit (EBIT) was estimated to be clearly better compared with 2008 (EUR 3.6 million negative).

## **INCAP CORPORATION**

Board of Directors

For additional information, please contact:

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## **DISTRIBUTION**

NASDAQ OMX Helsinki Ltd

Principal media

The company's website: [www.incap.fi](http://www.incap.fi)

## **PRESS CONFERENCE**

Incap will arrange a conference for financial analysts, investors, and the press on 4 November 2009 at 10:00 a.m. at the World Trade Center Helsinki, in Meeting Room 1 on the 2nd floor at Aleksanterinkatu 17, FI-00100 Helsinki. The presentation material will be available on the company's website the same day.

## **ANNEXES**

- 1 Consolidated Income Statement
- 2 Consolidated Balance Sheet
- 3 Consolidated Cash Flow Statement
- 4 Consolidated Statement of Changes in Equity
- 5 Group Key Figures and Contingent Liabilities
- 6 Quarterly Key Figures

#### **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 are leading equipment suppliers in energy-efficiency and well-being technology, for which the company produces competitiveness as a strategic partner. Incap has operations in Finland, Estonia and India. The Group's revenue in 2008 amounted to around EUR 94 million, and the company currently employs approximately 770 people. Incap's shares are listed on the NASDAQ OMX Helsinki Ltd. For additional information, please visit our website, [www.incap.fi](http://www.incap.fi).*

## Annex 1

### CONSOLIDATED INCOME STATEMENT (IFRS) (EUR thousands, unaudited)

	1-9/2009	1-9/2008	Change %	1-12/2008
REVENUE	52,021	68,136	-24	93,925
Work performed by the enterprise and capitalised				
Change in inventories of finished goods and work in progress	-301	1,190	-125	791
Other operating income	281	30	826	53
Raw materials and consumables used	34,050	48,245	-29	66,672
Personnel expenses	10,725	13,630	-21	18,722
Depreciation and amortisation	2,146	2,125	1	2,823
Other operating expenses	6,383	7,727	-17	10,165
OPERATING PROFIT/LOSS	-1,304	-2,371	-45	-3,612
Financing income and expenses	-1,488	-1,115	33	-1,810
PROFIT/LOSS BEFORE TAX	- 2,792	-3,486	-20	-5,422
Income tax expense	-3	0		21
PROFIT/LOSS FOR THE PERIOD	- 2,795	-3,486	-20	-5,401
Earnings per share	-0.23	-0.29	-21	-0.44
Options have no dilutive effect in report periods 2008 and 2009				
OTHER COMPREHENSIVE INCOME	1-9/2009	1-9/2008	Change %	1-12/2008
PROFIT/LOSS FOR THE PERIOD	- 2,795	-3,486	-43	-5,401
OTHER COMPREHENSIVE INCOME:				
Translation differences from foreign units	20	-271	-107	-262
Other comprehensive income, net	20	-271	-124	-262
TOTAL COMPREHENSIVE INCOME	-2,775	-3,757	-26	-5,663
Attributable to:				
Shareholders of the parent company	- 2,775	-3,757	-26	-5,663
Minority interest				0



## Annex 2

### **CONSOLIDATED BALANCE SHEET (IFRS)** (EUR thousands, unaudited)

	30.9.2009	30.9.2008	Change %	31.12.2008
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	10,225	11,496	-11	11,250
Goodwill	954	972	-2	969
Other intangible assets	1,069	1,370	-22	1,311
Other financial assets	14	17	-17	16
Deferred tax assets	4,136	4,151	0	4,148
<b>TOTAL NON-CURRENT ASSETS</b>	<b>16,398</b>	<b>18,006</b>	<b>-9</b>	<b>17,693</b>
<b>CURRENT ASSETS</b>				
Inventories	14,675	18,833	-22	16,153
Trade and other receivables	10,262	14,069	-27	14,444
Cash and cash equivalents	1,136	615	85	641
<b>TOTAL CURRENT ASSETS</b>	<b>26,074</b>	<b>33,518</b>	<b>-22</b>	<b>31,239</b>
<b>TOTAL ASSETS</b>	<b>42,472</b>	<b>51,523</b>	<b>-18</b>	<b>48,932</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>				
Share capital	20,487	20,487	0	20,487
Share premium account	44	44	1	44
Exchange differences	-458	-494	-7	-478
Retained earnings	-9,644	-4,876	98	-6,864
<b>TOTAL EQUITY</b>	<b>10,430</b>	<b>15,161</b>	<b>-31</b>	<b>13,190</b>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities	99	121	-18	99
Interest-bearing loans and borrowings	11,363	13,496	-16	12,977
<b>NON-CURRENT LIABILITIES</b>	<b>11,463</b>	<b>13,617</b>	<b>-16</b>	<b>13,077</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	12,678	15,527	-18	15,731
Current interest-bearing loans and borrowings	7,901	7,218	9	6,935
<b>CURRENT LIABILITIES</b>	<b>20,579</b>	<b>22,745</b>	<b>-9</b>	<b>22,666</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>42,472</b>	<b>51,523</b>	<b>-18</b>	<b>48,932</b>

## Annex 3

### CONSOLIDATED CASH FLOW STATEMENT

(EUR thousands, unaudited)

	1-9/2009	1-9/2008	1-12/2008
Cash flow from operating activities			
Net income	-1,304	-2,371	-3,612
Adjustments to operating profit	2,162	2,101	2,760
Change in working capital	2,688	1,601	3,702
Interest paid	-1,642	-1,087	-1,640
Interest received	32	104	143
Cash flow from operating activities	1,936	348	1,353
Cash flow from investing activities			
Capital expenditure on tangible and intangible assets	-961	-1,501	-1,699
Proceeds from sale of tangible and intangible assets	177	101	160
Loans granted	-8		0
Shares of subsidiaries sold	0	50	50
Repayments of loan receivables	2	3	1
Cash flow from investing activities	-790	-1,347	-1,488
Cash flow from financing activities			
Drawdown of loans	2,135	2,453	1,753
Repayments of borrowings	-1,896	-942	-838
Repayments of obligations under finance leases	-886	-805	-1,063
Cash flow from financing activities	-647	706	-148
Change in cash and cash equivalents	499	-293	-283
Cash and cash equivalents at beginning of period	641	944	944
Effect of changes in exchange rates	-7	-36	-20
Changes in fair value (cash and cash equivalents)	3		
Cash and cash equivalents at end of period	1,136	615	641

## Annex 4

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS) (EUR thousands, unaudited)

	Share capital	Share premium account	Exchange differences	Retained earnings	Total
Equity on 1 January 2008	20,487	44	-216	-1,188	19,127
Change in exchange differences			-278		-278
Options and share-based compensation				-202	-202
Net income and losses recognised directly in equity			-278	-202	-480
Net profit/loss				- 3,486	-3,486
Total income and losses			-278	-3,688	-3,966
Equity on 30 September 2008	20,487	44	-494	-4,876	15,161
Equity on 1 January 2009	20,487	44	-478	-6,864	13,189
Change in exchange differences			20		20
Options and share-based compensation				15	15
Net income and losses recognised directly in equity			20	15	35
Net profit/loss				-2,795	-2,795
Total income and losses			20	-2,780	-2,760
Equity on 30 September 2009	20,487	44	-458	-9,644	10,430

## Annex 5

### GROUP KEY FIGURES AND CONTINGENT LIABILITIES (IFRS)

	30.9.2009	30.9.2008	31.12.2008
Revenue, EUR millions	52.0	68.1	93.9
Operating profit, EUR millions	-1.3	-2.4	-3.6
% of revenue	-2.5	-3.5	-3.9
Profit before taxes, EUR millions	-2.8	-3.5	-5.4
% of revenue	-5.4	-5.1	-5.8
Return on investment (ROI), %	-5.3	-7.5	-8.6
Return on equity (ROE), %	-31.6	-27.1	-33.4
Equity ratio, %	24.6	29.4	27.0
Gearing, %	173.8	132.6	146.1
Net debt, EUR millions	20.6	21.7	20.7
Net interest-bearing debt, EUR millions	18.1	20.1	19.3
Average number of shares during the report period, adjusted for share issues	12,180,880	12,180,880	12,180,880
Earnings per share (EPS), euro	-0.23	-0.29	-0.44
Equity per share, euro	0.86	1.24	1.08
Investments, EUR millions	1.0	1.5	1.8
% of revenue	1.9	2.2	1.9
Average number of employees	743	732	735
CONTINGENT LIABILITIES, EUR millions			
FOR OWN LIABILITIES			
Mortgages	12.0	12.1	12.0
Other liabilities	6.3	8.2	8.8
Nominal value of currency options, EUR thousands	-12.4	0	0
Fair values of currency options, EUR thousands	460.7	0	0

## Annex 6

### QUARTERLY KEY FIGURES (IFRS)

	7-9/ 2009	4-6/ 2009	1-3/ 2009	10-12/ 2008	7-9/ 2008	4-6/ 2008	1-3/ 2008
Revenue, EUR millions	16.6	16.9	18.5	25.8	21.4	26.4	20.3
Operating profit, EUR millions	-0.3	-0.5	-0.5	-1.2	-0.4	-0.6	-1.3
% of revenue	-1.9	-2.8	-2.8	-4.8	-2.1	-2.3	-6.5
Profit before taxes, EUR millions	-0.8	-1.0	-0.9	-1.9	-0.8	-1.0	-1.7
% of revenue	-4.9	-6.1	-5.1	-7.5	-3.7	-3.8	-8.3
Return on investment (ROI), %	-4	-2.1	-4.9	-11.1	-4.1	-4.9	-13.4
Return on equity (ROE), %	-27.5	-33.9	-29.8	-47.4	-18.7	-22.9	-37.0
Equity ratio, %	24.6	26.4	27.4	27.0	29.43	31.2	33.3
Gearing, %	173.8	164.9	151.1	146.1	132.6	120.4	106.5
Net debt, EUR millions	20.6	19.7	19.6	20.7	21.7	18.0	19.9
Net interest-bearing debt, EUR millions	18.1	18.6	18.6	19.3	20.1	19.2	18.3
Average number of share issue-adjusted shares during report period	12,180, 880	12,180,8 80	12,180,8 80	12,180,8 80	12,180,8 80	12,180 ,880	12,180,8 80
Earnings per share (EPS), euro	-0.07	-0.08	-0.08	-0.16	-0.07	-0.08	-0.14
Equity per share, euro	0.86	0.92	1.01	1.08	1.24	1.31	1.41
Investments, EUR millions	0.4	0.5	0.1	0.3	0.3	0.4	0.8
% of revenue	2.2	2.9	0.6	1.3	1.2	1.6	4.1
Average number of employees	770	732	728	743	739	724	733