InCap

Interim Report Q1/2012

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INCAP GROUP INTERIM REPORT JANUARY–MARCH 2012: REVENUE ON A PAR WITH THE PREVIOUS YEAR, PROFITABILITY IMPROVED

- Revenue in January–March was EUR 15.6 million (Jan–Mar 2011: EUR 16.0 million)
- Operating profit (EBIT) was EUR -0.3 million (EUR -0.4 million)
- Earnings per share were EUR -0.04 (EUR -0.05).
- The company reiterates its previous profit forecast, estimating that full-year revenue for 2012 will be higher than for 2011 and that operating profit (EBIT) will be positive

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 2011 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 for January–March was lower than for the fourth quarter of 2011, as was expected. Demand especially for the products for energy efficiency segment was good both in Europe and in India. Transferring the products from the Helsinki plant to our other plants is proceeding according to plans in close collaboration with our customers, and the manufacturing activity will end at the Helsinki plant in July. We are now about to finalise the change in production structure, which aims at creating a solid basis for profitable operations.”

“Our aim for 2012 is to increase revenue moderately and profitably. Demand in the company’s strategic customer segments is expected to develop stably, although the market outlook is typically very short-term. According to estimates received from the customers, demand for energy-efficient equipment and equipment related to renewable sources of energy is, in particular, expected to remain high. We will continue our efforts to improve profitability. We will especially pursue savings in material costs, aiming at increased margins and improved competitiveness.”

Revenue and net profit January–March 2012

Revenue for the first quarter of 2012 amounted to EUR 15.6 million, down 3% year-on-year. Typical of the industry, the first quarter of the year is slower than the others, and revenue for January–March 2012 decreased by approximately 8% compared to the previous quarter. Demand was strong in products for the energy industry in particular, and the full-year outlook is positive for them.

The operating result for January–March was EUR -0.3 million, which is approximately EUR 0.1 million better than the corresponding period the previous year. Low revenue level and extra costs for the closure of the Helsinki factory affected the result. In addition, fixed costs were exceptionally high during the review period due to the service and maintenance work carried out.

Quarterly comparison (EUR thousands)	1-3/ 2012	10-12/ 2011	7-9/ 2011	4-6/ 2011	1-3/ 2011
Revenue	15,564	16,906	18,286	17,694	16,005
Operating profit/loss (EBIT)	-345	-609	35	-623	-423
Net profit/loss	-711	-1,288	-576	- 1,182	-951
Earnings per share, EUR	-0.04	- 0.07	-0.03	-0.06	-0.05

Net financial expenses decreased to EUR 0.4 million (EUR 0.5 million) due to exchange rate fluctuations. Depreciation stood at EUR 0.4 million (EUR 0.5 million). The loss for the period was EUR 0.7 million (1.0 million).

The return on investment was -1.5% (-4.3%) and return on equity was -297.7% (-75.2%). Earnings per share were EUR -0.04 (EUR -0.05).

The value of inventories amounted to EUR 12.5 million at the end of the period, compared to EUR 11.4 million at the end of 2011. The increase in the value of inventories was mainly due to components obtained for the ramp-down of the Helsinki plant.

A cooperation agreement was concluded with Naps Systems Oy on manufacturing solar-powered street and area lighting fixtures. The products are of the latest technology and their production started in Incap's Kuressaare factory in March.

The expansion of the plant property in Kuressaare, Estonia, advanced on schedule. Once the premises are complete, the production machinery will be arranged according to the new plant layout, and the new premises will be fully operational in June. The transfer of the Helsinki plant's production to the company's other plants in Vaasa and Kuressaare is proceeding as planned. Incap's Indian operations were audited on the basis of the Group's uniform quality and environment system by Det Norske Veritas.

In order to improve the group's cost structure, Group Services were reorganised after the conclusion of the statutory employer-employee negotiations, and, among others, tasks related to sales, quality management and test design supporting production were centralised in Tallinn, Estonia.

Balance sheet

The Group's balance sheet total was EUR 38.7 million (EUR 40.8 million).

The Group's equity at the close of the period was EUR 0.6 million (EUR 4.5 million). Debt totalled EUR 38.1 million (EUR 36.3 million), of which interest-bearing debt made up EUR 25.0 million (EUR 22.5 million). Current liabilities constituted EUR 38.0 million (28.7 million) of all liabilities, because the company's convertible bond, which matures in May 2012, was transferred to current liabilities on the balance sheet. The parent company's equity totalled EUR 11.6 million, representing 57% of the share capital (EUR 14.7 million, 72%). This exceeds the minimum equity limit pursuant to the Limited Liability Companies Act by approx. EUR 1.4 million.

The Group’s equity ratio decreased to 1.6% (11.0%). Interest-bearing net liabilities were EUR 24.6 million (21.9 million), and the gearing ratio was 4,103% (487%).

The Group’s cash and cash equivalents amounted to EUR 0.4 million (EUR 0.7 million) on 31 March 2012.

Financing and cash flow
The Group’s quick ratio was 0.4 (0.5) and the current ratio 0.7 (1.0). Cash flow from operating activities was EUR -0.2 million (EUR -0.5 million) and the change in cash and cash equivalents showed an increase of EUR 0.1 million (an increase of EUR 0.1 million).

The Group’s cash flow and liquidity situation is challenging and the related risks have been described more in detail below under title “Short-term risks and factors of uncertainty concerning operations”. The company is currently undergoing negotiations to renew the company’s convertible bond and other loans maturing in May 2012 and to ensure sufficient additional funding for business operations.

Capital expenditure
Investments amounted to EUR 0.03 million (EUR 0.1 million positive) during the period.

Personnel and management
At the beginning of 2012, the Incap Group had a payroll of 735 employees. At the end of the period, it had 725 employees (31 March 2011: 721 employees).

Director Jari Koppelo assumed responsibility for both Incap Group’s business units – Energy efficiency and Well-being solutions – as of 1 March 2012. Jari Koppelo was previously in charge of the operations of the Energy efficiency unit.

Sami Kyllönen, previously Incap’s operations services manager, was appointed as Director in charge of production in Europe and member of the group management team. Mikko Hirvinen, previously in charge of production in Europe, was appointed as project director.

Responsibility for project activity related to launching the production of new products and maintenance of product documentation was transferred to design manager Marko Tapaninaho as of 1 March 2012.

In addition to the actual group management team, Incap Group’s management system includes an extended management team, and Marko Tapaninaho (Engineering Services) and Siret Kegel (Quality and Environment) were appointed as new members during the period.

Events after the end of the review period
On 11 April 2012, the Board of directors of Incap exercised its authorisation granted by the 2011 Annual General Meeting and issued a total of 2,168,100 new shares to the major shareholders of the company. All of the new shares were subscribed for at a price of EUR 0.35 and the amount to be paid – approx. EUR 750,000 – will be recognised in full in the reserve for invested non-restricted equity.

Annual General Meeting 2012
Incap Corporation's Annual General Meeting was held in Helsinki on 11 April 2012, after the review period. The AGM adopted the consolidated financial statements for the financial year that ended on 31 December 2011. In accordance with the proposal of the Board of Directors, the AGM decided that no dividend be distributed and that the loss for the financial year (EUR 2,372,981.70) be recognised in equity.

The AGM re-elected Raimo Helasmäki, Kalevi Laurila, Susanna Miekk-oja and Lassi Noponen as Board members and elected Matti Jaakola as a new Board member. Authorised Public Accountant Ernst & Young Oy was again elected as the company auditor.

The AGM authorised the Board of Directors to decide on issuing a maximum of 9,300,000 new shares either for consideration or without consideration within one year of the AGM. A maximum of 300,000 of the new shares can be used for option rights as part of the company's incentive scheme.

Shares and shareholders

Incap Corporation has one series of shares and the number of shares at the end of the period is 18,680,880. During the period, the share price varied between EUR 0.40 and EUR 0.65 (EUR 0.49 and 0.63). The closing price for the period was EUR 0.46 (EUR 0.52). The trading volume was 2% of outstanding shares (1%).

At the end of the period, the company had 1,069 shareholders (1,080). Nominee-registered owners held 0.5% (0.6%) of all shares. The company's market capitalisation on 31 March 2012 was EUR 8.6 million (EUR 9.7 million). The company does not hold any of its own shares.

Announcements in accordance with Section 9 of Chapter 2 of the Securities Market Act on changes in holdings

Incap Corporation's Board of Directors carried out a private placement to the company's major shareholders after the end of the review period. Once the new shares subscribed for in the placement are registered, Kalevi Laurila's holding of Incap's shares will exceed the 5% threshold, totalling 9.97% of all the shares and votes in the company.

Short-term risks and factors of uncertainty concerning operations

The risks and uncertainties related to Incap's operations are described in more detail in the financial statements for 2011, available on the company's website. Incap's most significant short-term risks are associated with the development of customer demand, the sufficiency of funding, the equity ratio and the realisation of targets related to profitability and inventories.

Incap has financing agreements of approximately EUR 3.8 million valid until 31 May 2012. The agreements include a EUR 1.5 million counter-cyclical guarantee from Finnvera and long-term financing of EUR 2 million from a Finnish bank as well as a short-term EUR 1 million factoring credit line. The long-term financing was recognised in current liabilities, because covenants are tested at an interval of 6 months. In addition, the Indian subsidiary has a loan agreement with a local bank on a short-term credit of some EUR 0.8 million.

In accordance with the covenants included in the financing agreements, Incap's equity ratio must be 10.9%, net IBD/EBITDA 5.6 and net investments EUR 1 million/12 months on 31 December 2011 and thereafter. When calculating the covenants, the factoring credit line in use is not included. On 31 March 2012, the equity ratio was 1.6% and net IBD/EBITDA was 44.5. Should the financer require that the loans be repaid immediately based on the covenants, Incap would not be able to perform these obligations.

The convertible bond of EUR 6.7 million issued by the company in 2007 will mature on 25 May 2012. The company is negotiating with the holders of the convertible bond on rearrangement of the bond.

Furthermore, the company's management is currently undergoing negotiations to renew the company's loans maturing in May 2012 and to ensure sufficient additional funding for business operations. The Group's management is confident in succeeding in these negotiations.

Measures aimed at selling the Vuokatti factory building are continued. The price estimate given by an external valuer on 23 January 2012 clearly exceeds the book value of the property.

The deferred tax assets recognised in the consolidated balance sheet (EUR 4.1 million) are based on the Board of Directors' assessment of future earnings development at Incap Corporation and the Indian subsidiary. On 31 March 2012, confirmed tax losses for which no deferred tax asset was recognised amounted to EUR 8.1 million. Future utilisation of deferred tax assets is uncertain and should the 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 and the parent company's equity ratio and, consequently, on their equity, among other things.

To assess its liquidity, Incap has prepared a 12-month cash flow projection for the Group, based on its performance forecast for 2012 and the actual turnover of its sales receivables, accounts payable and inventories. Based on the cash flow projection, the company's working capital is sufficient for the next 12 months provided that the company's negotiations on additional funding proceed according to plan.

Outlook for 2012

Incap's estimates for future business development are based on its customers' forecasts and the company's own assessments. Based on customers' estimates, Incap expects favourable development particularly in the demand for equipment related to energy efficiency in 2012.

The closure of the Helsinki plant is a part of the company's strategic structural change creating prerequisites for the company's profitable growth. The structural change in mechanics manufacturing and other actions for enhancement of operations will increase the profitability already during the latter half of 2012.

Incap reiterates its previous forecast and estimates that its revenue in 2012 will increase from the EUR 68.9 million achieved in 2011. The Group's full-year operating result (EBIT) in 2012 is expected to be positive and, thus, clearly higher than in 2011 (EUR -1.6 million).

Publication of the interim report for January–June 2012

Incap Group's interim report for the first two quarters will be published on Tuesday, 31 July 2012.

INCAP CORPORATION
Board of Directors

Additional information:
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www.incap.fi

PRESS CONFERENCE
Incap will arrange a conference for the press and financial analysts on 3 May 2012 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.

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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, India and China. The Group's revenue in 2011 amounted to EUR 68.9 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/ 2012	1-3/ 2011	Change %	1-12/ 2011
REVENUE	15,564	16,005	-3	68,890
Work performed by the enterprise and capitalised	0	0	0	0
Change in inventories of finished goods and work in progress	176	34	423	-363
Other operating income	85	38	123	145
Raw materials and consumables used	10,801	11,270	-4	48,631
Personnel expenses	3,011	2,916	3	12,016
Depreciation and amortisation	415	552	-25	2,047
Other operating expenses	1,944	1,762	10	7,597
OPERATING PROFIT/LOSS	**-345**	-423	-18	**-1,619**
Financing income and expenses	-366	-528	-31	-2,378
PROFIT/LOSS BEFORE TAX	**-711**	-951	-25	**-3,997**
Income tax expense	**0**	0	0	0
PROFIT/LOSS FOR THE PERIOD	**-711**	-951	-25	**-3,997**
Earnings per share	-0.04	-0.05	-20	**-0.21**
Options have no dilutive effect in accounting periods 2010 and 2011				

OTHER COMPREHENSIVE INCOME	1-3/ 2012	1-3/ 2011	Change %	1-12/ 2011
PROFIT/LOSS FOR THE PERIOD	-711	-951	-25	**-3,997**
OTHER COMPREHENSIVE INCOME:				
Translation differences from foreign units	-2	-185	-99	-316
Other comprehensive income, net	-2	-185	-99	-316
TOTAL COMPREHENSIVE INCOME	-712	-1,136	-37	**-4,313**
Attributable to:				
Shareholders of the parent company	-712	-1,136	-37	-4,313
Non-controlling interest	0	0	0	0

Annex 2

CONSOLIDATED BALANCE SHEET (IFRS)

(EUR thousand, unaudited)	31.3.2012	31.3.2011	Change %	31.12.2011
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	3,698	5,416	-32	4,007
Goodwill	968	1,009	-4	964
Other intangible assets	268	579	-54	341
Other financial assets	311	314	-1	314
Deferred tax assets	4,091	4,158	-2	4,085
TOTAL NON-CURRENT ASSETS	**9,336**	**11,476**	**-19**	**9,710**
CURRENT ASSETS				
Inventories	12,512	12,759	-2	11,423
Trade and other receivables	14,530	13,924	4	15,834
Cash and cash equivalents	431	680	-37	369
TOTAL CURRENT ASSETS	**27,473**	**27,363**	0	**27,625**
Non-current assets held for sale	**1,936**	**1,936**	0	1,936
TOTAL ASSETS	**38,744**	**40,774**	**-5**	**39,271**
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	4,084	0	4,084
Exchange differences	-800	-633	26	-799
Retained earnings	-23,216	-19,488	19	-22,506
TOTAL EQUITY	**599**	**4,494**	**-87**	**1,311**
NON-CURRENT LIABILITIES				
Deferred tax liabilities	0	0	0	0
Interest-bearing loans and borrowings	168	7,397	-98	259
NON-CURRENT LIABILITIES	**168**	**7,397**	**-98**	**259**
CURRENT LIABILITIES				
Trade and other payables	13,147	13,736	-4	13,109
Current interest-bearing loans and borrowings	24,573	14,634	68	24,336
CURRENT LIABILITIES	**37,721**	**28,370**	33	**37,445**
Liabilities relating to non-current assets held for sale	**256**	**513**	-50	256
TOTAL EQUITY AND LIABILITIES	**38,744**	**40,774**	**-5**	**39,271**

Annex 3

CONSOLIDATED CASH FLOW STATEMENT

(EUR thousands, unaudited)	1-3/2012	1-3/2011	1-12/2011
Cash flow from operating activities			
Operating profit/loss	-345	-423	-1,619
Adjustments to operating profit	334	219	2,157
Change in working capital	234	-95	-1,920
Interest and other payments made	-380	-193	-1,793
Interest received	3	8	38
Cash flow from operating activities	**-154**	**-484**	**-3 137**
Cash flow from investing activities			
Capital expenditure on tangible and intangible assets	-32	-54	-280
Proceeds from sale of tangible and intangible assets	38	15	148
Other investments	0	0	-80
Loans granted	-5	0	-6
Sold shares of subsidiary	0	0	0
Repayments of loan assets	3	3	0
Cash flow from investing activities	**4**	**-37**	**-218**
Cash flow from financing activities			
Proceeds from share issue	0	0	0
Drawdown of loans	937	1,267	4,946
Repayments of borrowings	-521	-429	-1,118
Repayments of obligations under finance leases	-159	-226	-843
Cash flow from financing activities	**257**	**612**	**2,985**
Change in cash and cash equivalents	107	91	-371
Cash and cash equivalents at beginning of period	369	476	476
Effect of changes in exchange rates	-34	122	288
Changes in fair value (cash and cash equivalents)	-11	-9	-24
Cash and cash equivalents at end of period	**431**	**680**	**369**

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 2011	20,487	44	4,084	-483	-18,510	5,622
Share issue	0	0	0	0	0	0
Transaction costs for equity	0	0	0	0	0	0
Change in exchange differences	0	0	0	-151	-34	-185
Options and share-based compensation	0	0	0	0	-7	7
Other changes	0	0	0	0	0	0
Net income and losses recognised directly in equity	0	0	4,084	-151	-27	-178
Net profit/loss	0	0	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
Equity at 1 January 2012	20,487	44	4,084	-799	-22,506	1,311
Share issue	0	0	0	0	0	0
Transaction costs for equity	0	0	0	0	0	0
Change in exchange differences	0	0	0	-2	0	-2
Options and share-based compensation	0	0	0	0	0	0
Other changes	0	0	0	0	0	0
Net income and losses recognised directly in equity	0	0	0	-2	0	-2
Net profit/loss	0	0	0	0	-711	-711
Total income and losses	0	0	0	-2	-711	-712
Equity at 31 March 2012	20,487	44	4,084	-800	-23,216	599

Annex 5

GROUP KEY FIGURES AND CONTINGENT LIABILITIES (IFRS)

	31.3.2012	31.3.2011	31.12.2011
Revenue, EUR million	15.6	16.0	68.9
Operating profit, EUR million	-0.3	-0.4	-1.6
% of revenue	-2.2	-2.6	-2.4
Profit before taxes, EUR million	-0.7	-1,0	-4.0
% of revenue	-4.6	-5.9	-5.8
Return on investment (ROI), %	-1.5	-4.3	-5.1
Return on equity (ROE), %	-297.7	-75.2	-115.3
Equity ratio, %	1.6	11.0	3.3
Gearing, %	4,103.2	486.6	1867.7
Net debt, EUR million	23.2	21.7	21.8
Net interest-bearing debt, EUR million	24.6	21.9	24.5
Average number of shares during the report period, adjusted for share issues	18,680,880	18,680,880	18,680,880
Earnings per share (EPS), EUR	-0.04	-0.05	-0.21
Equity per share, EUR	0.03	0.24	0.07
Investments, EUR million	0.0	0.1	0.3
% of revenue	0.2	0.3	0.4
Average number of employees	728	727	749
CONTINGENT LIABILITIES, EUR millions			
FOR OWN LIABILITIES			
Mortgages	13.3	11.4	13.3
Other liabilities	1.8	2.1	1.8
Nominal value of currency options, EUR thousand	0.0	1,778.9	0
Fair values of currency options, EUR thousand	0.0	-9.4	0

Annex 6

QUARTERLY KEY FIGURES (IFRS)

	1-3/ 2012	10-12/ 2011	7-9/ 2011	4-6/ 2011	1-3/ 2011
Revenue, EUR million	15.6	16.9	18.3	17.7	16.0
Operating profit, EUR million	-0.3	-0.6	0.0	-0.6	-0.4
% of revenue	-2.2	-3.6	0.2	-3.5	-2.6
Profit before taxes, EUR million	-0.7	-1.3	-0.6	-1.2	-1.0
% of revenue	-4.6	-7.6	-3.2	-6.7	-5.9
Return on investment (ROI), %	-1.5	-7.6	1.1	-9.4	-4.3
Return on equity (ROE), %	-297.7	-148.7	-55.8	-106.5	-75.2
Equity ratio, %	1.6	3.3	6.3	7.6	11.0
Gearing, %	4,103.2	1,867.7	946.5	739.3	486.6
Net debt, EUR million	23.2	21.8	22.0	22.9	21.7
Net interest-bearing debt, EUR million	24.6	24.5	24.9	24.1	21.9
Average number of shares during the financial period, adjusted for share issues	18,680,880	18,680,880	18,680,880	18,680,880	18,680,880
Earnings per share (EPS), EUR	-0.04	-0.07	-0.03	-0.06	-0.05
Equity per share, EUR	0.03	0.07	0.14	0.17	0.24
Investments, EUR million	0.0	0.0	0.1	0.1	0.1
% of revenue	0.2	0.0	0.7	0.7	0.3
Average number of employees	728	753	770	745	727

Annex 7

CALCULATION OF KEY FIGURES

Return on investment, %	$\dfrac{\text{100 x (profit/loss for the period + financing costs)}}{\text{equity + interest-bearing financing loans}}$
Return on equity (ROE), %	$\dfrac{\text{100 x profit/loss for the period}}{\text{average equity during the accounting period}}$
Equity ratio, %	$\dfrac{\text{100 x equity}}{\text{balance sheet total – advances received}}$
Gearing, %	$\dfrac{\text{100 x interest-bearing net financing loans}}{\text{equity}}$
Net liabilities	liabilities – current assets
Quick ratio	$\dfrac{\text{current assets}}{\text{short-term liabilities – short-term advances received}}$
Current ratio	$\dfrac{\text{current assets + inventories}}{\text{short-term liabilities}}$
Earnings per share	$\dfrac{\text{net profit/loss for the period}}{\text{average number of share-issue adjusted shares during the period}}$
Equity per share	$\dfrac{\text{equity}}{\text{number of share-issue adjusted shares at the end of the period}}$
Capital expenditure	VAT-exclusive working capital acquisitions, without deduction of investment subsidies
Average number of employees	average of personnel numbers calculated at the end of each month
Market value of share capital	closing price for the period x number of shares available for public trading