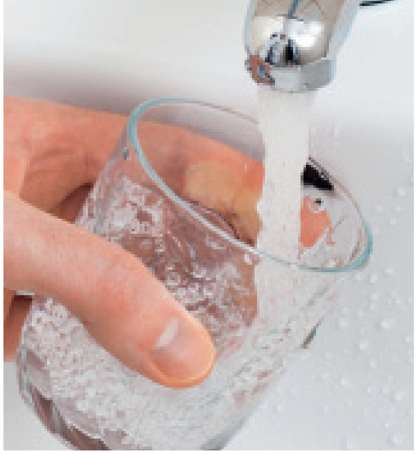


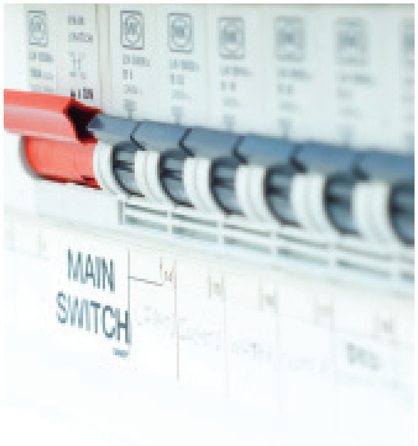

INCAP

FINANCIAL STATEMENTS 2011





MANUFACTURING AND TECHNOLOGY PARTNER FOR GROWING BUSINESS SEGMENTS







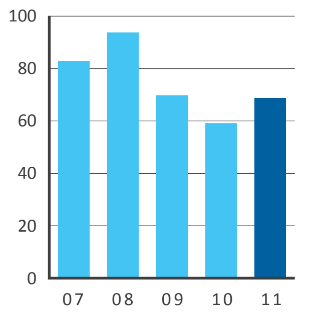
CONTENTS


Lähtevät
Avgående
Departures
Turvatarkastus
Säkerhetskontroll
Security control

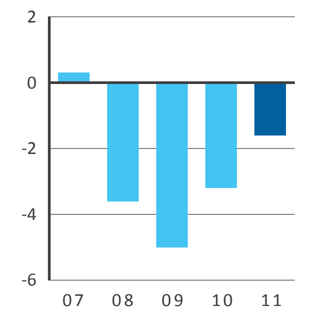
REPORT OF THE BOARD OF DIRECTORS FOR 2011

Incap finalised its strategic change in 2011. During the past five years the company has complemented a transfer from a contract manufacturer focusing on PCB assembly to a provider of complete product entities with ability to also design products to its customers. After the change in production structure in 2012 Incap has one factory in each country of operations: in Finland, Estonia and India, and also, an in-house purchasing office in Hong Kong. The company's design services have been centralised in India, where the company has built up a competence centre with special focus on the design of power and energy technology.

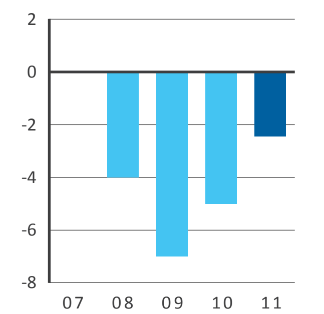
Revenue, EUR million



Operating profit, EUR million



Operating profit, % of revenue



The primary goal of Incap Group's strategy for 2011 was to build a healthy foundation for profitable growth. In internal development, the focus was on harmonising processes and operating methods. The company particularly invested in materials management, which is a key area in terms of performance. The design services were further strengthened.

Incap Group's revenue for 2011 increased clearly on the previous year. Profitability developed favourably, and the operating result for the second half of 2011 was positive, excluding the non-recurring provision related to the reorganisation of production. The operating result for the full year was negative, but clearly better than that for the previous year.

The Group's management is currently undergoing negotiations to secure liquidity. The purpose of the negotiations is to renew the company's convertible bond and other present loans and to ensure sufficient funding for business operations. If the financial negotiations progress as planned, Incap estimates that its working capital will be sufficient for the following twelve months.

Operating environment

Significant changes took place in Incap Group's operating environment in 2011. The financial crisis in Europe and the general economic uncertainty following it have hampered the new customer acquisition and weakened the financial position of the company. The global shortage of semiconductor components – which began in 2010 – worsened again following the natural catastrophe in Japan.

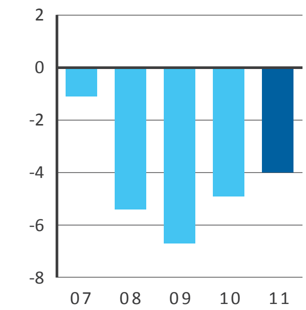
Because of the competition, equipment manufacturers actively sought ways of reducing production costs. When selecting a manufacturing location, the total landed costs gained more importance. Even though production transfers to Asia continued, especially the products which were targeted to the European market, were transferred back to European manufacturing locations along with the raise of transport costs.

Revenue and earnings in 2011

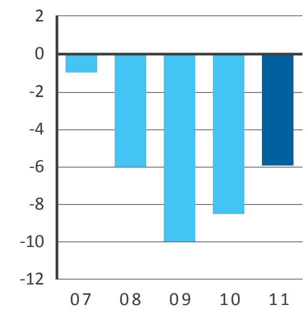
Incap Group's revenue for 2011 amounted to EUR 68.9 million, up about 16% year-on-year (59.2 million in 2010). Delivery volumes increased in energy-efficiency products as well as well-being technology products. However, revenue was held back somewhat by a global shortage of certain semiconductor components. This had a negative impact on the company's delivery capacity particularly in well-being technology products.

Incap Group's profitability developed favourably, and the company recorded a positive operating result (EBIT) before non-recurring items in the second half of 2011. The operating result for 2011 was

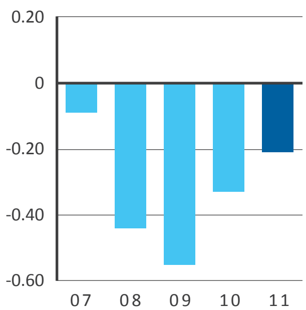
Profit/loss before tax, EUR million



Profit/loss before tax, % of revenue



Earnings per share (EPS), EUR



EUR -1.6 million and clearly better than previous year (-3.2 million in 2010) even though it still was negative. The result was affected by a weakened availability of materials and an increase in material costs due to the tsunami in Japan as well as by a non-recurring provision of EUR 0.6 million related to the closure of the Helsinki plant. However, increased revenue and customer price adjustments improved the result. The merger of two electronics plants in 2010 in line with the company's structural change also had a favourable effect on the operating result.

The Indian unit's revenue increased by approximately 15% from the previous year to EUR 13.8 million (12.0 million). The company's operations in India showed a loss, but profitability improved from the previous year, and the result for the second half of 2011 was better than that for the first half.

Net financial expenses rose to EUR 2.4 million (1.7 million). Depreciation stood at EUR 2.0 million (2.8 million). Loss for the period was EUR 4.0 million (4.9 million).

Return on investment was -5% (-11%), and return on equity was -115% (-81%). Earnings per share were EUR -0.21 (-0.33).

Development of operations

The company acquired new customers in its strategic focus areas. During 2011, cooperation was started with several technology companies among others in the manufacture of equipment for intelligent electricity network and for distributed energy production.

Incap established an in-house procurement office in Hong Kong, near the inexpensive raw material sources of Asia. The goal is to improve the company's competitive edge as a manufacturing and technology partner by reducing the prices of materials and components. The company's subsidiary in Hong Kong is included in the consolidated financial statements as of 1 September 2011.

While revenue rose by 16%, the value of inventories decreased by almost 13%, from EUR 13.1 million at the beginning of 2011 to EUR 11.4 million at the end of the year. The company was able to reduce stock values despite difficulties with the availability of components.

The company allocated more resources to its design services unit in Bangalore, and competence was enhanced especially in the design of equipment that improves energy efficiency. Among other solutions, the unit designed UPS backup power sources, micro-turbine control systems and solar power inverters for customers.

The lease contract of the production plant in Kuressaare in Estonia was renewed to cover the expansion of the facilities. When completed in June 2012, the extension will cover 3,400 square metres, which doubles the area of the present facilities.

To harmonise operating methods, the operations in India were included in the corporate quality assurance system, and now the same quality indicators are used group-wide.

Restructuring process

The production transfer from the Vuokatti electronics plant to Kuressaare, which was carried out in 2010, improved efficiency as expected, resulting in a reduction of approximately EUR 3 million in personnel expenses in 2011, when compared to 2009.

Incap continued negotiations on the sale of its sheet-metal production but they did not lead to satisfactory results. As no means of improving profitability on long term were found, Incap decided after the close of the financial period in January 2012 to close its Helsinki plant and to transfer the production to the company's other plants in Vaasa and Kuressaare by the autumn of 2012. The transfer is estimated to result in remarkable savings during the years 2012–2013.

After the production restructuring, Incap will have a production plant in each of its countries of operation: Finland, Estonia and India. In addition, the company has a procurement office in Hong Kong.

Balance sheet

The balance sheet total fell by EUR 3.3 million from the end of 2010 to EUR 39.3 million (42.6 million).

The Group's equity at the close of the financial period was EUR 1.3 million (5.6 million). Liabilities totalled EUR 38.0 million (37.0 million), of which EUR 24.9 million (22.0 million) were interest-bearing liabilities. Current liabilities constituted EUR 37.7 million (27.4 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 12.8 million, representing 63% of the share capital (15.2 million, 74%). It is therefore exceeding the minimum equity limit as given in the Companies Act by approx. EUR 2.6 million.

The Group's equity ratio was 3.3% (13.2%). Interest-bearing net liabilities were EUR 24.5 million (21.5 million), and the gearing ratio was 1,868% (383%). The high gearing ratio was affected by the restructuring costs and the investments in the company's internationalisation as well as the slower than expected improvement of earnings development of the company.

On 31 December 2011, the Group's cash and cash equivalents totalled EUR 0.4 (0.5 million at the end of 2010).

At the end of 2011, EUR 1.7 million of the Group's long-term and short-term loans were guaranteed, and the rest were unguaranteed. Of the loans, EUR 7.6 million were secured loans. The securities for these loans are the EUR 8.1 million mortgages on company assets and a EUR 2.5 million and a EUR 0.7 million mortgage on the production facilities in Vuokatti, Finland and Tumkur, India.

Financing and cash flow

The Group's quick ratio was 0.4 (0.6), and the current ratio was 0.7 (1.0). Cash flow from operations was EUR -3.1 million (-4.4 million), and the change in cash and cash equivalents showed a decrease of EUR 0.4 million (an increase of EUR 0.08 million).

The Group's cash flow and liquidity situation was challenging. Financing was improved by the financing package issued in May 2011, totalling EUR 3.8 million. Of the total, EUR 1.5 million consists of a counter-cyclical guarantee from Finnvera, 2 million of a short-term financing and 1 million of a factoring credit facility from a Finnish bank and 0.8 million of a short-term credit from an Indian bank.

Research and development

Incap's R&D expenses are related to the development of its processes. They amounted to EUR 0.1 million (0.05 million).

Capital expenditure

Capital expenditure totalled EUR 0.3 million in 2011 (0.5 million), consisting of equipment acquisitions related to the Vaasa and Tumkur plants.

Quality assurance and environmental issues

All of Incap Group's plants have environmental management and quality assurance systems certified by Det Norske Veritas or TÜV Rheinland. The systems are used as tools for continuous improvement. During 2011, Incap's operations in India were incorporated into the Group's quality system.

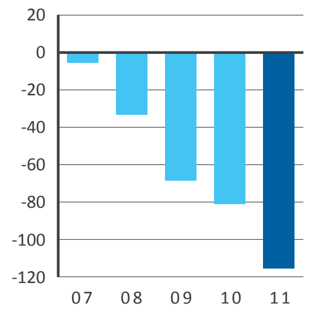
Incap's environmental management system complies with ISO 14001:2004, and its quality assurance system complies with ISO 9001:2008. In addition, the Kuressaare and Helsinki plants have ISO 13485:2003 quality certifications for the manufacture of medical devices.

Personnel

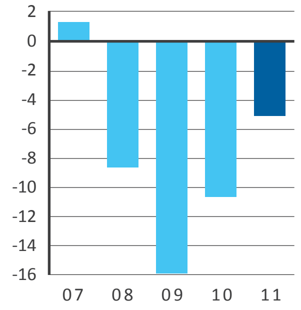
At the beginning of 2011, the Incap Group had a payroll of 767 employees. At the end of the year, it had 735 employees. In 2011, Incap employed 749 (780) people on average. The number of employees increased by 14 in India and by 3 in Estonia. In Finland, the number of employees decreased by 49. At the end of the year, about 51% (49%) of the personnel worked in India, 27% (27%) in Estonia and 22% (24%) in Finland.

At the end of the year, 212 of Incap's employees were women and 514 were men. Permanently employed staff totalled 564, and the number of fixed-term employees was 171. The company had 9 part-time employment contracts at the end of the year. The average age of the personnel was 38 years.

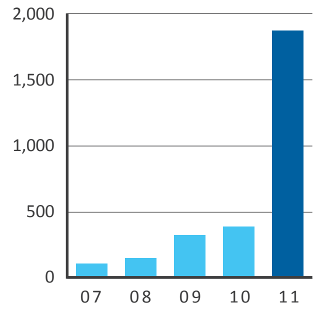
Return on equity (ROE), %



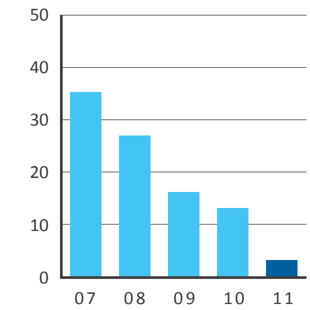
Return on investments (ROI), %



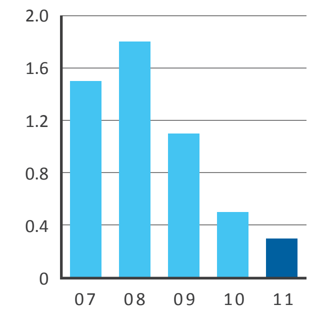
Gearing, %



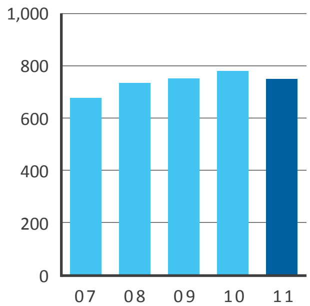
Equity ratio, %



Investments, EUR million



Average number of employees



Company management and organisation

The company's President and CEO during the financial period was Sami Mykkänen, B.Sc. (Eng.). In addition to the CEO, the Group's Management Team included Kimmo Akiander (Business unit Well-Being), Kirsi Hellsten (Human resources, from 8 August 2011), Mikko Hirvinen (Production), Jari Koppelo (Business unit Energy Efficiency), Kirsti Parvi (Finance and administration, from 1 July 2011) and Hannele Pöllä (Communications).

In addition to the members of the actual Management Team, the Extended Management Team included K.R. Vasantha (Managing Director and head of production at the Indian subsidiary, until 9 December 2011), Sami Kyllönen (Operation services), Murthy Munipalli (Energy Efficiency Asia), Pekka Laitila (Materials management), Päivi Luotola (IT) and Riitta Pönniö (Quality and the environment).

Events after the end of the financial period

In January 2012, Incap decided to close its Helsinki plant and transfer the operations to its plants in Vaasa and Kuressaare by the autumn of 2012. The decision means that 64 employment contracts will be discontinued gradually during the first half of 2012.

Statutory employer-employee negotiations were started in Group Services in late 2011, and the negotiations were completed in January 2012. Group Services will be centralised in Estonia in order to cut costs and enhance the efficiency of operations. For this reason, the number of locations in Finland will be reduced and 8 employment contracts will be discontinued.

Annual General Meeting 2011

Incap Corporation's Annual General Meeting (AGM) was held in Helsinki on 13 April 2011. The AGM adopted the consolidated financial statements for the financial year that ended on 31 December 2010. 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 1,561,513.95) be recognised in equity.

The AGM re-elected the five members of the Board of Directors. Authorised Public Accountant Ernst & Young Oy was again elected as the company auditor.

Authorisation of the Board of Directors

At the end of the financial period, the Board of Directors held an authorisation granted by the Annual General Meeting on 13 April 2011 to decide 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, of which a maximum of 300,000 shares can be used in stock options. The authorisation includes a right to deviate from shareholders' pre-emptive subscription right and to decide on the subscription price and other terms and conditions of subscription. It is possible to deviate from shareholders' pre-emptive subscription rights, provided that there is a significant financial reason for the company to do so, such as developing the company's business, financing business restructuring, making an arrangement in association with capital maintenance, or a reason related to HR policy. The Board of Directors shall have the right to decide that shares can be subscribed for through a contribution in kind, by way of offsetting rights or otherwise subject to certain conditions. The authorisation is valid for one year but no later than the next Annual General Meeting. The Board did not exercise the authorisation during the financial period.

Board of Directors and auditor

The Annual General Meeting re-elected Raimo Helasmäki, Kari Häyrinen, Kalevi Laurila, Susanna Miekk-oja and Lassi Noponen as members of the Board of Directors. From among its members, the Board elected Kalevi Laurila as Chair and Susanna Miekk-oja as Deputy Chair. The secretary of the Board was Jari Pirinen, LL.M., until 13 April and Anu Kaskinen, LL.M., from 13 April 2011. The Board convened 20 times in 2011, and the average attendance rate was 84%.

The auditor was auditing firm Ernst & Young Oy with Jari Karppinen, Authorised Public Accountant, as the principal auditor.

Report on corporate governance

Incap will release a report on the company's corporate governance in compliance with the Securities Market Act as a separate document, in connection with the publication of the report of the Board of Directors and the annual report.

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 financial period, the share price varied between EUR 0.37 and 0.64 (EUR 0.49 and 0.75). The closing price for the year was EUR 0.42 (EUR 0.57). During the financial period, the trading volume was 4% of outstanding shares (39%).

At the end of the financial period, Incap had 1,053 shareholders (1,085). Nominee-registered owners held 0.5% (0.6%) of all shares. The company's market capitalisation on 31 December 2011 was EUR 7.8 million (10.6 million). The company does not hold any of its own shares.

Incap's share has been listed on the Helsinki Stock Exchange (NASDAQ OMX Helsinki) since 1997 with the trading code ICP1V. The sector classification on the NASDAQ OMX Nordic Exchange Helsinki is Industrial/Industrial Goods & Services.

The company's share capital as recorded in the trade register on 31 December 2011 is EUR 20,486,769.50. The share has no nominal value. The company does not hold any of its own shares, and the Board of Directors is not aware of any shareholder agreements concerning holdings in company shares and the exercise of voting rights.

Share-based incentive system 2009

The option scheme implemented in February 2009 includes a total of 600,000 stock options entitling their holders to subscribe for an equal number of Incap shares. The stock options are broken into three categories: 2009A, 2009B and 2009C. There are 100,000 A options, 100,000 B options and 400,000 C options. The subscription price for all stock options is EUR 1. The subscription period is from 1 April 2010 to 31 January 2014 for 2009A stock options and from 1 April 2011 to 31 January 2014 for 2009B and 2009C stock options.

The CEO has received 100,000 A stock options and 100,000 B stock options. The company's key employees have received a total of 169,000 C stock options.

The proportion of shares to be subscribed on the basis of stock options is up to 3.1% of the company's shares and votes after a possible increase in share capital. Undistributed and returned stock options will be given to Euro-ketju Oy, a subsidiary fully owned by Incap, and the Board of Directors will make a separate decision on distributing these.

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

During the financial period, Incap did not receive any notifications on changes in holdings that require announcements in accordance with Section 9 of Chapter 2 of the Securities Market Act.

Short-term risks and factors of uncertainty concerning operations

The Risk Management Policy approved by the Incap Board classifies risks as risks connected to the operating environment, operational risks and damage and funding risks. Risk management at Incap is mainly focused on risks that threaten the company's business objectives and continuity of operations. In order to improve its business opportunities, Incap is willing to take on managed risks within the scope of the Group's risk management capabilities. Incap regularly reviews its insurance policies as part of its risk management system.

Incap's most significant short-term risks are associated with the development of customer demand, the sufficiency of funding and the realisation of plans related to profitability and inventories.

Demand for Incap's services as well as the company's financial position are affected by international economic trends and economic trends among Incap's customer industries. In 2012, the business environment is expected to develop more stably than in 2011. Incap's sales are spread over several customer sectors, which balances out the impact of the economic trends in different industrial sectors.

In 2011, Incap's largest single customer accounted for 18% of the Group's revenue. The company maintains a balanced customer base in order to ensure that it will not become dependent on a single customer or on several customers in a single customer sector, because this would entail significant financial risks. Risks associated with customer agreements are regularly reviewed and their combined effect is being monitored. Risks associated with customers are managed through contract terms and insurance policies. The uncertain economic outlook has not had a negative effect on the solvency of Incap's customers.

Incap's sector, contract manufacturing, is highly competitive, and there are major pressures on cost level management. Incap manages risks through continuous monitoring and management of operational efficiency and cost levels. The cost structure has been made more flexible by distributing production activities into several countries and by managing manufacturing operations between Finland and other countries.

The company continuously assesses the organisation of different activities as well as the sufficiency and level of human resources to ensure that the organisation is efficient, the correct competencies are available and the company can provide its customers with the high-quality services they require without interruptions and take care of its commitments to other stakeholders. An essential element to maintain the company's competitive edge is the development of labour costs in Incap's countries of operation. Incap manages its personnel risks through active succession planning and by developing its incentive and management systems in a manner that prevents personnel turnover from jeopardising business growth.

Material suppliers' quality problems, manufacturing problems and distribution problems, as well as changes in the market prices of materials, influence Incap's delivery ability and costs. Most material prices are linked to customer agreements to reduce material price risks. Incap enters into framework agreements with trusted material suppliers and seeks to improve predictability in collaboration with customers. With critical suppliers, the company aims to agree on buffer inventories within the limits set by agreements between Incap and the end customer.

The nature of Incap Group's business exposes the company to foreign exchange, interest rate, credit and liquidity risks. The aim of the Group's risk management policy is to minimise the negative effects of changes in the financing markets on the Group's earnings and cash flow. Forward exchange agreements, foreign currency loans and interest rate swaps are used for the management of financing risks as required. Subsidiaries' financing structures are planned, evaluated and directed, taking into account the management of financing risks.

Because Incap operates in the eurozone and in Asia, it is subjected to foreign exchange risks. In accordance with its policy, the company seeks to hedge against foreign exchange risks through currency options and forward exchange agreements. The Group's interest and foreign exchange risks are managed by means of a selected financing structure based on both fixed and floating rate financial instruments in selected currencies.

On 3 May 2011, Incap signed financing agreements totalling EUR 3.8 million. Finnvera granted the company a counter-cyclical guarantee of EUR 1.5 million. A Finnish bank granted Incap EUR 2 million in long-term financing and a short-term factoring facility of EUR 1 million. The long-term financing was recognised in current liabilities, because covenants are tested at an interval of 6 months. In addition, the Indian subsidiary signed a loan agreement with a local bank on a short-term credit of some EUR 0.8 million.

The financing agreements are valid until 31 May 2012 and cover Incap's credit line and factoring credit line as well as the loans related to the financing of the Indian subsidiary. The financing agreements include the following covenants:

	Equity ratio	**net IBD/ EBITDA**	**Net capital expenditure**
31/12/2010	7.4 %	20.6	EUR 1 million/12 months
30/6/2011	11.6 %	4.1	EUR 1 million/12 months
31/12/2011 onwards	10.9 %	5.6	EUR 1 million/12 months

When calculating the covenants, the factoring credit line in use is not included. On 31 December 2011, the equity ratio was 3.3% and net IBD/EBITDA was 38.9. The covenants were not met on 31 December 2011. However, the financier has informed Incap in writing that it will not exercise its right to terminate the agreement. If the financier exercised this right based on the covenants, Incap would not be able to repay the loans immediately as obliged.

Incap Group has a convertible bond of EUR 6.7 million, which was launched in 2007 and will mature on 25 May 2012.

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 negotiations on financing arrangements and additional funding proceed according to plan.

The Group's management is currently undergoing negotiations to renew the company's convertible bond and other loans maturing during spring 2012 and to ensure sufficient additional funding for business operations. The Group's management is confident in succeeding in these negotiations.

Risks related to financing and capital management have been described more in detail in Note 26 to the consolidated financial statements.

In addition, the management will continue measures aimed at selling the Vuokatti plant property. The property and the related loans were recognised as available for sale in the financial statements for 2010. The price estimate given by an external valuer on 23 January 2012 clearly exceeds the book value of the property. Property recognised as available for sale has been described more in detail in Note 1 to the consolidated financial statements.

According to the sensitivity analysis made for the Indian subsidiary the revenue can decrease by a maximum of 16% and the average cost of capital can increase by approximately 10% without any need for goodwill write-offs.

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 December 2011, confirmed tax losses for which no deferred tax asset was recognised amounted to EUR 8.1 million. Because Incap's performance in the previous years deviated remarkably from the projected development, future utilisation of deferred tax assets is uncertain. 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 and the parent company's equity ratio and, consequently, on their equity, among others.

Deferred tax assets have been described more in detail in Note 16 to the consolidated financial statements.

Objectives of the company

In 2012, Incap aims to increase its 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. Incap's goal is to expand deliveries to existing customers to cover more comprehensive solutions and a broader range of end products. Customer acquisition will focus on selected sectors within equipment manufacture related to well-being and energy efficiency. In particular, demand for energy-efficient equipment and equipment related to renewable sources of energy is expected to increase strongly within the next few years.

The company will strengthen the role of product design and launch cooperation networks with design companies, if necessary. In its own product design, the company will focus on equipment related to energy production, storage and supply – an area in which the company already has a great deal of expertise.

The company will continue to enhance the efficiency of its operations by making use of global opportunities and its upgraded operating method in materials management. Incap intends to cut costs by a total of EUR 4 to 4.5 million in 2012 and 2013, when compared to 2011. Costs are reduced by transferring operations from the Helsinki plant to other plants, enhancing the efficiency of material procurement and centralising Group Services in Estonia.

The company estimates that, with its present production structure, it will be able to increase its annual revenue to approximately EUR 100 million by 2015. The company's target customer base and product range will enable it to achieve an operating margin of approximately 5 to 8 percent (EBIT).

Outlook for 2012

Incap's estimates for future business development are based on its customers' forecasts and the company's own assessments. Customers' estimates on the development of their demand are cautious. Based on these estimates, Incap expects favourable development particularly in the demand for equipment related to energy production, storage and supply.

Incap 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).

Board of Directors' proposal on measures related to the operating result

The parent company's loss for the financial period totalled EUR 2,372,981.70. The Board will propose to the Annual General Meeting on 11 April 2012 that no dividend be paid and the loss for the accounting period be recognised in equity.

Annual General Meeting 2012

Incap Corporation's Annual General Meeting will take place on Wednesday, 11 April 2012 at 3.00 p.m. at Hotel Kämp, Pohjoisesplanadi 29, 00100 Helsinki, Finland.

Helsinki, 21 February 2012

INCAP CORPORATION
Board of Directors

Consolidated Income Statement

1,000 euros	Note	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Revenue	3	68,890	59,162
Other operating income	4	145	372
Changes in inventories of finished goods and work in progress	5	-363	188
Work performed by the enterprise and capitalised			
Raw materials and consumables used	5	48,631	40,828
Personnel expenses	8	12,016	12,437
Depreciation and amortisation	7	2,047	2,831
Other operating expenses	6	7,597	6,849
Operating profit/loss		**-1,619**	**-3,223**
Financing income and expenses	10	-2,378	-1,724
Profit/loss before tax		**-3,997**	**-4,947**
Income tax expense	11		64
Profit/loss for the year		**-3,997**	**-4,884**
Attributable to			
Equity holders of the parent company		-3,997	-4,884
Non-controlling interests		0	0
		-3,997	-4,884
Earnings per share from profit for the year attributable to equity holders of the parent			
Basic earnings per share	12	-0.21	-0.33
Diluted earnings per share	12	-0.21	-0.33
Average number of shares:			
basic		18,680,880	14,682,250
diluted		18,680,880	14,682,250

1,000 euros	Note	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME			
Profit/loss for the year		**-3 997**	**-4 884**
Other comprehensive income:			
Translation differences from foreign units		-316	-24
Other comprehensive income, net		-316	-24
Total comprehensive income		**-4 313**	**-4 908**
Total comprehensive income attributable to:			
Equity holders of the parent company		-4 313	-4 908
Non-controlling interests		0	0
		-4 313	**-4 908**

Consolidated Balance Sheet

1,000 euros	Note	31 Dec 2011	31 Dec 2010
ASSETS			
Non-current assets			
Property, plant and equipment	13	4,007	6,026
Goodwill	14	964	1,040
Other intangible assets	14	341	705
Other financial assets	15	314	314
Deferred tax assets	16	4,085	4,209
Total Non-current Assets		**9,710**	**12,294**
Current assets			
Inventories	17	11,423	13,062
Trade and other receivables	18	15,834	14,823
Cash and cash equivalents	19	369	476
Total Current Assets		**27,625**	**28,362**
Non-current assets held-for-sale	1	1,936	1,936
Total Assets		**39,271**	**42,592**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent	20		
Share capital		20,487	20,487
Share premium account		44	44
Exchange differences		-799	-483
Reserve for invested unrestricted equity		4,084	4,084
Retained earnings		-22,506	-18,510
Total equity		**1,311**	**5,622**
Non-current liabilities			
Deferred tax liabilities	16	0	0
Interest-bearing loans and borrowings	24	259	9,403
Current liabilities			
Trade and other payables	25	13,109	14,961
Interest-bearing loans and borrowings	24	24,336	12,007
Liabilities relating to non-current assets held-fore-sale	1	256	598
Total liabilities		**37,960**	**36,970**
Total equity and liabilities		**39,271**	**42,592**

Consolidated Cash Flow Statement

1,000 euros	Note	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Cash flow from operating activities			
Operating profit/loss		-1,619	-3,223
Adjustments to operating profit	28	2,157	23
Change in working capital		-1,920	644
Interest paid		-1,793	-1,840
Interest received		38	27
Cash flow from operating activities		**-3,137**	**-4,369**
Cash flow from investing activities			
Capital expenditure on tangible and intangible assets		-280	-486
Proceeds from sales of tangible and intangible assets		148	591
Loans granted		-6	-5
Repayments of loan assets		0	0
Other investments		-80	-159
Cash flow from investing activities		**-218**	**-59**
Cash flow from financing activities			
Proceeds from share issue		0	4,084
Drawdown of loans		4,946	5,825
Repayments of borrowings		-1,118	-4,338
Repayments of obligations under finance leases		-843	-1,064
Cash flow from financing activities		**2,985**	**4,507**
Change in cash and cash equivalents		-371	79
Cash and cash equivalents at beginning of period		476	661
Effects of changes in exchange rates		288	-228
Changes in fair value (cash and cash equivalents)		-24	-36
Cash and cash equivalents at end of period		**369**	**476**

Consolidated Statement of Changes in Equity

1,000 euros	Share capital	Share premium account	Reserve for invested unrestricted equity	Translation differences	Retained earnings	Total equity
Equity at 1 January 2011	20,487	44	4,084	-483	-18,510	5,622
Total comprehensive income					-3,997	-3,997
Currency translation differences				-316		-316
Share issue						
Transaction costs for equity						
Options and share-based compensation					2	2
Equity at 31 December 2011	**20,487**	**44**	**4,084**	**-799**	**-22,506**	**1,311**

1,000 euros	Share capital	Share premium account	Reserve for invested unrestricted equity	Translation differences	Retained earnings	Total equity
Equity at 1 January 2010	20,487	44		-459	-13,629	6,443
Total comprehensive income					-4,884	-4,884
Currency translation differences				-24		-24
Share issue			4,160			4,160
Transaction costs for equity			-76			-76
Options and share-based compensation					2	2
Equity at 31 December 2010	**20,487**	**44**	**4,084**	**-483**	**-18,510**	**5,622**

Notes to the Consolidated Financial Statements

Corporate information

Incap Corporation is a Finnish public listed company under Finnish law which is domiciled in Helsinki and whose registered address is Valuraudankuja 6, 00700 Helsinki. The company is a contract manufacturer whose comprehensive service covers the entire life-cycle of electromechanical products, from design to repair and maintenance services.

The Group comprises the parent company, Incap Corporation, and the parent company's wholly-owned subsidiaries: Incap Electronics Estonia OÜ, Kuressaare, Estonia; Euro-ketju Oy, Kajaani, Finland; Incap Hong Kong Ltd., Hong Kong and Incap Contract Manufacturing Services Pvt. Ltd., Bangalore, India, which is owned by the parent company by 67%. Incap CMS Pvt. Ltd. is however combined by 100% in the consolidated financial statements, because the control of the subsidiary stays in the parent company.

ACCOUNTING POLICIES APPLIED IN THE CONSOLIDATED FINANCIAL STATEMENTS

Basis of preparation

These Incap Group financial statements have been prepared in accordance with International Financial Reporting Standards in conformity with the IAS and IFRS standards and SIC and IFRIC interpretations in force at the balance sheet date, 31 December 2011. The notes to the consolidated financial statements also comply with Finnish accounting and company legislation.

The financial statements in the official compiled version are presented in unabbreviated form to an accuracy of two decimals. In the Annual Report, the financial statement data is presented in thousands of euros.

The preparation of financial statements in accordance with IFRS calls for the making of certain estimates by Group management as well as for management's judgement in applying accounting policies. The estimates having the greatest effect on the financial statement figures are presented in the note "Accounting policies requiring management's judgement and key sources of estimation uncertainty."

Subsidiaries

The consolidated financial statements include the parent company, Incap Corporation, and its subsidiaries Incap Electronics Estonia OÜ, Incap Hong Kong Ltd., Incap Contract Manufacturing Services Pvt. Ltd. and Euro-ketju Oy.

Intra-Group share ownership has been eliminated by means of the purchase method. Acquired subsidiaries are included in the consolidated financial statements from the time when the Group has obtained control, and divested subsidiaries up to the time when control ceases. All intra-Group transactions, receivables, liabilities, unrealised gains and internal distribution of profits are eliminated when preparing the consolidated financial statements.

Translation of items denominated in foreign currency

Separate companies

Transactions denominated in foreign currency are recorded in the functional currency using the exchange rate on the date of the transaction. Balance sheet items denominated in foreign currency are translated to the functional currency using the exchange rates at the balance sheet date.

Gains and losses resulting from transactions denominated in foreign currency and the translation of balance sheet items are recorded in the income statement. Exchange gains and losses resulting from operations are recorded under the corresponding items above operating profit. Exchange gains and losses resulting from loans denominated in foreign currency are recorded under financial income and expenses.

Group

Figures relating to the profit and financial position of Group units are measured in the main functional currency of each unit. The Incap Group's financial statements are presented in euros, which is the functional and presentation currency of the Group's parent company.

The income and expense items in the income statements of foreign Group companies have been translated to euros using the average exchange rate during the year, and their balance sheets using the exchange rates at the balance sheet date. The translation of the profit for the financial year using different exchange rates in the income statement and the balance sheet results in an exchange difference, which is recorded in equity. The exchange differences arising from the elimination of the acquisition cost of foreign subsidiaries and equity items accumulated after the acquisition are recorded in equity.

Property, plant and equipment

Property, plant and equipment are measured at original cost less accumulated depreciation and impairment losses. Property, plant and equipment are depreciated using the straight-line method over their estimated useful life. The estimated useful lives of assets are the following:

• Buildings	18–24 years
• Machinery and equipment	3–10 years
• Motor vehicles	3–5 years

The residual value of assets and their useful lives are reviewed at each balance sheet date and, if necessary, are adjusted to reflect changes that have occurred in the expectations for an asset's economic benefits.

Subsequent costs are included in the carrying amount of an item of property, plant and equipment only when it is probable that future economic benefits from the asset will flow to the Group. Other repair and maintenance expenses are recognised as an expense as they arise.

Depreciation of an item of property, plant and equipment ceases when the asset is classified as for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Non-current assets held for sale are measured at the lower by carrying amount or by the fair value less the selling expenses.

Capital gains and losses on the retirements and disposals of property, plant and equipment are recorded either in other operating income or expenses.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Transaction expenses directly attributable to the obtaining of convertible debt are included in the original cost of the debt and amortised over the debt period using the effective interest method.

Government grants

Government grants are recorded on a net basis as a deduction from property, plant and equipment, whereby the grants are recognised as income in the form of smaller depreciation charges over the useful life of an asset.

Intangible assets

Goodwill is the proportion of the acquisition cost which exceeds the Group's share of the fair value, at the date of acquisition, of the net asset value of a company acquired after 1 January 2004. Other costs directly attributable to an acquisition, such as experts' fees, are also included in the acquisition cost.

Goodwill and other intangible assets with an indefinite useful life, such as the value of customer relationships, are not amortised but are tested annually for any impairment. The testing involves the allocation of goodwill to units generating cash flow and the measurement at cost less impairment losses. Research and development expenditure is recorded as an expense in the income statement.

An intangible asset is recorded in the balance sheet only if the cost of the asset can be determined reliably and it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity. Intangible assets are recorded in the balance sheet at cost and amortised in the income statement over their known or estimated useful life.

The Incap Group's intangible assets are amortised over 3–5 years.

Inventories

Inventories are measured at the lower of cost or net realisable value. Cost is determined using the FIFO method. The cost of finished and semi-finished products comprises raw materials, direct labour expenses, other direct expenses as well as fixed and variable production overheads, based on the normal capacity of the production facilities. The net realisable value is the estimated selling price of the asset less the estimated costs incurred in bringing the product to its present condition and selling expenses.

Leases

The Group as lessee

Leases of property, plant and equipment where the lessee bears the risks and rewards of ownership are classified as finance leases. An asset obtained on a finance lease is recorded in the lessee's balance sheet at the start of the lease period at the lower of the fair value of the leased property and the present value of the minimum lease payment. An asset obtained on a finance lease is depreciated over the shorter of the useful life of the asset and the lease term. Lease payments for items of property, plant and equipment are split between financial expenses and a reduction in lease liabilities for the period of the lease finance agreement. Finance lease liabilities are included in the Incap Group's interest-bearing liabilities.

When the lessor retains the risks and rewards of ownership, the agreement is treated as an operating lease. Lease payments paid on operating leases are recorded as an expense in the income statement.

Impairment of assets

At each balance sheet date, the Incap Group assesses whether there is any indication that the value of an asset item may be impaired. If any such indication exists, the asset item is tested for impairment to assess its recoverable amount. Impairment testing is done at the lowest possible unit level which is independent of other units and whose cash flows can be distinguished from the other cash flows of the entity.

An impairment loss is recorded when the carrying amount of an asset item is greater than its recoverable amount. The recoverable amount is the higher of an asset's net selling price and its value in use. Value in use refers to the estimated discounted cash flows obtainable from said asset item or cash-generating unit.

An impairment loss is recognised in profit or loss. If an impairment loss is allocated to a cash-generating unit, it is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and thereafter to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss is reversed if the recoverable amount of the asset has changed since the last impairment loss was recognised. An impairment loss is not, however, reversed to an extent greater than what the carrying amount of the asset would have been without the recording of the impairment loss.

The Incap Group's goodwill is tested annually. An impairment loss recorded on goodwill is not reversed under any circumstances.

Employee benefits

Pension obligations

The Incap Group's pension plans are classified as defined-benefit and defined-contribution plans. Payments made for defined contribution plans are recognised as an expense in the income statement for the period which the debit concerns. The obligations of defined-benefit plans are calculated separately for each plan using the projected unit credit method. Pension costs are recorded as an expense for the duration of employees' period of service on the basis of calculations carried out by authorised actuaries.

Share-based payment

The Incap Group has applied IFRS 2 Share-based Payment to all share option plans. Warrants are measured at fair value at the time they are granted and entered as an expense in the income statement in even instalments during the vesting period. The expense determined at the moment of granting the options is based on the Incap Group's estimate of the number of options that will vest at the end of the vesting period. The fair value is determined on the basis of the Black-Scholes pricing model for share options.

The Incap Group updates the estimate of the final number of share options at each balance sheet date. Changes in the estimates are recorded in the income statement. When granted share options are exercised, the cash payments received on the basis of share subscriptions (adjusted for any transaction expenses) are recognised in equity and in the share premium fund.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that a payment obligation will be realised and the amount of the obligation can be estimated reliably. Provisions are measured at the present value of the obligation.

Income taxes

Income tax in the income statement comprises taxes on taxable income for the period and deferred taxes. Taxes on the profit for the financial year are calculated on taxable income on the basis of the tax rate in force in Finland. Taxes are adjusted for taxes for previous periods.

Deferred taxes are calculated on all temporary differences between the carrying amount of an asset or liability and its tax base. In the Incap Group the largest temporary differences arise from finance leases, depreciation of buildings and other property, plant and equipment as well as unused tax losses.

Deferred taxes have been calculated by applying the tax rates in force by the balance sheet date.

A tax asset is recognised to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilised.

Revenue recognition

Goods sold and services rendered

Revenue from the sale of goods is booked when significant risks and benefits connected with the ownership of the goods have been transferred from the seller to the purchaser. In calculating revenue, sales income has been adjusted for indirect taxes and discounts. Revenue from services is recorded when the service has been rendered.

Financial assets and financial liabilities

The Incap Group's financial assets have been classified in accordance with the IAS 39 standard in the following groups: financial assets at fair value through profit or loss, held-to-maturity investments, loans and other receivables and available-for-sale financial assets. The classification is made on the basis of the purpose for which the financial assets were acquired at the time they were originally acquired. Other financial assets presented in the financial statements are classified as available-for-sale financial assets. Available-for-sale financial assets consist mainly of unquoted shares and participations that are not entered in the balance sheet at fair value because their fair value cannot be determined reliably.

Cash and cash equivalents consist of cash on hand, demand deposits and other short-term, highly liquid investments. Items classified as cash and cash equivalents have a maximum of a three-month maturity from the time of acquisition.

Financial liabilities are originally entered in the accounts at fair value on the basis of the consideration received. The transaction expenses of convertible bonds are included in the original carrying amount of the bonds. The fair value of the debt component of convertible bonds has been determined using the market interest rate on similar debt at the time of issuance. The debt component is recorded at amortised cost until it is extinguished by converting the bonds to shares or by repayment of the bonds. Because the equity component of convertible bonds is not material, it has not been recorded separately in the invested non-restricted equity reserve.

Accounting policies requiring management's judgement and key sources of estimation uncertainty

When financial statements are prepared, future scenarios and assumptions have to be made, the outcomes of which may differ from the original scenarios and assumptions. Judgement is also used in applying the accounting policies. In the consolidation of business operations, the Group has used external consultants when assessing the fair values of property, plant and equipment and intangible assets. Concerning property, plant and equipment, Incap has made comparisons with the market prices of similar products and assessed any impairment resulting from the age and wear of the assets and other similar factors affecting them. The determination of the fair value of intangible assets is based on estimates of cash flows related to the assets. It is the view of the management that the estimates and assumptions used are sufficiently accurate as a basis for the determination of fair value. The Group furthermore examines any indications of impairment on property, plant and equipment and intangible assets at least at every balance sheet date.

Estimates made in connection with the preparation of the financial statements are based on management's best knowledge at the balance sheet date. The estimates take into account prior experiences and assumptions which concern the future, are considered the most probable at the balance sheet date and are related to the expected development of the Group's financial operating environment in terms of sales and cost levels. The management's judgement and estimates have been used when testing goodwill and deferred tax assets. Changes are monitored on a regular basis using internal and external information sources, and potential changes in estimates and assumptions are recorded during the financial year when they are revised, and during all financial years thereafter.

The Group continuously assesses and monitors the amount of financing required for business operations so that the Group would have sufficient liquid assets to finance its operations and repay loans that mature. The aim is to guarantee the availability and flexibility of financing through overdraft facilities and other forms of financing.

In order to evaluate liquidity, Incap has prepared a quarterly cash flow estimate that extends over the 2012 financial statements. The cash flow statement is based on the Group's profit forecast for 2012 drawn up in connection with the financial statements and the actual turnover of sales receivables and accounts payable and turnover objectives for inventories. The cash flow forecast is based on a calculation where accounts payable that have matured are paid and Incap's need for working capital increases. Incap's working capital will be sufficient for the next 12 months if the Group achieves its forecasted result and inventory turnover rate and the on-going financing negotiations are realised as planned. Because the forecasts that form the basis of the cash flow calculation have previously deviated from the forecasts, there is an element of uncertainty associated with them.

Impairment testing

Incap Group annually tests goodwill for impairment. The testing is based on a cash flow estimate prepared on the basis of the budget and four-year business plan ratified by the management. Discount rate after taxes, forecast operating profit before depreciation and change in working capital are used as the key factors. The discount rate is comprised of industry risk, interest on liabilities and country-specific risk. The discount rate factors are updated annually in connection with the testing using information received from the market. On the basis of the calculations, there are no indications of impairment of goodwill and other intangible assets with an unlimited economic life.

The value of shares in subsidiaries in the parent group is the acquisition cost plus subsequent investments to strengthen the equity of the subsidiaries. The value of the shares in subsidiaries has a significant impact on the equity ratio and therefore on, for example, shareholders' equity. The impairment testing of shares in subsidiaries has been carried out on the basis of the situation at the end of the financial period. The recoverable amounts used in the impairment test calculations are determined on the basis of use value. The cash flow forecasts are based on the budget for the next financial period and four-year business plan prepared by the management and ratified by the Board of Directors.

The impairment of other assets is estimated annually as described above under Impairment of assets. The recoverable amounts of cash-generating units have been determined by way of calculations based on use value. These calculations require the use of estimates.

Since the revenue and operating profit levels used in the impairment test calculations do not reflect the actual development during the preceding years, there is an element of uncertainty associated with them.

Deferred tax asset

A deferred tax asset has been recognised in the Finnish and Indian companies. Deferred tax assets have been recognised to the extent that is considered to be possible to utilise against future taxable income.

The deferred tax asset is based on the Board of Directors' estimate of the company's future development during the next five years and the resulting imputed taxable profit. The sensitivity of the parent company's revenue to a write-down is minimal, and if the parent company falls short of the set revenue objectives, the deferred tax asset would need to be written down.

Because Incap's performance in the previous years was significantly different than projected, future utilisation of deferred tax assets is uncertain. 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 and the parent company's equity ratio and, consequently, on their equity, for example.

Segment information

The Incap Group does not have business or geographical segments which should be reported according to IFRS 8. The risks and profitability related to the Group's different business and geographical areas do not differ significantly from each other. The company's management regularly assesses future changes and, consequently, the possible formation of segments.

Application of new or amended IFRS standards

The Group has taken into consideration the new standards and interpretations published during the period by the IASB and will introduce them in future accounting periods as they enter into force. The Group estimates that the new standards and interpretations will not have a material effect on the Group's financial statements in coming years. The new standards, interpretations and contents are as follows:

Standards that will take effect on 1 January 2011 or later:

- IAS 32 Financial Instruments: Presentation – classification of rights issues, share options and subscription rights (amendment to the standard)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (new interpretation)
- Amendment to IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction due to a employee benefit arrangement.
- Revised IAS 24 Related Party Disclosures in the financial statement (amendment to the standard)
- Annual changes in IFRS (amendment to several different standards)

Standards that will take effect on 1 January 2012 or later:

- IFRS 7 Financial Instruments: Disclosures - transfers of financial assets (amendment to the standard)
- IAS 12 amendment - Deferred Tax: Recovery of Underlying Assets (IASB published the amendment on 20 December 2010) (amendment to the standard)
- IFRS 9 Financial Instruments: classification and measurement (the amendment cannot be applied prior to EU approval)
- IAS 1 Presenting comprehensive income

Standards that will take effect on 1 January 2013 or later:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 19 Employee Benefits
- IAS 27 Separate Financial Statements (revised in 2011)
- IAS 28 Investments in Associates and Joint Ventures (revised in 2011)
- IFRS 7 and IAS 32 Offsetting Financial Assets and Financial Liabilities
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

1. Non-current assets held for sale

	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Assets classified as held for sale		
Incap Corporation's Vuokatti plant property	1,936	1,936
Liabilities concerning assets classified as held for sale		
Other non-current liabilities to others, interest-bearing	0	171
Other current liabilities, interest-bearing	256	427
	256	**598**

Measures to sell Incap Corporation's property in Vuokatti continue. The fair price estimate given by Catella Property Oy on 23 January 2012 clearly exceeds the book value of the property on 31 December 2011. Further details are given in the report of the Board of Directors for 2011 on short-term risks and factors of uncertainty concerning operations. There were no sales of business operations in the Group in 2010 and 2011.

2. Acquired operations

No business acquisitions were made during financial years 2010 and 2011. Of the decrease of goodwill in 2011, the exchange difference amounts to EUR 76,934.16.

3. Revenue

	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Revenue from the sale of goods	68,868	59,162
Revenue from the services	22	0
	68,890	**59,162**

Geographic division of revenue of external customers	**1 Jan–31 Dec 2011**	**1 Jan–31 Dec 2010**
Europe	59,546	53,219
North America	3,473	418
Asia	5,871	5,525
	68,890	**59,162**

Group has two customers, whose revenue exceeds 10% of the entire Group revenue. Combined revenue of these customers is 28% of revenue.

4. Other operating income

	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Net gains on the disposal of property, plant and equipment	75	295
Lease income	0	0
Other income	70	77
	145	**372**

5. Raw materials and services

Raw materials and consumables	**1 Jan–31 Dec 2011**	**1 Jan–31 Dec 2010**
Purchases during the financial year	46,249	40,834
Change in inventories	1,330	-1,404
	47,579	**39,430**
External services	1,414	1,211
	48,993	**40,641**

6. Other operating expenses

	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Lease expenses	1,811	1,798
Operating and maintenance expenses for property and machinery	1,682	2,060
Other expenses	4,105	2,990
	7,597	6,849

Auditors' fees	**1 Jan–31 Dec 2011**	**1 Jan–31 Dec 2010**
Auditing fees	49	48
Certificates and statements	0	0
Tax advice	4	15
Other services	15	46
	67	**109**

7. Depreciation and amortisation

	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Depreciation and amortisation by assets class		
Intangible assets	323	359
Other capitalised expenditure	0	0
	323	359
Tangible assets		
Buildings	59	331
Machinery and equipment	1,583	2,053
Other tangible assets	81	89
	1,724	**2,472**
Total depreciation, amortisation and impairment losses	**2,047**	**2,831**

8. Employee benefits expense

	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Wages and salaries	9,769	10,196
Pension costs - defined contribution plans	1,218	1,598
Pension costs - defined-benefit plans	22	52
Expense of share-based payments	2	0
Other statutory employer expenses	1,005	592
	12,016	**12,437**
Average number of Group personnel during the period	**749**	**780**

Information on management's employee benefits is presented in Note 31 Related-party transactions. Information on share options granted is presented in Note 21 Share-based payment.

9. Research and development costs

A total of EUR 0.1 million of research and development costs has been recorded as an annual expense in the income statement in 2011 (EUR 0.05 million in 2010).

10. Financial income and expenses

Financial income	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Dividend income from available-for-sale financial assets	2	2
Interest income from investments held until due date	0	0
Interest income from other deposits	6	11
Interest income from trade receivables	29	14
Interest income from loan receivables	0	0
Foreign exchange gains on liabilities	201	211
	238	**238**

Financial expenses	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Interest expenses from financial liabilities measured at amortised cost	-292	-496
Interest expenses from convertible promissory notes	-473	-473
Other interest expenses	-363	-281
Exchange rate losses	-899	-155
Other financial expenses	-591	-556
	-2,616	**-1,962**
Total financial income and expenses	**-2,378**	**-1,724**

Interest expenses include variable lease payments of EUR 0.04 million (EUR 0.08 million in 2010) recorded as lease expenses from finance lease agreements.

11. Income tax

Income tax in the income statement	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Current tax on profits for the year	0	0
Tax for previous accounting periods	0	0
Total current tax based on income	**0**	**0**
Change in deferred tax assets on previous years	0	-6
Change in deferred tax liabilities on previous years	0	70
Total deferred tax	**0**	**64**
Income tax expense	0	64

Reconciliation of tax expenses in the income statement and taxes calculated on the basis of the 26% tax rate applicable in the Group's home country	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Profit before taxes	-3,997	-4,947
Tax at the applicable rate in the home country	1,039	1,286
Divergent tax rates of foreign subsidiaries	117	-578
Tax-free income	87	694
Expenses that are not deductible	-191	-3
Other temporary differences	30	69
Non-recorded deferred tax	-1,082	-1,406
Tax charge	**0**	**64**
Deferred taxes in the balance sheet		
Deferred tax assets	4,085	4,209
Deferred tax liabilities	0	0
	4,085	**4,209**

Deferred tax assets and liabilities are presented in Note 16.

12. Earnings per share

Undiluted earnings per share are calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of shares outstanding during the period.

	2011	2010
Profit for the year attributable to equity holders of the parent	-3,997	-4,884
Weighted average number of shares during the period	18,680,880	14,682,250
Undiluted earnings per share, EUR/share	-0.21	-0.33

When calculating diluted earnings per share, share options and convertible promissory notes are taken into account in the weighted average number of shares. Share options have a dilutive effect when their subscription price is lower than the fair value of the share. The fair value of the share is based on the average price of the shares during the period. A right to subscribe for a maximum of 2,500,000 new shares in the company is attached to the convertible promissory notes. Options for the subscription of new shares related to the convertible promissory notes do not have a dilutive effect, because the shares' trading price is higher than the fair value of the share.

Convertible promissory notes are presented in Note 24 Interest-bearing liabilities.

	2011	2010
Profit for the year attributable to equity holders of the parent, continuing operations	-3,997	-4,884
Weighted average number of shares during the period	18,680,880	14,682,250
Dilution effect of issued share options	0	0
Share-weighted diluted average price used in calculating adjusted earnings per share	18,680,880	14,682,250
Diluted earnings per share, EUR/share	-0.21	-0.33

13. Property, plant and equipment

	Land	Buildings and advances	Machinery and equipment	Other tangible assets	Total
Acquisition cost, 1 Jan 2011	**501**	**1,618**	**44,331**	**962**	**47,412**
Increase	0	181	45	0	225
Consolidation of operations	0	0	0	0	0
Disposals	0	-64	-61	-16	-141
Reclassifications between items	0	-408	359	17	-32
Sale of assets in Group companies	0	0	0	0	0
Exchange differences	-66	-168	-392	-55	-682
Reclassification to non-current AFS assets	0	0	0	0	0
Acquisition cost, 31 Dec 2011	**435**	**1,159**	**44,282**	**907**	**46,782**
Accumulated depreciation and impairment losses, 1 Jan 2011	**0**	**-130**	**-40,528**	**-728**	**-41,386**
Depreciation	0	-59	-1,583	-81	-1,724
Increase	0	0	0	0	0
Decrease	0	0	0	0	0
Reclassifications between items	0	0	0	0	0
Cumulative depreciation on reclassifications and disposals	0	0	64	7	71
Exchange differences	0	21	212	30	263
Reclassification to non-current AFS assets cum. amortisation	0	0	0	0	0
Accumulated depreciation and impairment losses, 31 Dec 2011	**0**	**-168**	**-41,834**	**-773**	**-42,775**
Carrying amount, 1 Jan 2011	501	1,488	3,804	233	6,026
Carrying amount, 31 Dec 2011	435	990	2,448	134	4,007

	Land	Buildings and advances	Machinery and equipment	Other tangible assets	Total
Acquisition cost, 1 Jan 2010	**510**	**6 213**	**44 336**	**875**	**51 935**
Increase	0	519	0	0	519
Consolidation of operations	0	0	0	0	0
Disposals	-8	-447	-69	-24	-547
Reclassifications between items	0	-173	-234	70	-337
Sale of assets in Group companies	0	0	0	0	0
Exchange differences	54	138	298	40	530
Reclassification to non-current AFS assets	-56	-4 633	0	0	-4 689
Acquisition cost, 31 Dec 2010	**501**	**1 618**	**44 331**	**962**	**47 412**
Accumulated depreciation and impairment losses, 1 Jan 2010	**0**	**-2,651**	**-38,398**	**-639**	**-41,688**
Depreciation	0	-331	-2,053	-89	-2,472
Increase	0	0	0	0	0
Decrease	0	0	0	0	0
Reclassifications between items	0	0	0	0	0
Cumulative depreciation on reclassifications and disposals	0	108	37	15	160
Exchange differences	0	-9	-114	-15	-139
Reclassification to non-current AFS assets cum. amortisation	0	2,753	0	0	2,753
Accumulated depreciation and impairment losses, 31 Dec 2010	**0**	**-130**	**-40,528**	**-728**	**-41,386**
Carrying amount, 1 Jan 2010	510	3,562	5,939	236	10,247
Carrying amount, 31 Dec 2010	501	1,488	3,804	233	6,026

Finance leases

Property, plant and equipment includes assets obtained on finance leases as follows:

	Machinery and equipment
31 Dec 2011	
Acquisition cost	16,151
Accumulated depreciation	-15,129
Carrying amount	**1,022**
31 Dec 2010	
Acquisition cost	16,183
Accumulated depreciation	-14,154
Carrying amount	**2,029**

Increases on the acquisition cost of property, plant and equipment include assets leased on finances leases totalling EUR 0 in 2011 (EUR 0 in 2010).

14. Intangible assets

	Goodwill	Other intangible assets	Total
Acquisition cost, 1 Jan 2011	**2,529**	**4,607**	**7,136**
Increase	0	17	17
Decrease	0	-25	-25
Reclassifications between items	0	0	0
Exchange difference	-77	-190	-267
Acquisition cost, 31 Dec 2011	**2,452**	**4,408**	**6,861**
Accumulated amortisation and impairment losses, 1 Jan 2011	**-1,489**	**-3,902**	**-5,391**
Amortisation	0	-324	-324
Cumulative depreciation on sales of assets in Group companies	0	22	22
Exchange difference	0	136	136
Accumulated amortisation and impairment losses, 31 Dec 2011	**-1,489**	**-4,067**	**-5,556**
Carrying amount, 1 Jan 2011	1,040	705	1,745
Carrying amount, 31 Dec 2011	964	341	1,304
Acquisition cost, 1 Jan 2010	**2,466**	**4,484**	**6,950**
Increase	0	12	12
Decrease	0	-16	-16
Reclassifications between items	0	0	0
Exchange difference	63	127	190
Acquisition cost, 31 Dec 2010	**2,529**	**4,607**	**7,136**
Accumulated amortisation and impairment losses, 1 Jan 2010	**-1,489**	**-3,475**	**-4,964**
Amortisation	0	-359	-359
Cumulative depreciation on sales of assets in Group companies	0	0	0
Exchange difference	0	-68	-68
Accumulated amortisation and impairment losses, 31 Dec 2010	**-1,489**	**-3,902**	**-5,391**
Carrying amount, 1 Jan 2010	977	1,008	1,986
Carrying amount, 31 Dec 2010	1,040	705	1,745

Testing for impairment is based on a cash flow estimate prepared on the basis of the budget and four-year business plan ratified by the management. Discount rate after taxes, forecast operating profit before depreciation and change in working capital are used as the key factors. In the cash flow estimate the growth of revenue in India varies between 13 and 18% and the operating profit before depreciation between 10 and 13% during 2012–2015.

In the calculations of the financial year 2011, a discount rate of 17.4% has been used in India. In the calculations of 2010, the discount rate of 19.1% was used. The decrease is due to the Group's financing package, which was signed in May 2011.

According to the sensitivity analysis of the goodwill calculations, the revenue in India can decrease by a maximum of 16% and the average cost of capital can increase by a maximum of 10% without any need for the impairment of goodwill.

In impairment testing of goodwill, the residual value of future cash flows is 33% of the cash flows in calculations for value in use. Based on the calculations, there are no indications of the impairment of goodwill and other intangible assets with an indefinite useful life. Since the levels of revenue and operating profit before depreciation used in calculations do not reflect the actual development during the preceding years, there is an element of uncertainty associated with them.

15. Other financial assets

	2011	2010
Publicly quoted shares	4	4
Unquoted shares	10	10
Capital investment fund	300	300
Total available-for-sale investments at the end of the year	**314**	**314**

The fair value of publicly quoted investments in shares does not differ materially from their carrying amount.

16. Deferred tax assets and liabilities

	1 Jan 2011	Recorded in income statement	Exchange differences	31 Dec 2011
Deferred tax assets				
Tax losses carried forward	4,209	0	-124	4,085
Deferred tax liabilities				
Accumulated depreciation difference	0	0	0	0

	1 Jan 2010	Recorded in income statement	Exchange differences	31 Dec 2010
Deferred tax assets				
Tax losses carried forward	4,156	0	53	4,209
Deferred tax liabilities				
Accumulated depreciation difference	70	-70	0	0

A deferred tax asset has been recognised in the Finnish and Indian companies to the extent that is considered to be possible to utilise against future taxable income. Of the deferred tax assets EUR 0.8 million refers to the Indian subsidiary and EUR 3.3 million to the parent company. The deferred tax asset is based on the Board of Directors' estimate of the company's future development during the next five years and the resulting imputed taxable profit.

The impairment testing of deferred tax assets has been made based on the situation at the end of financial year 2011. The estimated growth of revenue varies in the Indian subsidiary as follows: in 2012 approx. 8%, in 2013 approx. 10.5%, in 2014 approx. 12.6% and in 2015 approx. 11.4%. The level of operating profit before depreciation varies in the parent company between 11 and 13% and in the Indian subsidiary between 9 and 11%. Because the levels of revenue and operating profit before depreciation used in the calculations do not reflect the actual development during the preceding years, there is an element of uncertainty associated with them.

In 2011, the parent company's sensitivity to a write-down was almost 0% (4% in 2010), and if the parent company falls short of the set revenue objectives, the deferred tax asset would need to be written down. The Indian subsidiary can fall short of the revenue objectives by a maximum of 20% without any need for the write-down.

Because Incap's performance in the previous years was significantly different than projected, future utilisation of deferred tax assets is uncertain. 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 and the parent company's equity ratio and, consequently, on their equity, for example.

The non-recorded cumulative tax assets on tax losses carried forward totalled EUR 8.1 million on 31 December 2011. Tax losses expire in years 2012-2021. The deferred tax assets of the parent company for the financial period ending on 31 December 2011 have been calculated based on the tax rate of 24.5% (IAS 12.88).

17. Inventories

	2011	2010
Raw materials and supplies	8,372	9,314
Work in progress	792	1,454
Finished goods	2,038	1,911
Advance payments	220	384
	11,423	**13,062**

EUR 0.2 million was recorded as an expense for the financial year, and the carrying amount of inventories was lowered by this amount to align it with the net realisable value (EUR 0.2 in 2010).

18. Trade and other receivables

	2011	2010
Trade receivables	14,197	12,787
Loan receivables	33	31
Prepaid expenses and accrued income	1,190	1,512
Other receivables	414	492
	15,834	**14,823**

Material items included in prepaid expenses and accrued income are related to local tax receivables in India. The fair values of receivables do not differ from their carrying amount. Receivables are not exposed to any significant credit risks.

Aging structure of trade receivables and items recorded as credit losses	2011	2010
Not past due	11,576	10,024
Past due		
Less than 30 days	1,831	1,933
30–60 days	471	369
61–90 days	148	56
More than 90 days	171	404
	14,197	**12,787**
Items recorded as credit losses	0	12

Distribution of current receivables by currency, EUR	2011	2010
USD	1,903	1,303
HKD	7	0
GBP	0	0
EEK	0	292
INR	1,774	2,386
EUR	12,150	10,844
	15,834	**14,823**

19. Cash and cash equivalents

	2011	2010
Cash and bank accounts	325	328
Short-term investments	44	149
	369	**476**

The cash and cash equivalents according to the cash flow statement comprise same items.

20. Notes to the statement of changes in equity

	Number of shares	Share capital	Share premium account	Total
31 December 2011	18,680,880	20,487	44	20,531
31 December 2010	18,680,880	20,487	44	20,531

The maximum amount of the Incap Group's shares at the balance sheet date is 40 million shares, the same as in 2010. The share's accounting countervalue is EUR 1.68 and the Group's maximum share capital is EUR 67.2 million (EUR 67.2 million in 2010). The shares are fully paid in.

After the balance sheet date, the Board of Directors has proposed that no dividend be paid out.

21. Share-based payment

At the balance sheet date, the Group had one share option plan.

The option scheme implemented in February 2009 includes a total of 600,000 stock options entitling their holders to subscribe for an equal number of Incap shares. The stock options are broken into three categories: 2009A, 2009B and 2009C. There are 100,000 A options, 100,000 B options and 400,000 C options. The subscription price for all stock options is EUR 1. The subscription period is from 1 April 2010 to 31 January 2014 for 2009A stock options and from 1 April 2011 to 31 January 2014 for 2009B and 2009C stock options.

The CEO has received 100,000 A stock options and 100,000 B stock options. The company's key employees have received a total of 169,000 C stock options. The proportion of shares to be subscribed on the basis of stock options is up to 3.1% of the company's shares and votes after a possible increase in share capital. Undistributed and returned stock options will be given to Euro-ketju Oy, a subsidiary fully owned by Incap, and the Board of Directors will make a separate decision on distributing these.

The main terms governing the determination of the fair value of equity instruments that were granted and accepted earlier.	**2011**	**2010**	**2009**	**All share options**
Number of instruments granted, pcs	201,000	125,000	100,000	426,000
Average (weighted) subscription price, euros	1.00	1.00	1.00	1.00
Average (weighted) maturity, years	4.0	4.4	5.1	4.4
Expected average (weighted) volatility, %	48.0,%	48.0,%	48.0,%	48.0,%
Average (weighted) risk-free interest rate, %	2.4,%	2.4,%	2.4,%	2.4,%
Expected personnel reductions (at grant date), %	23.0,%	23.0,%	23.0,%	23.0,%
Total fair value, euros	34,307	20,375	16,344	71,026
Valuation model	Black-Scholes			
Actual	In shares			

Because dividend payouts were not expected, dividends were not taken into account in calculating the fair value of share options.

	2011		2010	
Changes during the share option period and weighted average strike prices	**Average weighted strike price, euros/ share**	**Number of options**	**Average weighted strike price, euros/ share**	**Number of options**
Beginning of year	1.11	251,100	1.39	151,100
New options granted	1.00	201,000	1.00	125,000
Share options forfeited	1.00	-57,000	0	0
Expired options	2.05	-26,100	2.25	-25,000
Share options outstanding at end of year	1.00	369,000	1.11	251,100

Strike prices and expiry times of share options outstanding at end of period

Year of expiry	Strike price, euros	Number of shares 2011	Number of shares 2010	Number of shares 2009
2014	1.00	369 000	225 000	100 000

22. Pension obligations

The Group has both defined-contribution and defined-benefit pension plans. Defined-benefit pension plans are only employed in the subsidiary in India.

In defined-benefit pension plans, the amount of the pension benefit at the time of retirement is determined on the basis of certain factors, such as salary and years of employment.

Defined-benefit pension liability in the balance sheet are determined as follows:	2011	2010
Present value of unfunded obligations	0	0
Present value of funded obligations	194	211
Fair value of plan assets	-99	-126
Underfunding/overfunding	95	85
Unrecognised acturial gains (+) and losses (-)	0	0
Unrecognised past service expenses	0	0
Net liability	**95**	**85**
Amounts in the balance sheet:		
Liability	95	85
Receivable	0	0
Net liability	**95**	**85**

Defined-benefit pension expenses recognised in the income statement	2011	2010
Pension costs based on current period's service	14	9
Benefit-related interest expense	17	12
Expected return on plan assets	-9	-9
Actuarial gains (+) and losses (-)	1	39
Pension costs based on prior periods' service	0	0
Gains/losses on plan curtailment	0	0
Total	**22**	**52**

Actual return on plan assets was EUR 8,120 in 2011 (EUR 9,571 in 2010).

Changes in the present value of the defined benefit obligation	**2011**	**2010**
Defined benefit obligation at 1 January	184	150
Current service cost	13	9
Interest cost	16	12
Actuarial losses/(gains) on obligation	35	40
Gains (+) and losses (-) based on curtailment	0	0
Business combination	0	0
Exchange difference	0	0
Benefits paid	-19	-44
Defined benefit obligation at 31 December	**194**	**168**

Changes in the fair value of plan assets	**2011**	**2010**
Fair value of plan assets at 1 January	110	109
Expected return on plan assets	9	9
Actuarial gains (+) and losses (-)	-1	1
Contributions by employer	0	8
Contributions by plan participants	0	0
Business combination	0	0
Exchange difference	0	0
Benefits paid	-19	-1
Fair value of plan assets at 31 December	**99**	**126**

Plan assets are comprised as follows:	**2011**	**2010**
Funds managed by insurer	99	126

The principal actuarial assumptions used on 31 December	**2011**	**2010**
Asia		
Discount rate	8.50%	8.10%
Expected return on plan assets	7.50%	7.50%
Future salary increases	7.00%	7.00%

Amounts for the current and previous two periods	**2011**	**2010**	**2009**
Present value of defined benefit obligation	194	211	134
Fair value of plan assets	99	126	-98
Surplus (+) / deficit (-)	95	85	36
Experience adjustments on plan liabilities	-1	43	14
Experience adjustments on plan assets	7	1	3

The Group expects to contribute EUR 0.02 million to its defined benefit pension plans in year 2012.

23. Restructuring provision and other provisions

Expense reserve	
31 Dec 2010	285
Increase in restructuring provision	622
Used provisions	-230
31 Dec 2011	**677**

31 December 2009	2 611
Increase in provisions	0
Used provisions	-2 325
31 December 2010	**285**

Incap centralised its electronics manufacturing into one unit in Europe during year 2010. In this connection, the factory in Vuokatti, Finland was closed down and its production was transferred to the company's factory in Kuressaare, Estonia. A provision of EUR 2.6 million of non-recurring expenses was recognised for the financial year 2009 for the closing down of the Vuokatti factory. The provision was used mainly during the year 2010, and against it a total of EUR 1.0 million of exceeding costs was recorded as a credit item. At the end of the financial period, the remaining provision for Vuokatti amounts to EUR 55 thousands. Furthermore, a provision of a total of EUR 622 thousands was recognised for the financial year 2011 due to the closing down of the Helsinki factory.

24. Interest-bearing liabilities

Non-current financial liabilities measured at amortised cost

	2011	2010
Other loans	0	1 899
Convertible promissory notes	0	6 697
Pension loans	0	0
Other loans, held-for-sale	0	171
Finance lease liabilities	259	807
	259	**9 574**

Current financial liabilities measured at amortised cost

	2011	2010
Bank loans	15,129	11,106
Other loans	1,899	0
Convertible promissory notes	6,735	0
Pension loans	0	0
Other loans, held-for-sale	256	427
Finance lease liabilities	574	901
	24,592	**12,435**

The fair values of liabilities are presented in Note 27.

Non-current bank loans amounting to EUR 3.9 million have been transferred to current financial liabilities due to the breach of covenants. Further information is given in the report of the Board of Directors in chapter Short-term riks and factors of uncertainty concerning operations as well as in Note 26 Management of financial risks, liquidity risk.

Of non-current financial liabilities, EUR 0 million are due to be paid off in more than five years (EUR 0 million in 2010). The Group's bank loans have both variable and fixed interest rates. The Group's average interest rate is 5.22% (4.75% in 2010).

Forthcoming payable interest and instalments of loans

	2011	2010
Less than 6 months	7,978	758
6–12 months	779	956
1–5 years	6,415	12,314
More than 5 years	0	567
	15,172	**14,595**

The table includes the forthcoming instalments and interests, and they have been calculated based on the present effective loan agreements. Because of the covenants, the non-current bank loan has in the balance sheet been described under current loans. The above table does not include finance lease liabilities, factoring credit line or credit line.

Distribution of interest-bearing liabilities by currency, EUR

Non-current liabilities	**2011**	**2010**
USD	0	0
EEK	0	179
INR	0	0
EUR	259	9 395
	259	**9 574**

Current liabilities	**2011**	**2010**
USD	1,604	2,026
EEK	0	300
INR	727	0
EUR	22,261	10,108
	24,592	**12,435**

Convertible promissory notes

On 21 May 2007 Incap Corporation offered convertible promissory notes for subscription by a limited group of professional investors (Private Placement). The convertible promissory notes were used for financing of acquisitions in accordance with Incap's strategy. The maximum principal of the convertible promissory notes is EUR 6.7 million.The issue rate of the convertible promissory notes is 100%, and the annual fixed interest to be paid on the principal of the convertible promissory notes is 7.0%. The maturity is five years. The subscription period for the convertible promissory notes was 21 and 22 May 2007.

A right to subscribe for a maximum of 2,500,000 new shares in the company is attached to the convertible promissory notes. Each note unit in the amount of EUR 5,400 entitles the note unit holder to convert the note unit into 2,000 new shares. The conversion rate is EUR 2.70. The conversion period for the note units will commence on the date of the trade register entry concerning the issue of stock options attached to the convertible promissory notes and will end on 30 April 2012. Stock options cannot be detached from the note units. The conversion rate will be recorded in the invested non-restricted equity fund. The convertible promissory notes will expire for payment on 25 May 2012.

Due dates of finance lease liabilities	**2011**	**2010**
Finance lease liabilities – Minimum lease payments		
Less than 1 year	598	951
1–5 years	266	829
Later than 5 years	0	0
	864	**1 780**
Finance lease liabilities - Present value of minimum lease payments		
Less than 1 year	574	901
1–5 years	259	807
Later than 5 years	0	0
	833	**1 708**
Future finance charges	31	72
Total finance lease liabilities	**864**	**1 780**

25. Trade and other payables

Current	**2011**	**2010**
Trade payables	8,693	9,000
Cash proceeds	0	0
Accrued liabilities	2,106	3,090
Other liabilities	2,310	2,871
	13,109	**14,961**

Material items in accrued liabilities and deferred income are related to salary expenses.

Distribution of non-interest-bearing liabilities by currency, EUR	**2011**	**2010**
USD	1,110	1,089
SEK	5	15
CHF	117	118
GBP	32	21
NOK	5	1
JPY	8	8
HKD	2	0
EEK	0	478
INR	2,298	2,024
EUR	9,533	11,207
	13,109	**14,961**

26. Management of financial risks

Organisation of risk management

The nature of the Incap Group's business exposes the company to currency, interest rate, credit and liquidity risks as well as risks related to materials prices. The objective of the Group's financial risk management policy is to minimise the adverse effects of changes in financial markets on its result and cash flow.

The company's financial department identifies and assesses the risks, obtains the necessary instruments for hedging the risks and reports to the President and CEO and the Board of Directors on these risks and any changes in them. Hedging transactions are carried out in accordance with the principles approved by the Group's Board of Directors. Currency forward contracts, currency loans and interest rate swaps are used in risk management, whenever necessary. The financial structure of subsidiaries is planned, assessed and controlled with a view to the management of financial risks.

Currency risks

Incap has a written policy for currency risk management. The Incap Group operates in the euro zone and India. In the Finnish and Estonian companies, a part of material purchases is made in USD. The respective transaction position is taken into consideration when calculating the company-specific position and is hedged in accordance with the currency risk policy. The company does not apply hedge accounting in accordance with IAS 39.

The short-term working capital financing liabilities of the Indian subsidiary are mainly USD-denominated, and the company additionally has an overdraft facility denominated in the Indian rupee. The operations of the Indian company are also financed with a euro-denominated loan for which Incap Corporation has made a non-current investment in the Indian subsidiary at the same amount.

Incap began to use the subsidiary's home currency instead of the US dollar in invoicing between the parent company and the subsidiary in September 2011. Therefore, exposure to transaction risk concerns almost completely the Group's parent company and the foreign subsidiary is not exposed to substantial transaction risk. The risk exposure of the parent company's balance sheet is hedged with forward exchange agreements and options.

In line with the Group's currency risk policy the euro-denominated investment made in the subsidiary in India was not hedged during the financial year. The currency exchange differences arising from the investment are presented under exchange differences in the Group's non-restricted equity. A change of +15%/-15% in the EUR/INR exchange rate results in a decrease of EUR 99,726.32 or an increase of EUR 134,923.85 compared with the exchange difference at 31 December 2011.

Interest rate risk

At the balance sheet date, interest-bearing liabilities in the consolidated balance sheet totalled EUR 24.9 million, and this includes the loan connected with the real estate held-for-sale. Less than half of the interest-bearing liabilities have a fixed rate. The weighted average duration of the interest-bearing loan at the balance sheet date is 2.2 years. The calculation includes all loans, for which it is possible to define the payback period excluding leasing debt. The Group has not carried out special hedging measures against interest rate risks during the financial year.

The Group analyses its interest rate exposure by preparing alternative calculations, simulating different financing options and forms of financing and the updating of current exposures, and anticipating potentially necessary hedging. Based on these calculations, the Group determines the effect of a defined interest rate change on the company's result. Calculations are made only for the loans that have the largest impact on the overall interest rate exposure. A change of +1%/-1% in the market interest rates of variable rate loans would change the Group's annual interest rate expenses by EUR +/- 142,317.43.

Credit risk

The principles and responsibilities of credit control are defined in the Group's documented operating methods.

The Group has significant receivables from several large Finnish and global customers. These customers are well-established, long-standing and creditworthy. No credit losses were reported during the financial year 2011. When a new customer relationship is established, the company assesses the annual volume generated by the new business, its share in revenue and the customer's creditworthiness. During the financial year, the Group did not renegotiate payment terms for receivables that would otherwise have been due or that would have decreased in value. No credit insurance has been used to hedge trade receivables.

The aging structure of trade receivables is presented in section 18 of the notes.

Liquidity risk

The Group continuously evaluates and monitors the amount of financing required by business operations, so that it has sufficient liquid funds to finance operations and repay due loans. The company strives to ensure the availability and flexibility of financing using credit facilities and other forms of financing. The amount of current liabilities is EUR 24.6 million. From this amount EUR 15.1 million is a bank loan, from which EUR 5.4 million is directed towards Indian subsidiary. In order to secure sufficient financing, a factoring financing is used as to the parent company in Estonia and in Finland, and this financing is a part of current liabilities. Unused credit facilities and liquid funds at 31 December 2011 amounted to EUR 2.2 million. Of the financing agreements, a factoring credit of EUR 8.5 million, a guarantee for the Indian working capital overdraft facility of EUR 1.8 million and an overdraft facility of EUR 1 million will mature in May 2012. In addition, the convertible bond of EUR 6.7 million issued by the company in 2007 will mature on 25 May 2012.

In order to evaluate liquidity, Incap has prepared a quarterly cash flow estimate that extends over the 2012 financial statements. The cash flow statement is based on the Group's profit forecast for 2012 drawn up in connection with the financial statements and the actual turnover of sales receivables and accounts payable and turnover objectives for inventories. The cash flow forecast is based on a calculation where accounts payable that have matured are paid and Incap's need for working capital increases. A maximum of EUR 2–3.5 million of additional financing is required. Since the performance levels used in the calculations do not reflect the actual development during the preceding years, there is an element of uncertainty associated with them.

Incap's existing working capital on the balance sheet date will be sufficient for the next 12 months if the Group achieves its budgeted result and inventory turnover rate, and the on-going financing negotiations proceed according to plan.

The company management has initiated negotiations with various parties to ensure additional financing and is confident that it will be able to cover any needs for extra financing. Furthermore, Incap continues actions 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.

Incap Group has a financing agreement in force until 31 May 2012 which covers the loans related to the financing of the Indian subsidiary (totalling about EUR 4.7 million) and Incap's credit line (EUR 1 million) and a factoring credit line (up to EUR 8.5 million), of which EUR 7.5 million were in use on 31 December 2011. The financing agreement can be terminated if the following covenants are not met:

	Equity ratio	net IBD/ EBITDA	Net investment
31 Dec 2010	>7.4%	<20.6	<EUR 1 million/12 months
30 Jun 2011	>11.6%	<4.1	<EUR 1 million/12 months
31 Dec 2011 and onwards	>10.9%	<5.6	<EUR 1 million/12 months

When calculating the covenants, interest-bearing debt (IBD) does not include the factoring limit. Equity ratio on 31 December 2011 was 3.3% and net IBD/ EBITDA -38.9. Even though the covenants were not met on the balance sheet date, the financier informed Incap in writing before the balance sheet date that it will not exercise its right to terminate the agreement. Should the financier call for immediate payment of the loans based on the covenants, Incap is not able to meet the obligation. In the financial statements the loans are treated in accordance with the valid agreement conditions.

Forthcoming instalments and interests have been described in the notes 24.

Materials risk

The material suppliers' eventual problems in quality, manufacturing and distribution as well as the changes in market prices for materials affect Incap's delivery ability and costs. Most of the material prices are connected with customer agreements, and this is lowering the material price risks. Incap is signing framework agreements with renowned partners and aims in cooperation with the customers at improving the accuracy of estimates. The target is to agree on buffer stocks with the critical suppliers within the limits of the agreements between Incap and the final customer.

Capital management

The aim of the Group's capital management activities is to support business operations with an optimal capital structure by ensuring normal resources for operations and increasing shareholder value with the goal of generating the best possible return. An optimal capital structure also guarantees smaller capital expenses.

The trend in the Group's capital structure is constantly tracked with gearing. At the close of 2011, the Group's interest-bearing net liabilities totalled EUR 24.5 million (EUR 21.5 at 31 Dec 2010) and its gearing increased to 1868% (383% at 31 Dec 2010). Gearing is calculated by dividing interest-bearing net liabilities by equity. Net liabilities equal interest-bearing liabilities less interest-bearing receivables and cash and cash equivalents. During 2011, the equity ratio dropped to 3.3% (13.2% at 31 Dec 2010).

27. Fair values of financial assets and liabilities

The fair values of financial assets do not differ from their carrying amount.

Financial liabilities	Carrying amount 2011	Fair value 2011	Carrying amount 2010	Fair value 2010
Bank loans	15,129	15,131	11,106	11,106
Pension loans	0	0	0	0
Convertible promissory notes	6,735	6,709	6,697	6,820
Other interest-bearing loans	2,155	2,155	2,497	2,497
Finance lease liabilities	833	833	1,708	1,708
Trade and other payables	13,109	13,109	14,961	14,961

The fair value of current liabilities do not differ materially from their carrying amount.

Discount rates applied in determining fair value	2011	2010
Bank and other loans	1.86%–10.00%	1.61%–10.00%

On the date of the financial statements, the company has no financial assets and liabilities at fair value through profit and loss.

28. Adjustments to cash flows from operations

	2011	2010
Non-cash transactions	187	-2,622
Depreciation and impairment losses	2,040	2,831
Change in finance lease agreements due to IFRS adjustments	0	0
Lease payments in cash flow from financing activities	0	0
Employee benefits expense	2	2
Transfer of capital gains on tangible assets to cash flow from investments	0	0
Gains (-) and losses (+) of disposals of fixed assets and other non-current assets	-72	-188
	2,157	**23**

29. Operating leases

The Group has leased the production and office space it uses, except for the premises of the Vuokatti factory. Part of these agreements are in force until further notice, whereas the length of others is up to a maximum of five years. The termination periods of lease agreements in force until further notice vary from one to eighteen months. Lease agreements ending on a fixed date include an option of continuing the agreement after the original expiry date. The index, renewal and other terms of the agreements differ from each other.

Non-cancellable operating leases also include equipment leases, which are not classified as finance leases under IFRS.

The Group as lessee

Minimum lease payments under non-cancellable operating leases, excluding value added tax

	2011	2010
Less than 1 year	1,396	1,283
1–5 years	445	1,079
	1,841	**2,361**

The income statement for 2011 includes EUR 1.8 million of lease expenses paid for operating leases (EUR 1.8 million in 2010).

30. Collateral and contingent and related liabilities

Collateral given on behalf of own commitments	2011	2010
Mortgages	3,230	3,340
Business mortgages	10,113	12,028
Collateral given on behalf of others		
Guarantees on behalf of subsidiaries	0	0
Repurchase liability for trade receivables sold to finance companies	0	0
Obligation to return value added tax in the situations set out in Section 33 of the Value Added Tax Act – Value added tax deducted for a new building or basic improvement, for which there is a liability to refund the amount under Section 33, in respect of investments made in the financial years 2004–2011	0	0

31. Related-party transactions

Management's employee benefits	2011	2010
Salaries and other current employee benefits	796	669
Benefits in connection with termination of employment	0	0
Benefits after end of employment	0	0
Other long-term employee benefits	0	0
Share-based payment	0	0
	796	**669**

The President and CEO's period of notice is six months, and if his contract is terminated by the company, he will be paid the salary during the period of notice. The pension benefits of the President and CEO and the other members of the Group Management Team are determined in accordance with the Employment Pensions Act (TEL).

Wages and salaries	2011	2010
President and CEO	258	176
Board members		
Kalevi Laurila	48	48
Susanna Miekk-oja	36	36
Kari Häyrinen	24	24
Lassi Noponen	24	24
Raimo Helasmäki	24	24

The wages and salaries for the Board of Directors cover the full term of office for Board members from 13 April 2011 until 11 April 2012. The members of the company's Board of Directors and the President and CEO and their related persons and the corporations in which they have a controlling interest owned a total of 3,388,510 shares, or 18.1% of the company's shares outstanding and voting rights.

Incap has made an investment of EUR 0.3 million in the Cleantech Future Fund. A member of the Board, Lassi Noponen, is a partner at Cleantech invest Ltd. The venture capital fund Cleantech Future Fund is managed by Cleantech Invest Ltd. and it is investing in cleantech business and technologies.

32. Events occurring after the balance sheet date

Incap decided in January 2012 on the close-down of its Helsinki factory and on the transfer of the manufacturing to the company's other factories in Vaasa and Kuressaare. The decision means that 64 employment contracts will be discontinued gradually during the first half of 2012.

Statutory employer-employee negotiations that were started in Group Services in late 2011 were completed after the end of financial period in January 2012. Group Services will be centralised in Estonia in order to cut costs and enhance the efficiency of operations. For this reason, 8 employment contracts will be discontinued and the number of locations in Finland will be reduced.

Parent Company Income Statement

1,000 euros	Note	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Revenue	1	54,311	44,373
Changes in inventories of finished goods and work in progress	3	-166	-665
Other operating income	2	246	606
Raw materials and services	3	43,321	30,509
Personnel expenses	4	8,068	8,962
Depreciaton, amortisation and impairment losses	5	549	696
Other operating expenses	6	3,842	4,343
Operating profit/loss		**-1,389**	**-197**
Financial income and expenses	7	-1,108	-1,035
Profit/loss before extraordinary items		**-2,497**	**-1,232**
Extraordinary items		0	0
Profit/loss before appropriations and taxes		**-2,497**	**-1,232**
Appropriations	8	124	120
Income taxes	9	0	-450
Profit/loss for the financial year		**-2,373**	**-1,562**

Parent Company Balance Sheet

1,000 euros	Note	31 Dec 2011	31 Dec 2010
ASSETS			
Non-current assets			
Intangible assets	10	263	388
Tangible assets	10	2,136	2,492
Investments	11		
Holdings in Group companies		13,940	13,853
Other investments		311	311
Total non-current assets		**16,651**	**17,044**
Current assets			
Inventories	12	3,088	3,557
Deferred tax assets	13	3,267	3,267
Non-current receivables	13	9,118	0
Current receivables	13	11,324	16,773
Cash in hand and at bank		16	131
Total current assets		**26,813**	**23,727**
Total assets		**43,464**	**40,771**
LIABILITIES			
Equity	14		
Share capital		20,487	20,487
Share premium account		44	44
Reserve for invested unrestricted equity		4,160	4,160
Retained earnings		-9,507	-7,946
Profit for the financial year		-2,373	-1,562
Total equity		**12,811**	**15,184**
Appropriations	15	25	149
Liabilities			
Non-current liabilities	16	0	6,921
Current liabilities	17	30,628	18,517
Total liabilities		**30,628**	**25,438**
Total equity and liabilities		**43,464**	**40,771**

Parent Company's Cash Flow Statement

1,000 euros	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Cash flow from operating activities		
Operating profit/loss	-1,389	-197
Adjustments to operating profit/loss	434	-2,220
Change in working capital	-1,348	-2,213
Interest paid	-1,309	-1,022
Interest received	226	30
Cash flow from operating activities	**-3,386**	**-5,622**
Cash flows from investing activities		
Investments in tangible and intangible assets	-66	-314
Investment in subsidiary	-30	-3,776
Capital investment fund	-80	-159
Proceeds from sales of tangible and intangible assets	71	323
Repayments of loan receivables	0	0
Cash flow from investing activities	**-105**	**-3,926**
Cash flows from financing activities		
Proceeds from share issue	0	4,160
Drawdown of loans	4,173	5,579
Loan repayments	-796	-256
Cash flow from financing activities	**3,377**	**9,483**
Change in cash and cash equivalents	**-115**	**-65**
Cash and cash equivalents at the beginning of the financial year	131	196
Cash and cash equivalents at the end of the financial year	**16**	**131**
Change in working capital		
Increase in current trade receivables	-3,413	-6,420
Increase in inventories	473	3,222
Increase in current liabilities	1,592	985
	-1,348	**-2,213**

Notes to the Parent Company Financial Statements

ACCOUNTING POLICIES

Principles of measurement and periodisation

Non-current assets

Non-current tangible and intangible assets are recorded in the balance sheet at historical cost less depreciation according to plan and amortisation. Investment grants received have been entered as a credit to the corresponding asset item. Depreciation according to plan has been calculated according to the straightline principle on the basis of the useful life of the property, plant and equipment.

Intangible assets

• Goodwill	5–6 years
• Goodwill on consolidation	5 years
• Other intangible rights	3–5 years

Tangible assets

• Buildings and structures	18–24 years
• Machinery and equipment	3–10 years
• Vehicle fleet	3–5 years

Inventories

Inventories are measured at the lower of historical cost under FIFO or the repurchase value or selling price. The value of inventories includes variable expenses and their share in the fixed expenses of procurements and manufacturing.

Financial assets and management of financial risks

Trade receivables and payables are not exposed to significant interest rate or foreign currency risks. The company has however carried out hedging measures against exchange rate fluctuations during the financial year according to the company's hedging policy.

Foreign currency transactions

Items denominated in foreign currency have been translated at the average rate stated by the European Central Bank at the balance sheet date. Exchange differences between sales and purchases have been allocated as a credit or debit to said items.

Leases

In the parent company's financial statements, lease payments for property, plant and equipment obtained on a finance lease are included as lease expenses in other operating expenses.

Research and development expenditure

Research and development expenditure in 2011 has been treated as annual expenses within other operating expenses.

Periodisation of pension expenses

Employees' pension security including supplementary benefits has been insured with pension insurance companies. Pension expenses are recognised as an expense during their year of accrual.

Income taxes

Incap Corporation has, for taxation purposes, unused losses which have been approved and can be utilised in the years 2012–2021. A tax asset is recognised to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilised. Because Incap's performance in the previous years was significantly different than projected, future utilisation of deferred tax assets is uncertain. Should future development not correspond to the Board's estimate, the ensuing write-down of deferred tax assets in the balance sheet would have a considerable impact on the parent company's equity ratio and, consequently, on equity, for example. Deferred tax assets are described in more detail in Note 16, Deferred tax assets and liabilities, to the consolidated financial statements.

Impairment testing of shares in subsidiaries

The value of shares in subsidiaries in the parent group is the acquisition cost plus subsequent investments to strengthen the equity of the subsidiaries. The value of the shares has a significant impact on the parent company's equity ratio and therefore on, for example, shareholders' equity. The impairment testing of shares in subsidiaries has been carried out on the basis of the situation at the end of December 2011.

The recoverable amounts used in the impairment test calculations are determined on the basis of use value. The cash flow forecasts are based on the budget for the next financial period and four-year business plan prepared by the management and ratified by the Board of Directors.

Based on the calculations, there are no indications of impairment of the shares in the subsidiaries. Since the revenue and operating profit levels used in the calculations do not reflect the actual development during the preceding years, there is an element of uncertainty associated with them.

1. Revenue

Revenue by market area	1 Jan–31 Dec 2011	1 Jan–31 Dec 2010
Finland	43,784	35,769
Europe	8,402	5,878
Other	2,125	2,726
	54,311	**44,373**

2. Other operating income

	2011	2010
Capital gains on the sale of property, plant and equipment	227	586
Other income	19	20
	246	**606**

3. Raw materials and services

	2011	2010
Raw materials and consumables		
Purchases during the financial year	17,518	15,894
Change in inventories	463	2,908
	17,980	**18,802**
External services	25,507	12,372
	43,487	**31,174**

4. Personnel expenses and number of personnel

	2011	2010
Average number of employees		
Salaried employees	60	81
Operative workers	111	202
	171	**283**
Personnel expenses		
Wages and salaries	6,586	7,399
Pension expenses	1,150	1,536
Other social security expenses	331	27
	8,068	**8,962**
Salaries and bonus of the management		
President and the Board	414	332
	414	**332**

5. Depreciation and amortisation

Depreciation according to plan in 2011 totalled EUR 0.5 million (EUR 0.7 million in 2010). The specification of depreciation and amortisation for individual balance sheet items is included in the item 10. Property, plant and equipment. The depreciation and amortisation periods are presented in the accounting policies.

6. Other operating expense

	2011	2010
Lease payments	1,642	2,207
Maintenance expenses for machinery and properties	1,017	1,273
Other expenses	1,183	863
	3,842	**4,343**
Auditors fees		
KHT-Group Ernst & Young Oy		
Auditing fees	17	30
Certificates and statements	0	0
Tax advice	2	15
Other services	10	41
	29	**86**

7. Financial income and expenses

	2011	2010
Dividend income		
From other companies	2	2
Other interest and financial income		
From Group companies	0	0
From other companies	241	29
Interest paid and other financial expenses		
To other companies	-1,350	-1,066
	-1,108	**-1,035**

8. Appropriations

	2011	2010
Difference between depreciation according to plan and depreciation for taxation purposes	124	120

9. Income taxes

	2011	2010
Change in deferred tax asset	0	-450

The change in deferred tax asset has been described more in detail in the Consolidated Financial Statements' Note 16 Deferred tax asset.

10. Property, plant and equipment

Intangible assets

	Intangible rights	Goodwill	Other long-term expenditure	Total
Acquisition cost, 1 Jan 2011	1,736	16,337	1,682	19,755
Increase	10	0	7	17
Decrease	-25	0	0	-25
Acquisition cost, 31 Dec 2011	**1,721**	**16,337**	**1,689**	**19,747**
Accumulated amortisation and impairment losses, 1 Jan 2011	-1,401	-16,337	-1,629	-19,367
Cumulative depreciation of decreases and reclassifications	22	0	0	22
Amortisation during the year	-101	0	-38	-139
Accumulated amortisation, 31 Dec 2011	**-1,480**	**-16,337**	**-1,667**	**-19,484**
Carrying amount, 31 Dec 2011	242	0	22	263
Carrying amount, 31 Dec 2010	482	0	90	571

Part of the issuing expenses resulting from the issue of convertible promissory notes during the financial year 2007 was recognised as other long-term expenditure. Of this amount, EUR 15,485.00 remained at the close of the financial year.

Tangible assets

	Land	Buildings	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Acquisition cost, 1 Jan 2011	**56**	**4 633**	**24 382**	**544**	**345**	**29 960**
Increase	0	0	32	0	26	58
Decrease	0	0	-61	0	0	-61
Reclassifications between items	0	0	371	0	-371	0
Acquisition cost, 31 Dec 2011	**56**	**4 633**	**24 723**	**544**	**0**	**29 956**
Accumulated depreciation and impairment losses, 1 Jan 2011	**0**	**-2 753**	**-24 180**	**-534**	**0**	**-27 467**
Cumulative depreciation on reclassifications and disposals	0	0	58	0	0	58
Depreciation during the year	0	-243	-163	-4	0	-410
Accumulated depreciation, 31 Dec 2011	**0**	**-2 996**	**-24 285**	**-539**	**0**	**-27 820**
Carrying amount, 31 Dec 2011	56	1 636	439	5	0	2 136
Carrying amount, 31 Dec 2010	56	1 879	203	9	345	2 492

The fair price estimate given by Catella Property Oy on 23 January 2012 clearly exceeds the book value of the property on 31 December 2011.

11. Investments

	Holdings in Group companies	Receivables from Group companies	Other shares	Total
Acquisition cost, 1 Jan 2011	**10,077**	**3,776**	**311**	**14,164**
Increase	88	0	0	88
Acquisition cost, 31 Dec 2011	**10,164**	**3,776**	**311**	**14,251**
Carrying amount, 31 Dec 2011	10,164	3,776	311	14,251
Carrying amount, 31 Dec 2010	10,077	3,776	311	14,164

The Group's equity at the close of the financial period was EUR 1.3 million (5.6 million in 2010) while the parent company's equity was EUR 12.8 million (EUR 15.2 million in 2010). The equity of the Group is weakened by the losses of the subsidiaries.

The value of shares in subsidiaries in the parent group is the acquisition cost plus subsequent investments to strengthen the equity of the subsidiaries. The value of the shares has a significant impact on the parent company's equity ratio and therefore on, for example, shareholders' equity. The impairment testing of shares in subsidiaries has been carried out on the basis of the situation at the end of December 2011. The recoverable amounts used in the impairment test calculations are determined on the basis of use value.

The cash flow forecasts are based on the budget for the next financial period and four-year business plan prepared by the management and ratified by the Board of Directors. In cash flow estimates, the growth of revenue during the years 2012-2015 is 13-18% in India and 8-30% in Estonia. In the calculations, the operating profit before depreciation is 10-13% in India and 6-8% in Estonia. The discount rate is comprised of industry risk, interest on liabilities and country-specific risk. The discount rate factors are updated annually in connection with the testing using information received from the market. In the calculations for the financial period 2011, the discount rate of 17.4% has been used in India and 11.7% in Estonia.

Should the revenue used in the testing for Estonia decrease by 27% or should the discount rate increase by a maximum of 7%, there would be no need for write-down of shares. The sensitivity of the value of the Indian subsidiary to a write-down is minimal, and therefore, should the Indian subsidiary fall short of the set result objectives, the value of shares would need to be written down.

Since the revenue and operating profit levels used in the impairment test calculations do not reflect the actual development during preceding years, there is an element of uncertainty associated with them.

Group companies

IIncap Electronics Estonia OÜ, Kuressaare, Estonia
Incap Contract Manufacturing Services Pvt. Ltd., Bangalore, India
Euro-ketju Oy, Kajaani, Finland
Incap Hong Kong Limited, Hong Kong

Incap Corporation owns 100% of Incap Electronics Estonia OÜ and Incap Hong Kong Ltd and 67% of Incap Contract Manufacturing Services Pvt. Ltd. Share capital investment of Finnfund is 33% of the share capital of Incap Contract Manufacturing Services Pvt. Ltd. All companies are combined in the parent company consolidated financial statements.

12. Inventories

	2011	2010
Raw materials and consumables	1,777	2,078
Work in progress	275	330
Finished goods	1,033	1,144
Advance payments for inventory	3	4
	3,088	**3,557**

13. Assets

	2011	2010
Non-current		
Amount owed by Group companies		
Trade receivables	9,118	0

Trade receivables from other Group companies, which are not supposed to be realised during the next 12 months after the end of the financial period, have been transferred from current to non-current receivables. The subsidiaries have not been able to settle the trade payables to the parent company during the year 2011 due to their weak profitability.

The group services which are today produced by the parent company will be transferred to the subsidiaries, whereby their liquidity improves and they are able to settle their trade payables. However, there is an element of uncertainty associated with the liquidity.

	2011	2010
Deferred tax asset	3,267	3,267
Current		
Trade receivables	10,978	9,780
Amount owed by Group companies		
Trade receivables	59	6,118
Interest receivables	0	0
Other receivables	0	296
	59	**6,414**
Prepaid expenses and accrued income	287	579
Total receivables	**23,709**	**20,040**

Material items included in prepaid expenses and accrued income are related to leases.

14. Equity

	2011	2010
Subscribed capital, 1 Jan	20,487	20,487
Subscribed capital, 31 Dec	20,487	20,487
Share premium account, 1 Jan	44	44
Share premium account, 31 Dec	44	44
Total restricted equity	**20,531**	**20,531**
Reserve for invested unrestricted equity, 1 Jan	4,160	0
Share issue	0	4,160
Reserve for invested unrestricted equity, 31 Dec	4,160	4,160
Retained earnings, 1 Jan	-9,507	-7,946
Recording of previous years' depreciation differences		
Retained earnings, 31 Dec	-9,507	-7,946
Profit for the financial year	-2,373	-1,562
Total non-restricted equity	**-7,720**	**-5,347**
Total equity	**12,811**	**15,184**
Distributable funds		
Reserve for invested unrestricted equity	4,160	4,160
Retained earnings	-9,507	-7,946
Profit for the financial year	-2,373	-1,562
	-7,720	**-5,347**

15. Accumulated appropriations

The company's accumulated appropriations consist of accumulated depreciation differences.

16. Non-current liabilities

	2011	2010
Loans from credit institutions	0	0
Pension loans	0	0
Convertible promissory notes	0	6,750
Other liabilities	0	171
	0	**6,921**

All liabilities are falling due after five years.

17. Current liabilities

	2011	2010
Loans from credit institutions	12,797	9,079
Pension loans	0	0
Convertible promissory notes	6,750	0
Trade payables	3,275	3,496
Amount owed to Group companies		
Trade payables	3,651	132
Other liabilities	66	0
Advances received	0	0
Other liabilities	2,118	2,872
Accruals and deferred income	1,972	2,938
	30,628	**18,517**
Total interest-bearing liabilities	19,804	9,506
Material items in accruals and deferred income		
Wages and salaries, incl. social costs	1,258	2,030
Lease payment liabilities	51	51
Interest	364	323
Expense reserve	55	286
Other	243	248
	1,972	**2,938**
Other current liabilities		
Reserves	**422**	**0**
Others	**1,696**	**2,872**
	2,118	**2,872**

18. Other notes to the accounts

Collateral	2011	2010
Loans for which real-estate has been mortgaged as collateral		
Loans from credit institutions	0	0
Mortgages	2,504	2,504
Loans for which business mortgages have been given as collateral		
Loans from credit institutions	0	0
Mortgages	10,113	12,028
Collateral given on behalf of the Group companies		
Business mortgages	9,617	9,617
Guarantees on behalf of Group companies	0	0
Contingent and other liabilities		
Lease liabilities, net of VAT		
Liabilities falling due next year	555	838
Liabilities falling due after one year	157	441

Finance leases include the option to buy acquired fixed assets at fair value at the end of the lease period.

Repurchase liability for trade receivables sold to finance companies	0	0
Lease liabilities for the Group's premises	806	1,256

Board of Directors' proposal on measures related to the operating result

The parent company's loss for the financial period totalled EUR 2,372,981.70. The Board will propose to the Annual General Meeting on 11 April 2012 that no dividend be paid and the loss for the accounting period be recognised in equity.

Helsinki, 21 February 2012

Kalevi Laurila
Chairman of the Board

Raimo Helasmäki

Kari Häyrinen

Susanna Miekk-oja

Lassi Noponen

Sami Mykkänen
President and CEO

Auditor's report

To the Annual General Meeting of Incap Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Incap Oyj for the year ended 31 December, 2011. The financial statements comprise the consolidated statement of financial position, income statement, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company and the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

An additional information relating to emphasizing of a certain issue

Without adjusting our statement, we want to draw attention to the issues described in the report of the Board of Directors and in paragraph 26 of notes to financial statements of the company's liquidation and liabilities. The group's equity ratio is 3.3 %. The company estimates that the company's cash flow is sufficient to the needs of the following twelve months, provided that the company's additional negotiations on complementary financing are realized as planned. These factors, together with other issues mentioned in the report of the Board of Directors and the notes to the financial statements show material uncertainty, which may challenge the liquidity of the company.

In addition, without adjusting our statement, we want to draw attention to the deferred tax asset of EUR 4.1 million disclosed in notes to the financial statements and the report of the Board of Directors. The result development of the previous financial periods has significantly deviated from the prepared forecasts, and thus the utilization of deferred tax asset shall be subject to uncertainty. If the companies' result development does not correspond to the development estimation of the Board of Directors, the write-down of the deferred tax asset would have a significant impact on equity ratio of both the Incap group and the parent company and, thereby, among other things, their shareholders' equity.

In addition, without adjusting our statement, we want to draw attention to the valuation of the subsidiary shares described in paragraph 11 of notes to financial statements of the parent company and the uncertainty relating to them.

Oulu, 20 March 2012

Ernst & Young Oy
Authorized Public Accountant Firm

Jari Karppinen
Authorized Public Accountant

Five-year Key Figures

		2011	2010	2009	2008	2007
		IFRS	IFRS	IFRS	IFRS	IFRS
Revenue	EUR million	68.9	59.2	69.8	93.9	83.0
Growth	%	16	-15	-26	13	-7
Operating profit	EUR million	-1.6	-3.2	-5.0	-3.6	0.3
Share of revenue	%	-2	-5	-7	-4	0
Profit before taxes	EUR million	-4.0	-4.9	-6.7	-5.4	-1.1
Share of revenue	%	-6	-8	-10	-6	-1
Return on equity (ROE)	% 2)	-115.3	-81.0	-68.5	-33.4	-5.6
Return on investment (ROI)	% 2)	-5.1	-10.6	-15.9	-8.6	1.3
Total assets	EUR million	39.3	42.6	39.7	48.9	54.2
Equity ratio	% 2)	3.3	13.2	16.2	27.0	35.3
Gearing	% 2)	1,867.7	383.0	319.8	146.1	103.2
Net debt	EUR million	21.8	21.7	21.3	20.7	15.8
Quick ratio		0.4	0.6	0.5	0.6	0.8
Current ratio		0.7	1.0	1.1	1.2	1.4
Investments	EUR million	0.3	0.5	1.1	1.8	1.5
Share of revenue	%	0	1	2	2	2
R&D expenditure	EUR million	0.1	0.1	0.1	0.5	0.3
Share of revenue	%	0	0	0	1	0
Average number of employees		749	780	751	735	678
Dividends	EUR million 1)	0	0	0	0	0

1) Key figures for 2008, 2009, 2010 and 2011 have been calculated in accordance with the standard 5.1 of Financial Supervision Authority.
2) The Board of Directors proposes to the Annual General Meeting that no dividend be paid out.

		2011	2010	2009	2008	2007
		IFRS	IFRS	IFRS	IFRS	IFRS
Per-share data						
Earnings per share	EUR	-0.21	-0.33	-0.55	-0.44	-0.09
Equity per share	EUR	0.07	0.30	0.53	1.08	1.57
Dividend per share	EUR [1)]	0	0	0	0	0
Dividend out of profit	% [1)]	0	0	0	0	0
Effective dividend yield	% [1)]	0	0	0	0	0
P/E ratio		-2.0	-1.7	-1.2	-1.2	-14.9
Trend in share price						
Minimum price during year	EUR	0.37	0.49	0.43	0.49	1.25
Maximum price during year	EUR	0.64	0.75	0.99	1.60	2.67
Mean price during year	EUR	0.52	0.63	0.63	1.02	2.10
Closing price at end of year	EUR	0.42	0.57	0.67	0.55	1.34
Total market capitalisation at 31 Dec	EUR million	7.8	10.6	8.2	6.7	16.3
Trade volume	no. of shares	746,382	5,211,956	2,986,054	1,651,176	6,535,047
Trade volume	%	4	39	25	14	54
Share issue-adjusted number of shares						
Mean number during year		18,680,880	14,682,250	12,180,880	12,180,880	12,180,880
Number at end of year		18,680,880	18,680,880	12,180,880	12,180,880	12,180,880

1) Key figures for 2008, 2009, 2010 and 2011 have been calculated in accordance with the standard 5.1 of Financial Supervision Authority.
2) The Board of Directors proposes to the Annual General Meeting that no dividend be paid out.

Definitions of Key Figures

Return on equity, %	=	100 x profit/loss / equity (mean for financial year)
Return on investment, %	=	100 x (profit/loss + financial expenses) / equity + interest-bearing loans (mean for financial year)
Equity ratio, %	=	100 x equity / total assets less advance payments received
Gearing, %	=	100 x (interest-bearing liabilities less cash and cash equivalents) / equity
Net debt	=	liabilities less financial assets
Quick ratio	=	financial assets / short-term liabilities - current advance payments received
Current ratio	=	financial assets + inventories / current liabilities
Investments	=	purchases of property, plant and equipment net of VAT and including investment subsidies
Average number of employees	=	average number of employees at end of month

Per-share data

Earnings per share	=	net profit / share issue-adjusted mean number of shares during financial year
Equity per share	=	equity / share issue-adjusted number of shares at end of financial year
Dividend per share	=	dividend during financial year / share issue-adjusted number of dividend-earning shares at end of financial year
Dividend out of profit, %	=	100 x dividend per share / earnings per share
Effective dividend yield, %	=	100 x dividend per share / last price at balance sheet date
Price per earnings (P/E) ratio	=	last price at balance sheet date / earnings per share
Total market capitalisation	=	last price at balance sheet date x number of shares in issue

INCAP CORPORATION
Valuraudankuja 7
FI-00700 Helsinki, Finland
Tel. +358 20 779 0550
Fax +358 9 224 4095
www.incap.fi