Incap Corporation

INTERIM REPORT JANUARY-JUNE 2007

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INCAP GROUP INTERIM REPORT JANUARY-JUNE 2007: LAUNCH OF MANUFACTURING OPERATIONS IN INDIA PROVIDES BASIS FOR FUTURE GROWTH

- revenue was EUR 36.1 million (Jan.-Jun. 2006: EUR 43.5 million)
- operating profit was EUR 1.1 million negative (2.6 million positive)
- net profit for the report period amounted to EUR 1.5 million negative (2.9 million positive)
- earnings per share were EUR 0.12 negative (0.24 positive)
- launch of manufacturing operations in India generated non-recurring costs of about EUR 0.5 million in profit and loss statement

Juhani Hanninen, President and CEO of Incap Corporation: "A very sharp decline in the demand for telecommunications products in the first quarter was reflected in revenue for the entire first half of the year. This year we have established several new customer relationships and also received new products from existing customers to compensate for the decline in telecommunications sector revenue.

In addition to the reduced volume, earnings development was impacted by non-recurring expenses arising from the launch of operations in India, as well as other business development expenses.

The launch of manufacturing operations in India has brought Incap substantial new growth potential. In addition to new customers, it provides better preconditions for expanding our business with existing globally operating customers."

Accounting policies applicable to the interim report

This interim report has been prepared in compliance with the IAS 34 Interim Financial Reporting standard, and the accounting policies are in line with those of the annual financial statements. The operations of the manufacturing unit in India have been consolidated with the reported figures as of 1 June 2007, due to which the figures presented in this report are not comparable with those of the corresponding period in 2006.

Revenue and financial performance in April-June

Second-quarter revenue increased by 13% on the previous quarter to EUR 19.1 million. This represents a decline of 15% on the same period last year.

Operating profit in April-June was EUR 0.04 million (1.2 million),
or 0.2% of revenue (5.2%).

Comparison by report period (EUR thousands)	4-6/ 2007	1-3/ 2007	10-12/ 2006	7-9/ 2006	4-6/ 2006	1-3/ 2006
Revenue	19 130	16 982	24 014	21 810	22 486	21 038
Operating profit/loss	44	-1 188	-331	599	1 163	1 396
Net profit/loss for the period	-139	-1 342	-376	728	1 320	1 553
Earnings per share, EUR	-0.01	-0.11	-0.03	0.06	0.11	0.13

Revenue and financial performance in January-June

Incap's revenue in January-June was EUR 36.1 million, down 17% on the same period in 2006 (January-June 2006: EUR 43.5 million).

Operating profit in January-June was EUR 1.1 million negative (2.6 million positive), or 3.2% negative of revenue (5.9% positive). The operating profit includes non-recurring expenses totalling approximately EUR 0.6 million associated with business development and implementation of the growth strategy. EUR 0.5 million of this referring to Indian operations. The establishment of the Indian subsidiary and launch of its operations generated total costs of approximately EUR 1.1 million.

Net profit for the report period amounted to EUR 1.5 million negative (2.9 million positive), or 4.1% negative of revenue (6.6% positive). The profit for the comparative period in 2006 includes EUR 0.5 million of increases in deferred tax assets. Earnings per share (EPS) amounted to EUR 0.12 negative (0.24 positive), while equity per share stood at EUR 1.55 (1.63).

Comparison by report period (EUR thousands)	1-6/2007	1-6/2006	1-12/2006
Revenue	36 112	43 524	89 347
Operating profit/loss	-1 144	2 559	2 828
Net profit/loss for the period	1 481	2 873	3 225
Earnings per share, EUR	-0.12	0.24	0.26

Development of operations

Demand for Incap’s manufacturing services was brisk during the second quarter. Deliveries to customers in the telecommunications sector also increased slightly compared to the early part of the year.

New customers were acquired during the report period and agreements signed for the manufacture of new products for present customers, and the revenue effects of these will be seen in the second half of the year. The most significant new sale was an agreement on enamel copper winding operations signed with ABB Oy, which will substantially increase Incap’s share of the manufacture of rotor components as of October.

An agreement for the acquisition of a manufacturing unit in India was signed with TVS Electronics Limited in late May, resulting in the transfer of a factory manufacturing electronics and box-build products, as well as an associated design unit to Incap. The total acquisition cost for the business was approximately EUR 8.3 million, including an additional land area allowing future expansion of the operations in India as well as other immediate costs associated with the acquisition. The intention is to complete integration of the Indian manufacturing unit’s operations into the Group in September.

Incap’s strategic targets

Incap defined its strategy aiming for strong growth and internationalisation in May. The company aims to double its business volume by 2010 through organic growth as well as acquisitions and other corporate arrangements. Profitable organic growth must outperform average market growth, which, in accordance with estimates by research institutes, will be approximately 10% annually within the next few years. Incap will maintain its balanced customer base to keep its dependence on any single customer sector below 30%. Within the next few years the company’s growth will focus outside Finland, with the aim of having at least half of the company’s operations located outside Finland in 2010.

Short-term risks and factors of uncertainty

Incap's sales are spread over several customer sectors, which hedges the company against sharp seasonal changes. However, the drop in revenue from customers operating in the telecommunications sector during the first half of the year occurred extremely quickly, causing financial effects. In accordance with its strategy, the Group will continue to balance its customer base so that the loss of a single customer or several customers from the same sector does not expose the company to a major financial risk.

The acquisition of a new business unit in India has increased the Group’s financing and exchange rate risk. Interest rate risk, as well as the exchange rate risk associated with financing and operations, are managed through a financing structure balanced in the Group’s main currencies.

Financing and cash flow

The Group's equity ratio was 35% (48%). Interest-bearing net liabilities totalled EUR 18.8 million (8.6 million) and the gearing ratio was 99.5% (43.5%). Net financial expenses were EUR 0.4 million (0.2 million) and depreciation EUR 1.3 million (1.1 million). The Group's liquidity was satisfactory: the quick ratio was 0.9 (1.0) and the current ratio 1.8 (1.8).
Cash flow was EUR 1.6 million negative (2.1 million negative) and the change in cash and cash equivalents was increase of EUR 1.7 million (decrease of 1.9 million).

The Group's equity at the close of the report period was EUR 18.9 million (19.9 million). Liabilities totalled EUR 34.8 million (21.5 million), of which interest-bearing liabilities amounted to EUR 20.9 million (9.0 million).

The business acquisition in India was financed through convertible promissory notes and loans from local financial institutions.

Convertible promissory notes

In May Incap offered convertible promissory notes to a limited group of professional investors for the purpose of financing acquisitions in accordance with the company's strategy. The convertible promissory notes have nominal value of EUR 6,750,000 and were subscribed in full. The term is five years and the notes carry a right of conversion into 2,500,000 new shares of the company for a price of EUR 2.70. Subscriptions by parties closely related to the company totalled EUR 307,800.

Capital expenditures

The Group's capital expenditures excluding the business acquisition in India totalled EUR 0.6 million (EUR 1.6 million), or about 1.6% of revenue (3.7%). The expenditures mainly concerned production machinery and equipment, as well as information management.

Personnel

At the beginning of the period under review the Incap Group had a payroll of 541 employees and at the end of the period it had 773 employees. The average number of personnel was 569 (489). Of the total personnel, 367 employees are based in Finland, 178 in Estonia and 228 in India.

556 were permanently employed staff and 217 fixed-term employees. There were 10 part-time employment contracts at the end of the period.

Management

Jukka Turtola, M.Sc. (Eng.) was appointed Vice President, Global Sales and Marketing, and a member of the Management Team as from 25 June 2007. Turtola has previously worked in various international tasks, most recently as General Manager, Sales and Marketing for Latin American operations with GE Healthcare, Clinical Systems.

Shares and shareholders

Incap has 12,180,880 shares on issue. The price of the Incap Corporation share varied in the range of EUR 1.89 to EUR 2.67 during the report period, and the closing share price on 30 June 2007 was EUR 2.20. The trade volume was 28% of the shares outstanding.

At the end of the report period the company had 1,122 shareholders. Foreign and nominee-registered owners held 16.6% of all shares. The company's market capitalisation on 30 June 2007 was EUR 26.8 million.

Share options

The Incap Group currently runs a share option scheme that was introduced in 2004 and commits key employees to long-term share ownership. There are a total of 630,000 share options, entitling their holders to subscribe for an equal number of shares. The share options are divided into A, B and C warrants.

The share subscription period for warrants 2004A began on 1 April 2007 and will continue through to 30 April 2009. The subscription period for shares to be subscribed for with the warrants will not commence until the average price of the Incap share weighted by two calendar months' trade volume is at least 3 euro.

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

Ilmarinen Mutual Pension Insurance Company announced that after having purchased convertible promissory notes on 21 May 2007, its share of Incap's share capital and votes would exceed 5% if the company exercises the right to subscribe for new shares. The OP Bank Group Central Cooperative announced that if mutual funds managed by its subsidiary OP Fund Management Ltd were to exercise the subscription rights associated with their convertible promissory notes purchases in full, the OP Bank Group Central Cooperative's share of holding in Incap would exceed 5%.

Outlook for the future

The general market outlook for electronics contract manufacturing is unchanged. Outsourcing is expected to continue while price competition remains intense.

Incap's quotation base is strong. New customer relationships are expected to create added revenue later this year and more substantially in 2008. Deliveries of telecommunications products are expected to remain substantially lower than last year, and rapid changes in volume such as those experienced early this year are estimated to even out during the latter half of the year.

Incap estimates that the entire Group's revenue in 2007 will be on a par with or slightly lower than in 2006 when it was EUR 89.3 million. The revised estimate for the revenue of the Indian subsidiary is approximately EUR 6 million instead of the previously estimated EUR 8-10 million.

Profitability is expected to improve during the latter half of the year compared with the first half of the year. The full-year operating result is estimated to represent a loss.

Incap will release its January-September Interim Report on Wednesday, 7 November 2007.

INCAP CORPORATION
Board of Directors

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

INCAP IN BRIEF
Incap Corporation is a fast-growing electronics contract manufacturer whose comprehensive service covers the entire product life cycle from design and manufacture to repair and maintenance services. The company's main customers are leading equipment suppliers in telecommunications, electrical power technology, the automation and process industries as well as measurement technology, security electronics and health care. The Incap Group's revenue amounted 2006 to EUR 89 million and the company currently employs approx. 750 persons. Incap's share is listed on the Helsinki Stock Exchange and it is a component of the Nordic Small Cap list within the information technology sector. For additional information, please visit www.incap.fi

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2 Consolidated Balance Sheet
3 Consolidated Cash Flow Statement
4 Consolidated Statement of Changes in Equity
5 Notes to the Interim Report
6 Group Key Figures and Contingent Liabilities

Annex 1

CONSOLIDATED INCOME STATEMENT (IFRS) (EUR thousands, unaudited)	1-6/2007	1-6/2006	Change %	1-12/2006
REVENUE	36 113	43 524	-17	89 347
Manufacture for own use	99	0		
Changes in inventories of finished goods and work in progress	-118	133	-189	1 409
Other operating income	6	335	-98	383
Raw materials and consumables used	-24 352	-28 886	-16	-61 634
Costs of employee benefits	-7 458	-7 941	-6	-16 245
Depreciation, amortisation and impairment losses	-1 277	-1 092	17	-2 284
Other operating expenses	-4 156	-3 514	18	-8 149
OPERATING PROFIT/LOSS	-1 144	2 559	-145	2 828
Financial income and expenses	-353	-193	83	-505
PROFIT/LOSS BEFORE TAXES	-1 496	2 366	-163	2 323
Income taxes	15	506	-97	902
PROFIT/LOSS FOR THE PERIOD	-1 481	2 873	-152	3 225
Earnings per share (EPS) calculated from profit attributable to equity holders of the parent:				
Earnings per share, undiluted (EUR), continuing operations	-0.12	0.24	-150	0.26
Earnings per share, diluted (EUR), continuing operations	-0.12	0.24	-150	0.26
Average number of shares:				
-undiluted	12 180 880	12 180 880		12 180 880
-diluted	12 197 834	12 180 880		12 199 034

Annex 2

CONSOLIDATED BALANCE SHEET (IFRS) (EUR thousands, unaudited) ASSETS	30.6.2007	30.6.2006	Change %	31.12.2006
NON-CURRENT ASSETS				
Goodwill	1 158	164	606	164
Other intangible assets	1 627	305	433	331
Property, plant and equipment	13 594	7 508	81	11 571
Non-current receivables	10	0		0
Deferred tax assets	4 310	4 055	6	4 310
Other non-current investments	12	15	-20	15
TOTAL NON-CURRENT ASSETS	20 711	12 047	72	16 391
CURRENT ASSETS				
Inventories	17 034	13 862	23	14 626
Trade and other receivables	13 707	15 174	-10	13 994
Cash and cash equivalents	2 178	306	612	500
TOTAL CURRENT ASSETS	32 918	29 342	12	29 120
TOTAL ASSETS	53 629	41 389	30	45 511
EQUITY AND LIABILITIES				
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
Share capital	20 487	20 487	0	20 487
Share premium account	44	44	0	44
Translation differences	-48	0		0
Retained earnings	-1 627	-666	144	-206
TOTAL EQUITY	18 856	19 865	-5	20 325
NON-CURRENT LIABILITIES				
Deferred tax liabilities	132	288	-54	147
Non-current interest-bearing liabilities	16 237	5 053	221	6 806
NON-CURRENT LIABILITIES	16 369	5 340	207	6 953
CURRENT LIABILITIES				
Current interest-bearing liabilities	4 694	3 900	20	2 613
Trade and other payables	13 711	12 284	12	15 620
CURRENT LIABILITIES	18 404	16 184	14	18 233
EQUITY AND LIABILITIES	53 629	41 389	30	45 511

Annex 3

CONSOLIDATED CASH FLOW STATEMENT (IFRS)
(EUR thousands, unaudited)

	1-6/2007	1-6/2006	1-12/2006
Cash flow from operating activities			
Operating profit	-1 144	2 559	2 828
Adjustments to operating profit	591	1 211	1 996
Change in working capital	-831	-5 685	-1 420
Interest and other payments made	-299	-166	-411
Interest received	89	25	22
Cash flow from operating activities	-1 594	-2 056	3 015
Cash flow from investing activities			
Investments in property, plant and equipment and intangible assets	-765	-692	-1 547
Gains on the sale of property, plant and equipment and intangible assets	0	5	15
Acquisition of subsidiary	-8 261	0	
Cash flow from investing activities	-9 026	-687	-1 532
Cash flow from financing activities			
Proceeds from borrowings	13 641	2 080	-
Repayments of borrowings	-671	-750	-1 235
Repayments of obligations under finance leases	-672	-494	-1 961
Cash flow from financing activities	12 298	836	-3 196
Change in net cash	1 678	-1 907	-1 713
Cash and cash equivalents at beginning of period	500	2 213	2 213
Cash and cash equivalents at end of period	2 178	306	500

Annex 4

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

	Share capital	Share premium account	Retained earnings	Total
Equity on 1 January 2006	20 487	44	-3 566	16 965
Option and share-based compensation	-	-	27	27
Net income (loss) recognised directly in equity	-	-	27	27
Result for the report period	-	-	2 873	2 873
Total income and expenses for the report period	-	-	2 900	2 900
Equity on 30 June 2006	20 487	44	-666	19 865
Equity on 1 January 2007	20 487	44	-206	20 325
Option and share-based compensation	-	-	60	60
Translation differences	-	-	-48	-48
Net income (loss) recognised directly in equity	-	-	12	12
Result for the report period	-	-	-1 481	-1 481
Total income and expenses for the report period	-	-	-1 469	-1 469
Equity on 30 June 2007	20 487	44	-1 675	18 856

Annex 5

Notes to the Interim Report

Accounting policies applicable to the interim report
This interim report has been prepared in compliance with the IAS 34 Interim Financial Reporting standard, and the accounting policies are in line with those of the annual financial statements. The operations of the manufacturing unit in India have been consolidated with the reported figures as of 1 June 2007, due to which the figures presented in this report are not comparable with those of the corresponding period in 2006.

Acquired operations
Incap Corporation's subsidiary Incap Contract Manufacturing Services Pvt. Ltd., established in India in April 2007, acquired a business unit manufacturing electronics and box-build products from TVS Electronics Limited on 31 May 2007. The number of personnel transferred in the business acquisition was 230, and the company is estimated to receive approximately EUR 6 million of revenue in 2007.
The total acquisition cost was EUR 8.3 million, paid in cash. In addition to the cash consideration, a total of EUR 0.5 million in consultancy fees and other costs immediately associated with the acquisition are included in the acquisition cost. Part of the acquisition cost exceeding the balance sheet value, EUR 1.2 million, was allocated to intangible rights by calculating fair values for the acquired customer base. TVS Electronics will build new premises in the recently acquired land area for Incap's use by the end of year 2008, from which 1.0 million euros has been enrolled as an advance payment. The remaining business value of 1.0 million euros is based on Incap's improved position in the Asian contract manufacturing markets.

The following assets and liabilities were recognised for the acquired object:

EUR millions	Fair value	Balance sheet value
Property, plant and equipment	1.8	1.8
Advance payment for building	1.0	1.0
Customer contracts and associated customer relationships (incl. in other intangible assets)	1.2	
Inventories	2.1	2.1
Trade and other receivables	2.6	2.6
Total assets	8.7	7.5
Trade and other payables	-1.4	-1.4
Net assets	7.3	6.0
Acquisition cost	8.3	
Goodwill	1.0	

There are no temporary tax differences to be recognised on the allocated intangible rights.

Convertible promissory notes
On 21 May 2007 the Group issued 1,250 units of convertible promissory notes with a nominal value of EUR 5,400 each to a total amount of EUR 6,750,000 for the purpose of financing the business acquisition in India and upcoming investments. The term of the convertible promissory notes is from 25 May 2007 to 25 May 2012 if the holders of the notes do not exercise their right to convert the notes into the parent company's shares. Notes with a nominal value of EUR 5,400 can be converted into 2,000 shares of the parent company at a conversion rate of EUR 2.70. The conversion period for notes is from 19 June 2007 to 30 April 2012. The convertible promissory notes have not been divided into equity and liabilities in the financial statements as the equity component is not substantial at the time of issuing the notes.

Annex 6

GROUP KEY FIGURES AND CONTINGENT LIABILITIES (IFRS)

	1-6/2007	1-6/2006	1-12/2006
Revenue, EUR millions	36.1	43.5	89.3
Operating profit, EUR millions	-1.1	2.6	2.8
% of revenue	-3.2	5.9	3.2
Profit before taxes, EUR millions	-1.5	2.4	2.3
% of revenue	-4.1	5.4	2.6
Return on investment (ROI), %	-6.1	19.4	10.5
Return on equity (ROE), %	-15.1	31.2	17.3
Equity ratio, %	35.2	48.0	44.7
Gearing, %	99.5	43.5	43.9
Net debt, EUR millions	18.9	6.0	10.7
Interest-bearing net debt, EUR millions	18.8	8.6	8.9
Average number of share issue-adjusted shares during report period	12 180 880	12 180 880	12 180 880
Earnings per share (EPS), euros	-0.12	0.24	0.26
Equity per share, euros	1.55	1.63	1.67
Investments, EUR millions	0.6	1.6	7.1
% of revenue	1.6	3.7	8.0
Average number of employees	568	489	521

CONTINGENT LIABILITIES (EUR millions)	30.6.2007	30.6.2006	31.12.2006
FOR OWN LIABILITIES			
Mortgages	12.8	8.6	6.0
Other liabilities	9.6	9.7	10.2