Incap Corporation

INTERIM REPORT JANUARY-SEPTEMBER 2008

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INCAP GROUP INTERIM REPORT JANUARY-SEPTEMBER 2008: REVENUE INCREASED, OPERATING PROFIT STILL NEGATIVE

- Revenue in January-September increased by approximately 20% on the same period the previous year, amounting to EUR 68.1 million (Jan-Sep 2007: EUR 56.7 million)
- Operating profit (EBIT) was EUR 2.4 million negative (EUR 1.7 million negative), or 3.5% negative of revenue (3.0% negative).
- Net profit for the report period amounted to EUR 3.5 million negative (2.6 million negative).
- Earnings per share (EPS) were EUR 0.29 negative (0.21 negative)
- Profitability was burdened by increased production costs, non-recurring items for organisational development and personnel arrangements as well as by delayed revenue growth in India

This unaudited interim financial report has been prepared in compliance with the recognition and measurement principles of the IFRS standards. The tables in the report have been prepared in compliance with the requirements of the IAS 34 standard approved by the EU. The accounting principles and methods of the interim report are the same as in the last annual financial statements. Unless mentioned otherwise, the comparison figures used in the text portion of the report are the figures for the comparable period during the previous year. The figures for 2007 include the Indian operations as of 1 June 2007.

Revenue and earnings in July-September 2008

Revenue during the third quarter was EUR 21.4 million (7-9/2007: EUR 20.6 million) or approximately 4% higher than during the comparable period in 2007. Compared to the second quarter of the year, revenue decreased due to the softened demand for telecommunications products in July-August. Demand for the energy efficiency segment, on the other hand, developed favourably.

The operating profit was EUR 0.4 million negative (EUR 0.6 million negative) and as a percentage of revenue it was 2.1% negative (2.8% negative). The operating profit improved compared to the previous quarters due to a relative increase in the sales margin and reduced fixed costs.

Quarterly comparison (EUR thousands)	7-9/ 2008	4-6/ 2008	1-3/ 2008	10-12/ 2007	7-9/ 2007	4-6/ 2007	1-3/ 2007
Revenue	21 395	26 412	20 330	26 304	20 593	19 130	16 982
Operating profit/loss	-442	-600	-1 329	2 025	-578	44	-1 188
Net profit/loss	-800	-1 005	-1 681	1 450	-1 071	-139	-1 342
Earnings per share, EUR	-0.07	-0.08	-0.14	0.12	-0.09	-0.01	-0.11

Revenue and earnings in January-September 2008

Revenue for January-September 2008 was EUR 68.1 million or 20.2% higher than during the comparable period in 2007 (Jan-Sep 2007: EUR 56.7 million). Many new products entered actual serial production from the prototype and pre-production stages during the report period. Discontinued telecommunication sector products were manufactured for the customer's stock, which increased the revenue.

Operating profit, EUR 2.4 million negative, was slightly weaker than during the comparable period in 2007 (EUR 1.7 million negative) and as a percentage of revenue it was 3.5% negative (3.0% negative). The increases in electronics components and metal material prices had mainly been transferred to customer prices by the end of the report period.

The operating profit for the report period includes approx. EUR 1.0 million of non-recurring costs connected with the organisation changes and the streamlining of the Group structure. During the comparable period the non-recurring costs amounted to EUR 0.6 million.

Net profit for the report period amounted to EUR 3.5 million negative (EUR 2.6 million negative). Net profit was particularly affected by an increase in financing expenses. Earnings per share amounted to EUR 0.29 negative (EUR 0.21 negative), while equity per share stood at EUR 1.24 (EUR 1.46).

Quarterly comparison (EUR thousands)	1-9/2008	1-9/2007	1-12/2007
Revenue	68 136	56 706	83 010
Operating profit/loss	-2 371	-1 722	303
Net profit/loss	-3 486	-2 552	-1 102
Earnings per share, EUR	-0.29	-0.21	-0.09

Development of operations

Several new delivery agreements were signed during the report period. In the field of energy efficiency, collaboration in the manufacturing of subassemblies for electric motors was increased. The scope of delivery was also extended in the manufacturing of well-being and security products. The manufacturing of telecommunications products increased temporarily as products to be discontinued were manufactured for the stock of a customer.

The six new customers in India proceeded from prototype and pre-production runs to volume production. The Indian factory's production mainly comprises integrated product entities for the energy technology and industrial electronics. The construction of new production facilities in Tumkur is proceeding and they are supposed to be completed during the first quarter of 2009.

The value of inventories increased at the end of the report period due to components required for final deliveries to customers operating in the telecommunications sector. When the production of these products ends, the value of the material inventory is estimated to decrease by approximately EUR 4 million by the end of the year.

During the report period, the focus of material sourcing was transferred to India and China, where cooperation with a partner operating in the area was started. Low-cost sources of supply were utilised in the procurement of several component groups. In addition, own resources in strategic sourcing were reinforced in India. Also the design capacity was enhanced strongly so that Incap today runs a design team of 12 professionals offering design services in mechanics, electronics and PCBs to customers globally.

Incap sold the entire share capital of its subsidiary Ultraprint Oy to the operative management of the subsidiary on 16 July 2008. The subsidiary's revenue in 2007 amounted to about EUR 1.2 million and it had 12 employees.

Redefining the strategy

In accordance with the strategy updated in August, Incap pursues profitable growth by focusing on strongly growing market segments and developing services particularly for the needs of leading equipment manufacturers in the fields of energy efficiency and well-being technology. Incap is already strongly involved in the delivery chain of these applications.

The definition means that the importance of the telecommunications sector will decrease remarkably in Incap's operations. The share of products for the telecommunications sector of revenue will be reduced significantly at the end of 2008, when volume production for two customers will end.

As part of the revision of the strategy, Incap has renewed its organisation, which is divided into three business units: Energy efficiency, Well-being and Emerging business. Incap's present revenue is almost evenly distributed among these three units.

Reorganisation programme

In August 2008, Incap launched a reorganisation programme aimed at strengthening the financial base of the company. The programme emphasises the improvement of profitability and the working capital ratio and also the adaptation of the cost structure.

Profitability is to be improved by expanding the service selection, eliminating low-margin or unprofitable assignments, and further increasing the role of Indian and Estonian plants in service production. The capacity of production services will be adapted in response to demand, the roles of plants will be specialised and fixed costs will be reduced. The reorganisation programme will be implemented by the end of 2008.

The implementation of the programme has proceeded according to plans. Production capacity has been adjusted to match demand in, e.g., the Vuokatti factory, where the number of personnel has been cut in accordance with reduced demand. On the other hand, resources were added in Vaasa and Helsinki for the manufacturing of energy and well-being technology products. Transfers of products to the Estonian factory are being carried out in accordance with plans agreed with the customers. Service capacity is being improved, particularly in terms of the start-up of new products and customer production takeover projects and design services.

Low-margin or unprofitable assignments and customer relationships have been disposed of in a controlled way. Fixed costs are being reduced in both production units and corporate functions.

A marketing project to gain new customers, particularly among leading energy efficiency and well-being sector manufacturers and other growing sectors in Europe, started in September.

Financing and cash flow

The Group’s equity ratio was 29.4% (31.2%). Interest-bearing net liabilities totalled EUR 20.1 million (EUR 22.0 million) and the gearing ratio was 132.6% (124.3%). Net financial expenses were EUR 1.1 million (EUR 0.9 million) and depreciation expenses were EUR 2.1 million (EUR 2.0 million).

The Group's equity at the close of the period under review was EUR 15.2 million (EUR 17.7 million). Debt totalled EUR 36.4 million (EUR 39.1 million), of which interest-bearing debt amounted to EUR 20.7 million (EUR 23.5 million).

The Group’s quick ratio was 0.6 (0.7) and the current ratio 1.5 (1.6). Cash flow from operations was EUR 0.3 million positive (EUR 4.1 million negative) and the change in cash and cash equivalents was a decrease of EUR 0.3 million (an increase of EUR 1.0 million).

Capital expenditures

The Group's capital expenditures were EUR 1.5 million (EUR 1.1 million) or 2.2% (1.9%) of revenue.

Personnel

At the end of the report period, Incap Group had 755 employees (778), of whom 166 were officials and 589 were employees. At the end of the report period, 47% of personnel worked in Finland, 25% in Estonia and 28% in India. In addition, a total of 64 leased employees worked in the company.

The co-determination negotiations at the Vuokatti unit were concluded after the close of the report period in October. As a result, 13 people will be made redundant and a total of 67 will be temporarily laid off in three phases.

Authorisations of the Board of Directors

The Annual General Meeting of 10 April 2008 authorised the Board of Directors to decide, within one year of the Annual General Meeting, on increasing the share capital through one or more rights issues and on granting stock options so that the total number of new shares to be subscribed for on the basis of the authorisation is a maximum of 4,000,000 shares, from which a maximum of 600,000 shares can be used in stock options. The Board of Directors has not exercised the authorisation.

Shares and shareholders

Incap Corporation has one series of shares and the number of shares is 12,180,880. During the report period, the share price varied between EUR 0.85 and EUR 1.60, and the closing price of the period was EUR 0.86 (EUR 1.85). During the report period, the trading volume was 11% of outstanding shares (30%).

At the end of the report period, the company had 1,071 shareholders (1,114). Foreign or nominee-registered owners held 3.7% (16.3%) of all shares. The company's market capitalisation on 30 September 2008 was EUR 11.9 million (EUR 22.5 million). The company does not own any of its own shares.

Short-term risks and factors of uncertainty concerning operations

The increased uncertainty of general economic trends may have an impact on Incap's customers' market situation in the future and thereby on the development of Incap's revenue. However, the customers have not predicted any significant changes in their demand so far. The significant decrease in deliveries to customers operating in the telecommunications sector, which has already been known, will be realised by the end of 2008, and this is estimated to improve Incap's financing situation due to a considerable decrease in capital tied up in inventories. In case the declining revenue from the telecom sector cannot be replaced by growth in another customers, the already decided lay-offs may cause non-recurring costs.

The most significant challenge in the near future is Incap's ability to improve its cost structure and to enforce the turn to operational profitability. Other short-term uncertainties are connected with the financing arrangements of the Indian operations, the risks related with the general turbulence in financing market as well as with the management of the costs of materials.

The general risks and factors of uncertainty relating to Incap's operations are described in more detail in the report by the Board of Directors dated 3 March 2008, and no significant changes have taken place with regard to these factors during the report period.

Outlook for the rest of 2008

Incap's estimates of its future business development are mainly based on its customers' estimates. In spite of a significant deterioration in the global economic outlook, Incap's customers have estimated their demand to remain at the previously predicted levels, even though the situation could change quickly should the financial crisis become critical. On the other hand, of the customers, equipment manufacturers in energy technology and electrotechnology have reported that their demand will develop favourably also in 2009 due to their outstanding orders.

Incap estimates that its revenue in 2008 will increase clearly from last year's EUR 83.0 million. Profitability is expected to improve further during the last quarter of the year and operating profit from operations in 2008 is expected to be on the same level than the previous year, when it was EUR 2.8 million negative.

In the earlier statement on 6 August 2008, Incap estimated that the Group's revenue would exceed last year's EUR 83.0 million. Then, the company further estimated that profitability will improve during the second half of the year compared to the first half of the year, and the operating profit from operations in 2008 is expected to be on the same level as 2007.

Helsinki, 5 November 2008

INCAP CORPORATION
Board of Directors

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DISTRIBUTION
NASDAQ OMX Helsinki Oy
Principal media
The company’s Web site www.incap.fi

PRESS CONFERENCE
Incap will arrange a conference for the press and financial analysts today at 10.00 a.m. today at the World Trade Center Helsinki, in Meeting Room 1 on the 2nd floor at Aleksanterinkatu 17, FI-00100 Helsinki.

ANNEXES
1 Consolidated Income Statement
2 Consolidated Balance Sheet
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5 Group Key Figures and Contingent Liabilities
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INCAP IN BRIEF
Incap Corporation is an internationally operating contract manufacturer whose comprehensive services cover the entire lifecycle of electromechanical products from design and manufacture to maintenance services. Incap’s customers are leading equipment suppliers in energy-saving and well-being technology for which the company produces new competitiveness as a strategic partner. Incap has operations in Finland, Estonia and India. The Group’s revenue in 2007 amounted to EUR 83 million and the company currently employs approximately 730 persons. Incap's share is listed on the NASDAQ OMX Helsinki Oy. For additional information, please visit www.incap.fi.

Annex 1

CONSOLIDATED INCOME STATEMENT (IFRS)

(EUR thousands, unaudited)

	1-9/2008	1-9/2007	Change %	1-12/2007
REVENUE	68 136	56 706	20	83 010
Work performed by the enterprise and capitalised	0	99		99
Change in inventories of finished goods and work in progress	1 190	266	347	-999
Other operating income	30	18	68	3 166
Raw materials and consumables used	48 245	39 027	24	56 896
Personnel expenses	13 630	11 210	22	15 979
Depreciation and amortisation	2 125	1 980	9	2 753
Other operating expenses	7 727	6 594	17	9 343
OPERATING PROFIT/LOSS	-2 371	-1 722	39	303
Financing income and expenses	-1 115	-851	28	-1 356
PROFIT/LOSS BEFORE TAX	-3 486	-2 573	35	-1 053
Income tax expense	0	21	-100	-49
PROFIT/LOSS FOR THE PERIOD	-3 486	-2 552	37	-1 102
Earnings per share	-0,29	-0,21	38	-0,09

Options have no dilutive effect
in accounting periods 2007 and 2008

Annex 2

CONSOLIDATED BALANCE SHEET (IFRS)

(EUR thousands, unaudited)	30.9.2008	30.9.2007	Change %	31.12.2007
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	11 496	13 330	-14	12 883
Goodwill	972	1 139	-15	1 326
Other intangible assets	1 370	1 566	-12	1 575
Other financial assets	17	21	-20	21
Deferred tax assets	4 151	4 310	-4	4 223
TOTAL NON-CURRENT ASSETS	18 006	20 366	-12	20 028
CURRENT ASSETS				
Inventories	18 833	20 156	-7	14 882
Trade and other receivables	14 069	14 801	-5	18 367
Cash and cash equivalents	615	1 494	-59	944
TOTAL CURRENT ASSETS	33 518	36 451	-8	34 192
TOTAL ASSETS	51 523	56 817	-9	54 220
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Share capital	20 487	20 487	0	20 487
Share premium account	44	44	0	44
Exchange differences	-494	-131	277	-216
Retained earnings	-4 876	-2 668	83	-1 188
TOTAL EQUITY	15 161	17 732	-14	19 127
NON-CURRENT LIABILITIES				
Deferred tax liabilities	121	126	-4	121
Interest-bearing loans and borrowings	13 496	15 937	-15	11 188
NON-CURRENT LIABILITIES	13 617	16 063	-15	11 309
CURRENT LIABILITIES				
Trade and other payables	15 527	15 422	1	14 294
Current interest-bearing loans and borrowings	7 218	7 600	-5	9 490
CURRENT LIABILITIES	22 745	23 022	-1	23 784
TOTAL EQUITY AND LIABILITIES	51 523	56 817	-9	54 220

Annex 3

CONSOLIDATED CASH FLOW STATEMENT
(EUR thousands, unaudited)

	1-9/2008	1-9/2007	1-12/2007
Cash flow from operating activities			
Net income	-2 371	-1 722	303
Adjustments to operating profit	2 101	1 943	-372
Change in working capital	1 601	-3 868	-3 070
Interest paid	-1 087	-537	-977
Interest received	104	88	142
Cash flow from operating activities	348	-4 096	-3 974
Cash flow from investing activities			
Capital expenditure on tangible and intangible assets	-1 501	-1 250	-1 974
Proceeds from sale of tangible and intangible assets	101	0	3 118
Acquisition of subsidiary		-8 261	-8 261
Sold shares of subsidiary	50		
Repayments of loan assets	3		
Cash flow from investing activities	-1 347	- 9 511	-7 117
Cash flow from financing activities			
Drawdown of loans	2 453	16 689	14 316
Repayments of borrowings	-942	-996	-1 116
Repayments of obligations under finance leases	-805	-1 092	-1 643
Cash flow from financing activities	706	14 601	11 557
Change in cash and cash equivalents	-293	994	466
Cash and cash equivalents at beginning of period	944	500	500
Effect of changes in exchange rates	-36	0	-22
Cash and cash equivalents at end of period	615	1 494	944

Annex 4

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

	Share capital	Share premium account	Exchange differences	Retained earnings	Total
Equity at 1 January 2007	20 487	44	-131	-206	20 194
Options and share-based compensation	0	0	0	90	90
Net income and losses recognised directly in equity	0	0	0	90	90
Net profit/loss	0	0	0	-2 552	-2 552
Total income and losses	0	0	0	-2 462	-2 462
Equity at 30 September 2007	20 487	44	-131	-2 668	17 732
Equity at 1 January 2008	20 487	44	-216	-1 188	19 127
Options and share-based compensation	0	0	0	-202	-202
Net income and losses recognised directly in equity	0	0	0	-202	-202
Net profit/loss	0	0	-278	-3 486	-3 764
Total income and losses	0	0	-278	-3 688	-3 966
Equity at 30 September 2008	20 487	44	-494	-4 876	15 161

Annex 5

GROUP KEY FIGURES AND CONTINGENT LIABILITIES (IFRS)

	1-9/2008	1-9/2007	1-12/2007
Revenue, EUR millions	68.1	56.7	83.0
Operating profit, EUR millions	-2.4	-1.7	0.3
% of revenue	-3.5	-3.0	0.4
Profit before taxes, EUR millions	-3.5	-2.6	-1.1
% of revenue	-5.1	-4.5	-1.3
Return on investment (ROI), %	-7.5	-6.1	1.3
Return on equity (ROE), %	-27.1	-17.9	-5.6
Equity ratio, %	29.4	31.2	35.3
Gearing, %	132.6	124.3	103.2
Net debt, EUR millions	21.7	22.8	15.8
Net interest-bearing debt, EUR millions	20.1	22.0	19.7
Average number of shares during the report period, adjusted for share issues	12 180 880	12 180 880	12 180 880
Earnings per share (EPS), euro	-0.29	-0.21	-0.09
Equity per share, euro	1.24	1.46	1.57
Investments, EUR millions	1.5	1.1	1,5
% of revenue	2.2	1.9	1.9
Average number of employees	732	633	678
CONTINGENT LIABILITIES, EUR millions			
FOR OWN LIABILITIES			
Mortgages	12.1	12.8	12.3
Other liabilities	8.2	9.3	7.4

Annex 6

QUARTERLY KEY FIGURES (IFRS)

	7-9/ 2008	4-6/ 2008	1-3/ 2008	10-12/ 2007	7-9/ 2007	4-6/ 2007	1-3/ 2007
Revenue, EUR millions	21.4	26.4	20.3	26.3	20.6	19.1	17.0
Operating profit, EUR millions	-0.4	-0.6	-1.3	2.0	-0.6	0.0	-1.2
% of revenue	-2.1	-2.3	-6.5	7.7	-2.8	0.2	-7.0
Profit before taxes, EUR millions	-0.8	-1.0	-1.7	1.5	-1.1	-0.1	-1.4
% of revenue	-3.7	-3.8	-8.3	5.8	-5.2	-0.8	-8.0
Return on investment (ROI), %	-4.1	-4.9	-13.4	23.8	-6.5	1.5	-15.7
Return on equity (ROE), %	-18.7	-22.9	-37.0	29.4	-22.5	-2.8	-27.3
Equity ratio, %	29.43	31.2	33.3	35.3	31.2	35.2	45.3
Gearing, %	132.6	120.4	106.5	103.2	124.3	99.5	61.2
Net debt, EUR millions	21.7	18.0	19.9	15.8	22.8	18.9	12.6
Net interest-bearing debt, EUR millions	20.1	19.2	18.3	19.7	22.0	18.8	11.6
Average number of shares during the report period, adjusted for share issues	12 180 880	12 180 880	12 180 880	12 180 880	12 180 880	12 180 880	12 180 880
Earnings per share (EPS), euro	-0.07	-0.08	-0.14	0.12	-0.09	-0.01	-0.11
Equity per share, euro	1.24	1.31	1.41	1.57	1.46	1.55	1.56
Investments, EUR millions	0.3	0.4	0.8	0.4	0.5	0.3	0.3
% of revenue	1.2	1.6	4.1	1.4	2.4	1.5	1.8
Average number of employees	739	724	733	794	776	649	530