InCap

Financial Statements **2010**

Contents

Report of the Board of Directors for 2010

Incap has now completed the strategic structural change that started three years ago. The operations have been organised based on the chosen customer segments, the number of factories has been cut down, the focus of operation has been shifted to lower-cost areas and design services have become an integral part of the service portfolio.

Incap's revenue in 2010 decreased from the previous year because of the global recession and shortage of components. There was a clear turn in profitability: the operating loss (EBIT) contracted evenly during the first three quarters of the year and the EBIT for the final quarter of the year was in the black.

The company's most remarkable short-term risk is the financing of capital employed for future growth. Incap estimates that the company's working capital will be sufficient for the next 12 month if the Group achieves its budgeted goals for result and working capital. If the goals are not achieved, the gap must be covered with additional financing. 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.

Operating environment

The general market situation continued challenging in 2010. Due to the global recession both the investment activity and the demand for consumer products were lower than normal. Price competition between contract manufacturers continued tight because of the decreased total market. Variations in demand for end products shortened forecasting periods and required substantial flexibility from manufacturing companies. Weakened availability of certain components complicated the planning of production and led to prolonged delivery times in whole industry.

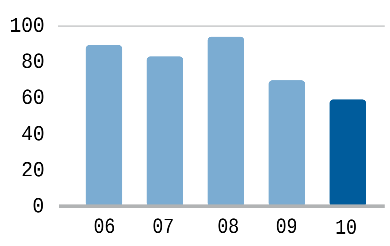
Revenue and earnings in 2010

Incap Group's revenue for 2010 amounted to EUR 59.2 million, down about 15% year-on-year (2009: EUR 69.8 million). Because of the global recession, demand for Incap's services remained low, particularly in the first part of the year. Delivery volumes both for energy efficiency and well-being technology products clearly increased towards the end of the year. However, revenue was held back by a global shortage of semiconductor components, which had a negative impact on the company's delivery capacity and led to delays in deliveries.

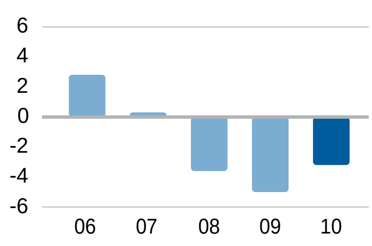
The Indian unit's revenue increased strongly year-on-year, amounting to EUR 12.0 million (EUR 7.9 million). Profitability of operations clearly improved from the previous year, but operating result still remained negative.

Incap Group's loss contracted clearly: full-year operating profit was EUR 3.2 million negative

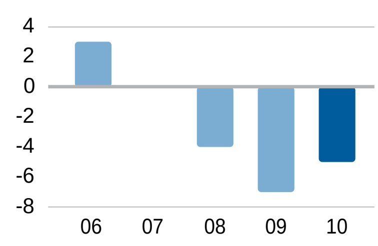
Revenue, EUR million



Operating profit, EUR million



Operating profit, % of revenue



(5.0 million negative), representing -5.4% of revenue (-7.1%). The result for the comparison year includes a non-recurring provision of about EUR 2.5 million for the closing down of the Vuokatti plant. Of the provision made for the closure of the Vuokatti plant in 2009, a provision of about EUR 1.0 million is recognised in the operating result for 2010, and the corresponding costs have not been entered into accounts. It was impossible to fully adjust production costs to match revenue, because the merger of two electronics factories required the Group to maintain partly overlapping resources. In addition, a global shortage of components led to higher component prices, which had an impact on profitability.

The cost-cutting programme to improve profitability continued. Personnel expenses and other operating expenses, for example, were about EUR 5.8 million lower than in 2009.

Net financial expenses stood at EUR 1.7 million (EUR 1.8 million) and depreciation and amortisation expenses at EUR 2.8 million (EUR 2.9 million). Losses before tax amounted to EUR 4.9 million (EUR 6.8 million). Loss for the period was EUR 4.9 million (6.7 million).

Return on investment was -11% (-16%) and return on equity -81% (-69%). Earnings per share were EUR -0.33 (EUR -0.55).

Developing operations and implementing structural change

In 2010, development of operations focused on improving the efficiency of materials functions, completing the change in production structure and honing processes.

In order to ensure parallel material management goals at Group and factory levels, the procurement organisation was reformed and purchasing operations for factories were included in the responsibilities of the director for sourcing and materials.

The value of inventories rose from EUR 11.4 million at the beginning of the year to EUR 13.1 million at year-end, reflecting the increase in demand seen early in 2011. In addition, the value of inventories was increased by the poor availability of components, which had a slowing effect on the entire material flow.

A major structural change was implemented in Incap Group's production by centralising the company's European electronics manufacturing in one manufacturing plant. Starting in the spring, the manufacturing of products at the Vuokatti plant was gradually transferred to Estonia, and manufacturing in Vuokatti ended in August. Most of the production equipment was taken to the Estonian and Indian plants.

The structural change was implemented to achieve cost savings, and the effects began to show in the result in the third quarter of 2010. Electronics production was centralised in order to improve operational efficiency and achieve annual cost savings of about EUR 3 million compared with 2009.

After the transfer of production, revenue from deliveries by the Kuressaare plant doubled, while only slightly more than ten new employees were recruited. The 124 employment relationships at the Vuokatti plant were terminated as a result of co-operation negotiations. At the end of 2010, Incap still had 36 people at Vuokatti on notice but without an obligation to work.

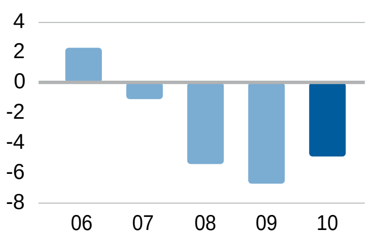
In order to further streamline the production structure, Incap wants to develop the Helsinki plant into a production unit that specialises in assembly. Toward this end, the company was engaged in negotiations with Lankapaja Corporation, a company specialising in mechanics manufacturing, to sell the Helsinki plant's sheet-metal business. However, the negotiations ended unsuccessfully after the end of the reporting period in February 2011.

Development of services focused on the honing of production processes and on design services. The Group's product design is centralised in Bangalore, India, where Incap has built up a competence centre for the design of energy efficiency products. The products designed for customers included, among others, charging systems for electric cars and UPS equipment for uninterrupted and undisturbed electrical current input in households.

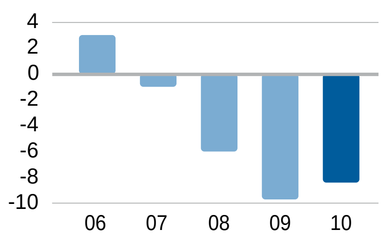
Incap continued target-oriented acquisition of new customers in Europe and Asia. The co-operation with a local partner in China, launched in 2009, did not yet bring us any significant new customers, but we continued studying business opportunities in the region. In addition, Incap is investigating into launching its own operations in China.

To boost customer acquisition in the company's strategic focus areas, Incap signed an agreement in June on participating in a venture capital fund

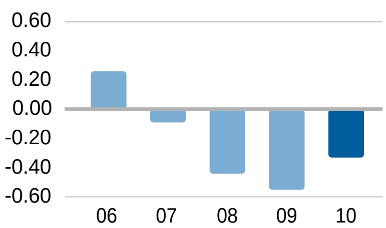
Profit before tax, EUR million



Profit before tax, % of revenue



Earnings per share (EPS), EUR



managed by Cleantech Invest Oy. The fund invests in Cleantech growth companies, to which Incap can offer various manufacturing services in Europe and Asia.

Balance sheet

The balance sheet total rose by EUR 2.9 million from the end of 2009, amounting to EUR 42.6 million. The Group's equity at the close of the financial period was EUR 5.6 million (EUR 6.4 million). Debt totalled EUR 37.0 million (EUR 33.3 million), of which interest-bearing debt made up EUR 22.0 million (EUR 21.3 million). Of the total debt, EUR 27.4 million (22.2 million) were current liabilities. Equity of the parent company totalled EUR 15.2 million, representing 74% of share capital.

The Group's equity ratio was 13.2% (16.2%). Interest-bearing net liabilities totalled EUR 21.5 million (EUR 20.6 million) and the gearing ratio was 383% (320%). The earnings development and financing of the business operations acquisition in India in 2007 contributed to the high gearing ratio.

Incap Group did not take out any new loans in 2010. The amount of long-term loans fell by EUR 1.5 million and the amount of short-term loans increased by EUR 2.2 million year-on-year. On 31 December 2010, the Group's cash and cash equivalents totalled EUR 0.5 million, compared with EUR 0.7 million at year-end 2009.

At the end of 2010, EUR 2.0 million of the Group's long-term and short-term loans were guaranteed and the rest were unguaranteed. Of the loans, EUR 7.7 million were secured loans. The securities for these loans are the EUR 8.1 million mortgages on company assets and a EUR 1.5 million mortgage on the Vuokatti factory property.

Financing and cash flow

The Group's quick ratio was 0.6 (0.5) and the current ratio 1.0 (1.1). Cash flow from operations was EUR -4.4 million (EUR 0.5 million) and the change in cash and cash equivalents showed an increase of EUR 0.08 million (an increase of EUR 0.04 million).

Cash and cash equivalents remained at a low level because of the operating loss. The funds acquired through the directed share issues – about EUR 4.1 million – were used for the financing of working capital, repayment of a short-term loan and the development of international operations.

Directed share issues

On 13 April 2010, Incap Corporation's Annual General Meeting decided on a directed share issue. A total of 2,000,000 new shares were, deviating from the pre-emptive right of shareholders, offered to the Board members, the President and CEO, the management team members and those shareholders who held at least 100,000 shares in the company at the beginning of the offering.

The subscription price was EUR 0.64, which was the volume-weighted average price of the company's share on the NASDAQ OMX Helsinki in March 2010. The subscription period was from 13 to 27 April 2010 and the subscription price was paid to the company by 30 April 2010. All the offered 2,000,000 new shares were subscribed. The issued and subscribed new shares represented about 14.1% of the company's all shares and votes following the share issue. The new shares became available for public trading at NASDAQ OMX Helsinki on 30 June 2010 with similar conditions to the company's other shares.

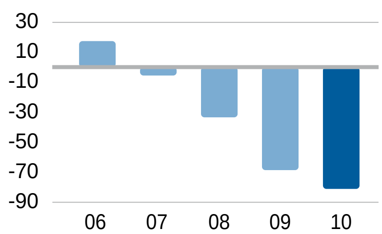
Incap's Extraordinary General Meeting on 9 September 2010 decided to carry out another directed share issue. A minimum of 4,000,000 and a maximum of 4,500,000 new shares were, deviating from the pre-emptive right of shareholders, offered to professional investors, the Board members, the President and CEO, the management team members and those shareholders who held at least 100,000 shares in the company on 14 September 2010.

The subscription price was EUR 0.64, which was the volume-weighted average price of the company's share on the NASDAQ OMX Helsinki in August 2010. The subscription period was from 20 to 28 September 2010 and the subscription price was to be paid by 28 September 2010. A total of 4,500,000 shares were subscribed. The issued and subscribed new shares represented about 24.1% of the company's total shares and voting rights following the share issue. The new shares became available for public trading on 16 December 2010.

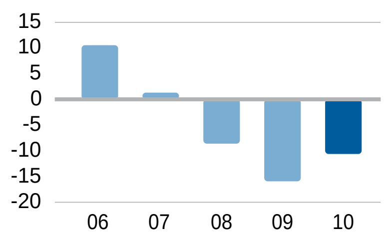
Research and development

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

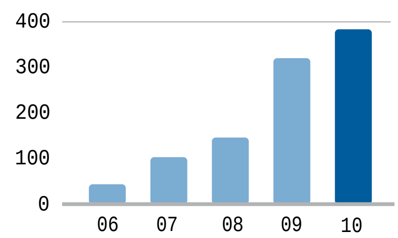
Return on equity (ROE), %



Return on investment (ROI), %



Gearing, %



Capital expenditure

Investments amounted to EUR 0.5 million in 2010 (EUR 1.1 million) and included the sale of production equipment based on a customer contract. The Vaasa, Kuressaare and Tumkur plants modernised their machinery.

The most significant investment was the eccentric press production line for the Vaasa plant. It is used for the manufacturing of large generator and electric motor components and stressed-skin structures for various devices used in the energy industry.

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. In October 2010, the quality assurance and environmental management systems of the European plants were for the first time recertified simultaneously in accordance with the multisite principle. The goal of multisite certification is to standardise operational processes in the entire Group and efficiently enable flexible manufacturing of the same products at the company's different production plants.

Incap's environmental management system complies with ISO 14001:2004 and the quality assurance system with ISO 9001:2008. In addition, the Helsinki and Kuressaare plants have certifications in accordance with the ISO 13485:2003 quality standard for the manufacture of medical devices, and the Indian plant has a TS 16949 quality certification required by the automotive industry.

Personnel

At the beginning of year, the Incap Group had a payroll of 783 employees, and at the end of the year it had 767 employees. In 2010, Incap employed 780 (751) people on average. The number of employees increased by nearly 50 in India and by 13 in Estonia. At the end of the year, about 49% of personnel worked in India, 27% in Estonia and 24% in Finland.

At the end of the year, 250 of Incap's employees were women and 517 men; 611 were permanently employed staff and 156 were fixed-term employees. There were five part-time employment contracts at the end of the year. The average age of the personnel is 40 years.

The closing down of the Vuokatti plant led to the termination of 124 employment contracts. In the European units, operations were adjusted to match demand mostly through temporary layoffs. However, some of the temporary layoffs were cancelled once demand picked up in late autumn.

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 management team included Kimmo Akiander (Well-being), Mikko Hirvinen (operations), Jarmo Kolehmainen (Energy Efficiency Asia), Jari Koppelo (Energy Efficiency Europe), Hannele Pöllä (communications and HR) and Eeva Vaajoensuu (finance and administration).

At the end of 2010, the Asian and European operations of Energy efficiency were organised under joint business management. At the same time, a local director was appointed to the Indian subsidiary, and representatives from India were included in the Group's expanded management team. The purpose of the changes is to harmonise operations and improve Group management.

In addition to the members of the actual Management Team, the Extended Management team includes K.R. Vasantha (Managing Director and in charge of production at the Indian subsidiary), Sami Kyllönen (operations services), Murthy Munipalli (Energy Efficiency Asia), Pekka Laitila (materials management), Päivi Luotola (IT) and Riitta Pönniö (quality and environment).

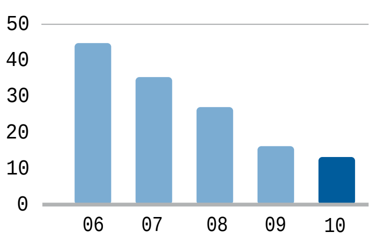
Events after the end of the financial period

The negotiations initiated by Incap and Lankapaja Corporation in September 2010 on selling the sheet-metal business of Incap's Helsinki plant were unsuccessful and ended in February 2011.

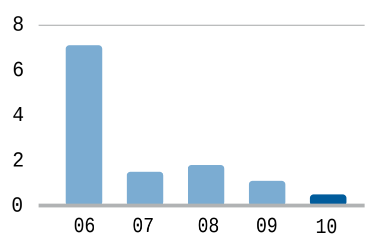
Annual General Meeting 2010

Incap Corporation's Annual General Meeting was held in Helsinki on 13 April 2010. The Annual General Meeting approved the Group's financial statements for the financial period that ended on 31 December 2009 and decided, in accordance with the Board of Directors' proposal, that no dividend

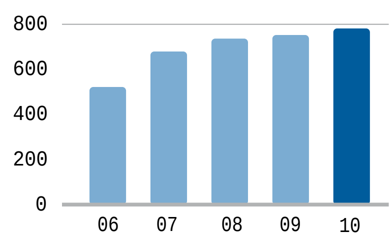
Equity ratio, %



Investments, EUR million



Average number of employees



be paid and the loss for the financial period (EUR 3,825,364.79) be left in equity.

The Annual General Meeting elected five members to the Board of Directors. Authorised Public Accountant Ernst & Young Oy was re-elected as the company auditor. The Annual General Meeting decided to amend the Articles of Association so that the notice of meeting is to be sent no later than 21 days before the Annual General Meeting.

The Board's authorisation

At the end of the financial period, the Board of Directors held an authorisation granted by the Annual General Meeting on 13 April 2010 to decide on an increase in share capital, so that the aggregate number of shares subscribed on the basis of the authorisation will be up to 1,500,000 shares. 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 providing that there is a weighty economic reason for the company to do so, such as developing the company's business, financing business restructuring, making an arrangement in association with capital funding, or a reason related to HR policy. The Board of Directors has the right to decide that the share subscription price can be paid using property given as subscription in kind or subscriber-held claim or otherwise under specific conditions. The authorisation is valid for one year but no later than the next Annual General Meeting.

Board of Directors and auditor

The Annual General Meeting re-elected Kalevi Laurila, Susanna Miekk-oja, Kari Häyrinen and Lassi Noponen as members of the Board of Directors. Raimo Helasmäki was elected to the Board as a new member. The Board elected from among its members Kalevi Laurila as Chairman and Susanna Miekk-oja as Deputy Chairman. The secretary of the Board was Jari Pirinen, LL.M. The Board convened 20 times in 2010, and the average attendance rate of the Board members was 93%.

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

Report on corporate governance

Incap releases 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 0.49 and EUR 0.75 (EUR 0.43 and 0.99). The closing price for the year was EUR 0.57 (EUR 0.67). During the financial period, the trading volume was 39% of outstanding shares (25%).

At the end of the financial period, Incap had 1,085 shareholders (1,089). Nominee-registered owners held 0.6% (2.8%) of all shares. The company's market capitalisation on 31 December 2010 was EUR 10.6 million (EUR 8.2 million). The company does not hold any of its own shares.

Incap's share has been listed on Helsinki Stock Exchange (now NASDAQ OMX Helsinki) since 1997 with the trading code ICP1V. The sector classification on the OMX Nordic Exchange Helsinki is "Industrial products and services" and the sector code is 20104010 (Electrical supplies and equipment).

The company's share capital as recorded in the trade register on 31 December 2010 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 systems

Incap has two on-going option schemes:

<u>Option scheme 2004:</u>

The option scheme implemented in 2004 includes a maximum of 630,000 stock options. Of these, a total of 315,000 of 2004C stock options are currently valid. The maximum proportion of shares to be subscribed on the basis of them is 1.7% of company shares and votes after possible increase in share capital.

The subscription price for the 2004C stock options is the trade-weighted average price of Incap share on Helsinki Stock Exchange from 1 to 31 March 2006, i.e., EUR 2.05. The share subscription period is from 1 April 2009 to 30 April 2011. The option scheme is associated with a shareholding scheme, according to which option holders are obliged to acquire company shares with 20% of the gross income gained from realised stock options.

<u>Option scheme 2009:</u>

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.

When the option scheme was implemented, the CEO received 100,000 "A" stock options and in February 2010 he received 25,000 "B" stock options. In February 2010, the company's key employees received a total of 100,000 "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 possible increase in share capital. Undistributed stock options will be given to Euro-ketju Oy, a subsidiary fully owned by

Incap. The Board of Directors will make a separate decision of distributing these.

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

After the registration of the shares subscribed in the directed share issue in April, Göran Sundholm's holdings in Incap exceeded the notification limit of 5%. In Sampo Group, the holdings of Mandatum Life Insurance Company Ltd. in Incap Corporation's shares and votes exceeded 5%. The holdings of Oy Etra Invest Ab in Incap Corporation's shares fell below 25%. After the directed share issue's subscription in September and the registration of the new shares, the holdings of Finnish Industry Investment Ltd. exceeded 10%. After the directed share issue's subscription in September and the registration of the new shares, the holdings of JMC Finance Oy fell below 15%. According to the announcement made by OP Pohjola Group Central Cooperative, the combined holdings of OP Pohjola Group Central Cooperative and entities controlled by it as well as its subsidiaries and investment funds administered by such subsidiaries, based on Incap's convertible promissory notes, is below 5% if the subscription right based on the convertible promissory notes is realised.

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 the risk management system.

Demand for Incap's services and the company's financial position are affected by international economic trends and economic trends among Incap's customer industries. In 2011, the business environment is expected to develop favourably compared with 2010. Incap's sales are spread over several customer sectors, which balances out the impact of the economic trends in different industrial sectors.

In 2010, Incap's largest single customer accounted for 30% of the Group's revenue. The company will continue to expand its customer base so that dependence on a single customer or several customers in the same sector will not expose the company to a significant financial risk. The revival of the global economy is expected to increase revenue from many customers and in this way decrease dependence on a single customer. 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 recession 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 the risk through continuous monitoring and management of operational efficiency and cost levels. Flexibility of the cost structure has been improved 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 in order 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 for the company's competitive edge is the development of labour costs in the Incap countries. We manage the personnel risk with an efficient substitute system.

Material suppliers' quality, manufacturing 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. The availability of materials is considered to be the most significant material-related risk in the near future. Problems with availability can increase costs. We aim to influence the risk by signing framework agreements with parties we know well and by focusing on the predictability of business and capacity management. With critical suppliers, we aim 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.

The acquisition of the Indian business unit in 2007 has increased the Group's external financing and financial risks. The financing base of the operations in India was enforced in 2009 through a share capital investment of Finnfund in Incap's Indian subsidiary. 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. The Group's future earnings development affects equity and, consequently, the equity ratio, which is an important indicator in terms of financing.

In order to strengthen Incap Group's financial position, the company carried out directed share issues in spring and autumn 2010, and EUR 4.1 million were recognised in the reserve for invested unrestricted equity.

In order to estimate its liquidity Incap has drawn up a cash flow forecast by quarter, expanding up to the financial statements for the year 2011. The cash flow forecast is based on the result estimate for 2011 as given in connection with the consolidated financial statements and on the actual turnover of sales receivables and accounts payable, as well as on the targeted turnover of inventories. Based on this cash flow forecast, Incap's need for working capital is increasing towards the year end. The company'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. If the goals are not achieved, the gap must be covered with additional financing. 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. Providing that the negotiations are successful, the company's working capital will be sufficient for the next 12 months. Furthermore, Incap has at the end of the financial period started 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 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 5.6 million) and Incap's credit line (EUR 1 million) and a factoring credit line (up to EUR 7 million), of which EUR 5.5 million were in use on 31 December 2010. The financing agreement contains covenants, which are described more in detail in note 26 to the financial statements. Of these covenants, net IBD/EBITDA was not met on the balance sheet date, but before the balance sheet date the financier informed Incap in writing that it will not exercise its right to terminate the agreement on 31 December 2010. The covenants will be tested again on 30 June 2011. Should the financier call for immediate payment of the loans based on the covenants, Incap is not able to meet the obligation. More information on financing risks is available in the note 26 to the financial statements.

The deferred tax assets recognised in the consolidated balance sheet (EUR 4.2 million on 31 December 2010) are based on the Board of Directors' assessment of future earnings development at Incap Corporation and the Indian subsidiary. On 31 December 2010, confirmed tax losses for which no deferred tax asset was recognised amounted to EUR 8.0 million. 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 equity ratio and, consequently, on the Group's equity and, for example, the covenants in the above financing agreements.

Long-term objectives

In 2011, Incap aims for an increase in revenue and considerably improved profitability. Demand from the company's key customer segments is anticipated to develop favourably, and Incap is aiming to extend the scope of deliveries to current customers and establish new customer accounts in the chosen industries. Revenue is expected to grow most vigorously in Asia, where the company intends to expand its business into China. The offering of design services will be increased and their role emphasised. The means to boost profitability include more efficient material management and harmonisation of operating processes.

Incap estimates that it is with the present production structure capable of reaching revenue of approximately EUR 100 million by the year 2015. According to the company's view it is possible to reach an EBIT level of 4–6 percent with the present customer base and product assortment.

Outlook for 2011

Incap's estimates for future business development are based on its customers' forecasts and the company's own assessments. The general economic situation has improved, and the majority of Incap's customers are predicting that their revenue will increase in 2011, which has a positive effect on Incap's revenue. However, the shortage of components is predicted to continue, which can affect Incap's deliveries and revenue development.

Incap estimates that its revenue in 2011 will increase from the EUR 59.2 million achieved in 2010. The Group's full-year operating result (EBIT) in 2011 is expected to be positive and, thus, clearly higher than in 2010 (EUR -3.2 million).

Board of Directors' proposal on measures related to the net profit/loss

The parent company's loss for the financial period totalled EUR 1,561,513.95. The Board will propose to the Annual General Meeting on 13 April 2011 that no dividend be paid and the loss for the accounting period be recognised in equity.

Annual General Meeting 2011

Incap Corporation's Annual General Meeting will take place on Wednesday 13 April 2011 starting at 3:00 p.m. at Hotel Kämp, Pohjoisesplanadi 29, 00100 Helsinki.

Helsinki, 22 February 2011

INCAP CORPORATION
Board of Directors

Consolidated Income Statement

1,000 euros	Note	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
Revenue	3	59,162	69,767
Other operating income	4	372	342
Changes in inventories of finished goods and work in progress	5	188	-1,499
Work performed by the enterprise and capitalised		0	0
Raw materials and consumables used	5	40,828	45,654
Personnel expenses	8	12,437	16,132
Depreciation and amortisation	7	2,831	2,869
Other operating expenses	6	6,849	8,924
Operating profit/loss		**-3,223**	**-4,970**
Financing income and expenses	10	-1,724	-1,780
Profit/loss before tax		**-4,947**	**-6,750**
Income tax expense	11	64	29
Profit/loss for the year		**-4,884**	**-6,721**
Attributable to:			
Equity holders of the parent company		-4,884	-6,721
Non-controlling interests		0	0
		-4,884	-6,721
Earnings per share from profit for the year attributable to equity holders of the parent			
Basic earnings per share	12	-0.33	-0.55
Diluted earnings per share	12	-0.33	-0.55
Average number of shares:			
- basic		14,682,250	12,180,880
- diluted		14,682,250	12,180,880

1,000 euros	Note	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME			
Profit/loss for the year		**-4,884**	**-6,721**
Other comprehensive income:			
Translation differences from foreign units		-24	19
Other comprehensive income, net		-24	19
Total comprehensive income		**-4,908**	**-6,702**
Total comprehensive income attributable to:			
Equity holders of the parent company		-4,908	-6,702
Non-controlling interests			0
		-4,908	**-6,702**

Consolidated Balance Sheet

1,000 euros	Note	31 Dec 2010	31 Dec 2009
ASSETS			
Non-current assets			
Property, plant and equipment	13	6,026	10,247
Goodwill	14	1,040	977
Other intangible assets	14	705	1,008
Other financial assets	15	314	14
Deferred tax assets	16	4,209	4,156
Total Non-current Assets		**12,294**	**16,402**
Current assets			
Inventories	17	13,062	11,381
Trade and other receivables	18	14,823	11,261
Cash and cash equivalents	19	476	661
Total Current Assets		**28,362**	**23,303**
Non-current assets held-for-sale	1	1,936	
Total Assets		**42,592**	**39,706**
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		-483	-459
Reserve for invested unrestricted equity		4,084	0
Retained earnings		-18,510	-13,629
Total equity		**5,622**	**6,443**
Non-current liabilities			
Deferred tax liabilities	16	0	70
Interest-bearing loans and borrowings	24	9,403	10,999
Current liabilities			
Trade and other payables	25	14,961	11,925
Interest-bearing loans and borrowings	24	12,007	10,269
Liabilities relating to non-current assets held-fore-sale	1	598	
Total liabilities		**36,970**	**33,262**
Total equity and liabilities		**42,592**	**39,706**

Consolidated Cash Flow Statement

1,000 euros	Note	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
Cash flow from operating activities			
Net income		-3,223	-4,970
Adjustments to operating profit	28	23	4,342
Change in working capital		644	2,929
Interest paid		-1,840	-1,812
Interest received		27	40
Cash flow from operating activities		**-4,369**	**529**
Cash flow from investing activities			
Capital expenditure on tangible and intangible assets		-486	-1,064
Proceeds from sales of tangible and intangible assets		591	17
Loans granted		-5	-9
Repayments of loan assets		0	2
Other investments		-159	0
Cash flow from investing activities		**-59**	**-1,054**
Cash flow from financing activities			
Proceeds from share issue		4,084	0
Drawdown of loans		5,825	5,683
Repayments of borrowings		-4,338	-3,868
Repayments of obligations under finance leases		-1,064	-1,255
Cash flow from financing activities		**4,507**	**560**
Change in cash and cash equivalents		**79**	**35**
Cash and cash equivalents at beginning of period		661	641
Effects of changes in exchange rates		-228	-17
Changes in fair value (cash and cash equivalents)		-36	2
Cash and cash equivalents at end of period		**476**	**661**

Consolidated Statement of Changes in Equity

	Share capital	Share premium account	Reserve for invested unrestricted equity	Exchange differences	Retained earnings	Total equity
Equity at 1 January 2010	**20,487**	**44**	**0**	**-459**	**-13,629**	**6,443**
Options and share-based compensation					2	2
Total comprehensive income				-24	-4,884	-4,908
Share issue			4,160			4,160
Transaction costs for equity			-76			
Equity at 31 December 2010	**20,487**	**44**	**4,084**	**-483**	**-18,510**	**5,622**

	Share capital	Share premium account	Reserve for invested unrestricted equity	Exchange differences	Retained earnings	Total equity
Equity at 1 January 2009	**20,487**	**44**	**0**	**-478**	**-6,864**	**13,190**
Options and share-based compensation					-10	-10
Total comprehensive income				19	-6,721	-6,702
Other changes					-35	-35
Equity at 31 December 2009	**20,487**	**44**	**0**	**-459**	**-13,629**	**6,443**

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 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 2010. 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 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

<u>Separate companies</u>

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.

<u>Group</u>

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

<u>The Group as lessee</u>

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.

Impairment testing

In the Incap Group, goodwill is tested annually for any impairment. The testing is based on cash flow estimate which involves the budget confirmed by the management and the business plan for the forthcoming four years. As essential criteria, a discount rate of 19.1% after tax has been used as well as the estimated operating profit before depreciation and amortisation. The impairment of other asset items is estimated annually as discussed above in the accounting policies. The recoverable amounts of cash-generating units are determined through calculations based on value in use. The preparation of these calculations requires the use of estimates.

Deferred tax asset

A deferred tax asset has been recognised in the companies in Finland and in India. A deferred tax asset has been recognised to the extent that the asset can be utilised against future taxable profits.

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 valid latest on 1 January 2010:

IFRS3 Business Combinations (renewed standard)
IAS 27 Consolidated and Separate Financial Statements (change in standard)
IAS 39 Financial Instruments: Recognition and Measurement – items acceptable for hedging (change in standard)
IFRS 2 Share-based Payments – cash-settled share-based payment transactions in the Group (change in standard)
IFRIC 12 Service Consession Arrangements (new interpretation)
IFRIC15 Agreement for Construction of Real Estate (new interpretation)
IFRIC16 Hedges of a Net Investments in a foreign operation (new interpretation)
IFRIC17 Distribution on non-cash assets to owners (new interpretation)
IFRIC18 Transfer of assets from customers (new interpretation)
Annual changes in IFRS in 2009 (changes in several different standards)

Standards valid latest on 1 January 2011:

IAS 32 Financial Instruments: Presentation – classification of rights issues, share options and subscription rights (change in 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 (change in standard)
Annual changes in IFRS (changes in several different standards)

Standards valid as from 1 January 2012 or later:

IFRS 7 Financial instruments: disclosures in the financial statement – transfer of financial assets (change in standard)
IAS 12 change - Deferred Tax: Recovery of Underlying Assets (IASB published the change on 20 December 2010) (change in standard)
IFRS 9 Financial Instruments: classification and measurement (change cannot be applied prior to the approval of EU)

1. Non-current assets held-for-sale

	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
Assets classified as held-for-sale		
Incap Corporation's plant property in Vuokatti	1,936	0
Liabilities concerning assets classified as held-for-sale		
Other non-current liabilities to others, interest-bearing	171	0
Current liabilities to others, interest-bearing	427	0
	598	**0**

Measures to sell Incap Corporation's property in Vuokatti are continued. Further details are given in the report of the Board of Directors for 2010 in chapter Short-term risks and factors of uncertainty concerning operations. There were no sales of business operations in the Group in 2009 and 2010.

2. Acquired operations

No business acquisitions were made during financial years 2009 and 2010. Of the increase of goodwill in 2010, exchange difference amounts to EUR 63,119.29.

3. Revenue

	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
Revenue from the sale of goods	59,162	69,752
Revenue from the services	0	14
	59,162	**69,767**

Geographic division of customers external of revenue	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
Europe	53,219	65,406
North America	418	788
Asia	5,525	3,573
	59,162	**69,767**

Incap Group has one customer, whose revenue exceeds 10% of the entire Group's revenue. This customer's share of revenue is 30%.

4. Other operating income

	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
Net gains on the disposal of property, plant and equipment	295	23
Lease income	0	4
Other income	77	314
	372	**342**

5. Raw materials and services

Raw materials and consumables	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
Purchases during the financial year	40,834	41,181
Change in inventories	-1,404	4,552
	39,430	**45,733**
External services	1,211	1,421
	40,641	**47,154**

6. Other operating expenses

	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
Lease expenses	1,798	2,016
Operating and maintenance expenses for property and machinery	2,060	1,946
Other expenses	2,990	4,961
	6,849	**8,924**

Auditors' fees	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
Auditing fees	48	78
Certificates and statements	0	0
Tax advice	15	5
Other services	46	12
	109	**95**

7. Depreciation and amortisation

	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
Depreciation and amortisation by assets class		
Intangible assets	359	345
Tangible assets		
Buildings	331	322
Machinery and equipment	2,053	2,124
Other tangible assets	89	79
	2,472	**2,524**
Total depreciation, amortisation and impairment losses	**2,831**	**2,869**

8. Employee benefits expense

	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
Wages and salaries	10,196	13,146
Pension costs – defined contribution plans	1,598	1,773
Pension costs – defined-benefit plans	52	-8
Expense of share-based payments	0	0
Other statutory employer expenses	592	1,221
	12,437	**16,132**
Average number of Group personnel during the period	**780**	**751**

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 0.05 million of research and development costs has been recorded as an annual expense in the income statement in 2010 (EUR 0.1 million in 2009).

10. Financial income and expenses

Financial income	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
Dividend income from available-for-sale financial assets	2	1
Interest income from investments held until due date	0	0
Interest income from other deposits	11	21
Interest income from trade receivables	14	18
Interest income from loan receivables	0	0
Foreign exchange gains on liabilities	211	55
	238	**96**

Financial expenses	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
Interest expenses from financial liabilities measured at amortised cost	-496	-479
Interest expenses from convertible promissory notes	-473	-474
Other interest expenses	-281	-293
Exchange rate losses	-155	-50
Other financial expenses	-556	-581
	-1,962	**-1,876**
Total financial income and expenses	**-1,724**	**-1,780**

Interest expenses include variable lease payments of EUR 0.1 million (EUR 0.1 million in 2009) recorded as lease expenses from finance lease agreements.

11. Income tax

Income tax in the income statement	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
Current tax on profit for the year	0	0
Tax for previous accounting periods	0	0
Total current tax based on income	**0**	**0**
Changes in deferred tax assets for previous years	-6	0
Changes in deferred tax liabilities for previous years	70	29
Total deferred tax	**64**	**29**
Income tax expenses	64	29

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 2010	1 Jan–31 Dec 2009
Profit before taxes	-4,947	-6,750
Tax at the applicable rate in the home country	1,286	1,755
Divergent tax rates of foreign subsidiaries	-578	55
Tax-free income	694	218
Expenses that are not deductible	-3	-599
Other temporary differences	69	-38
Non-recorded deferred tax	-1,406	-1,362
Tax expenses	**64**	**29**
Deferred taxes in the balance sheet		
Deferred tax assets	4,209	4,156
Deferred tax liabilities	0	-70
	4,209	**4,086**

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.

	2010	2009
Profit for the year attributable to equity holders of the parent	-4,884	-6,721
Weighted average number of shares during the period	14,682,250	12,180,880
Undiluted earnings per share, EUR/share	-0.33	-0.55

In calculating diluted earnings per share, share options are taken into account in the weighted average number of shares and convertible promissory notes. 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.

	2010	2009
Profit for the year attributable to equity holders of the parent, continuing operations	-4,884	-6,721
Weighted average number of shares during the period	14,682,250	12,180,880
Dilution effect of issued share options	0	0
Share-weighted diluted average price used in calculating adjusted earnings per share	14,682,250	12,180,880
Diluted earnings per share, EUR/share	-0.33	-0.55

13. Property, plant and equipment

	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

	Land	Buildings and advances	Machinery and equipment	Other tangible assets	Total
Acquisition cost, 1 Jan 2009	**499**	**6,236**	**42,927**	**766**	**50,428**
Increase	0	828	884	0	1,712
Consolidation of operations	0	0	0	0	0
Disposals	0	-111	-88	0	-200
Reclassifications between items	4	-758	596	105	-53
Sale of assets in Group companies	0	0	0	0	0
Exchange differences	8	18	18	4	47
Acquisition cost, 31 Dec 2009	**510**	**6,213**	**44,336**	**875**	**51,935**
Accumulated depreciation and impairment losses, 1 Jan 2009	**0**	**-2,329**	**-36,290**	**-560**	**-39,179**
Depreciation	0	-322	-2,124	-79	-2,524
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	21	0	21
Exchange differences	0	-1	-5	-1	-7
Accumulated depreciation and impairment losses, 31 Dec 2009	**0**	**-2,651**	**-38,398**	**-639**	**-41,688**
Carrying amount, 1 Jan 2009	499	3,907	6,637	207	11,250
Carrying amount, 31 Dec 2009	510	3,562	5,939	236	10,247

Finance leases

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

	Machinery and equipment
31 Dec 2010	
Acquisition cost	16,183
Accumulated depreciation	-14,154
Carrying amount	**2,029**
31 Dec 2009	
Acquisition cost	16,520
Accumulated depreciation	-12,875
Carrying amount	**3,644**

Increases on the acquisition cost of property, plant and equipment include assets leased on finances leases totalling EUR 0 in 2010 (EUR 0.7 million in 2009).

14. Intangible assets

	Goodwill	Other intangible assets	Total
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
Acquisition cost, 1 Jan 2009	**2,458**	**4,434**	**6,892**
Increase	0	16	16
Decrease	0	0	0
Reclassifications between items	0	16	16
Exchange difference	9	18	26
Acquisition cost, 31 Dec 2009	**2,466**	**4,484**	**6,950**
Accumulated amortisation and impairment losses, 1 Jan 2009	**-1,489**	**-3,123**	**-4,612**
Amortisation	0	-345	-345
Cumulative depreciation on sales of assets in Group companies	0	0	0
Exchange difference	0	-6	-6
Accumulated amortisation and impairment losses, 31 Dec 2009	**-1,489**	**-3,475**	**-4,964**
Carrying amount, 1 Jan 2009	969	1,311	2,279
Carrying amount, 31 Dec 2009	977	1,008	1,986

The recoverable amounts assessed when testing goodwill and other intangible assets with an indefinite useful life for impairment are determined on the basis of their value in use. Estimates of cash flows are based on the budget for the next financial year and on the four-year business plan made by the management and approved by the Board of Directors. Impairment testing has been carried out on the date of the financial statements, and the management's estimation and judgement were involved when testing. A discount rate of 19.05% and forecasted operating profit before depreciation as well as changes in working capital have been used as the key variables. 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 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.

Should the revenues used in the testing be decreased by 16% during each forthcoming year, this would not yet call for the impairment of goodwill. Should the discount rate used in the testing be increased by less than 14%, there would be no need for the impairment of goodwill.

15. Other financial assets

	2010	2009
Publicly quoted shares	4	4
Unquoted shares	10	10
Capital investment fund	300	0
Total available-for-sale investments at the end of the year	**314**	**14**

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 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

	1 Jan 2009	Recorded in income statement	Exchange differences	31 Dec 2009
Deferred tax assets				
Tax losses carried forward	4,148	0	7	4,156
Deferred tax liabilities				
Accumulated depreciation difference	99	-29	0	70

Amount of deferred tax assets is based on the Board of Directors' estimate on the development of the company during the next five years and on the taxable profit calculated on the basis of that estimate. Of the deferred tax assets, EUR 0.9 million refer to the Indian subsidiary and EUR 3.3 million to the parent company. Should the actual revenue of the parent company be more than 4% lower than the revenue target, deferred tax assets should be written down. The revenue of the Indian subsidiary can be 70% of the target before there is a need for write-down.

The non-recorded cumulative tax assets on tax losses carried forward totalled EUR 8.0 million in 2010 (EUR 6.4 million in 2009). Tax losses expire in years 2012–2020.

17. Inventories

	2010	2009
Raw materials and supplies	9,314	8,008
Work in progress	1,454	1,023
Finished goods	1,911	2,037
Advance payments	384	313
	13,062	**11,381**

EUR 0.2 million was recorded as an expense for the financial year, and the carrying amount of inventories was lowered by this figure to bring it in line with the net realisable value (EUR 0.9 in 2009).

18. Trade and other receivables

	2010	2009
Trade receivables	12,787	9,680
Loan receivables	31	23
Prepaid expenses and accrued income	1,512	1,294
Other receivables	492	265
	14,823	**11,261**

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

Aging structure of trade receivables and items recorded as credit losses

	2010	2009
Not past due	10,024	8,073
Past due		
Less than 30 days	1,933	1,287
30–60 days	369	129
61–90 days	56	69
More than 90 days	404	122
	12,787	**9,680**
Items recorded as credit losses	12	0

Distribution of current receivables by currency, EUR	2010	2009
USD	1,303	1,028
SEK	0	0
GBP	0	0
EEK	292	110
INR	2,386	1,881
EUR	10,844	8,242
	14,823	**11,261**

19. Cash and cash equivalents

	2010	2009
Cash and bank accounts	328	534
Short-term investments	149	127
	476	**661**

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 2010	18,680,880	20,487	44	20,531
31 December 2009	12,180,880	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 2009. The nominal value of the share is EUR 1.68 and the Group's maximum share capital is EUR 67.2 million (EUR 67.2 million in 2009). 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 has two on-going option schemes.

Of the option scheme implemented in 2004 only the stock options 2004C are valid. There are a total of 315,000 stock options 2004C which entitle to subscribe for 315,000 shares of Incap Corporation. The subscription price for the 2004C stock options is EUR 2.05, and the subscription period is from 1 April 2009 to 30 April 2011. The option scheme is associated with a shareholding scheme, according to which option holders are obliged to acquire company shares with 20% of the gross income gained from realised stock options.

In 2009 Incap's Board of Directors launched an option scheme including a total of 600,000 stock options. The stock options are broken into three categories: 2009A, 2009B and 2009C, and they entitle to subscribe for a total of 600,000 Incap's shares. There are 100,000 "A" options, 100,000 "B" options and 400,000 "C" options. The CEO received 100,000 stock options A in 2009 and 25,000 stock options B in 2010. Further in 2010, the company's key personnel received a total of 100,000 stock options C. The subscription price for all stock options is EUR 1.00. The subscription period for option rights 2009A is 1 April 2010 to 31 January 2014 and for options rights 2009B and 2009C 1 April 2011 to 31 January 2014.

The main terms governing the determination of the fair value of granted equity instruments that were accepted earlier:

	2010	**2009**	**2006**	**2005**	**2004**	**All share options**
Number of instruments granted, pcs	500,000	100,000	139,400	38,000	244,000	1,021,400
Average (weighted) subscription price, euros	1.00	1.00	2.05	2.25	2.25	1.49
Average (weighted) maturity, years	4.4	5.1	5.3	4.5	5.5	4.9
Expected average (weighted) volatility, %	48.0	48.0	51.0	66.0	72.0	54.8
Average (weighted) risk-free interest rate, %	2.4	2.4	3.3	2.5	3.7	2.8
Expected personnel reductions (at grant date), %	25.0	23.0	9.0	9.0	9.0	18.2
Total fair value, euros	48,546	16,344	139,818	27,104	234,926	466,738
Valuation model	Black-Scholes					
Actual	In shares					

In determining the fair values of share options granted, the requirement of a market-determined minimum average price on the subscription date has also been taken into account. Because dividend payouts were not expected, dividends were not taken into account in calculating the fair value of share options.

Changes during the share option period and weighted average strike prices	2010 Average weighted strike price, euros/share	2010 Number of options	2009 Average weighted strike price, euros/share	2009 Number of options
Beginning of year	1.39	151,100	2.18	76,100
New options granted	1.00	500,000	1.00	100,000
Share options forfeited	0	0	2.25	-25,000
Share options outstanding at end of year	1.09	651,100	1.39	151,100

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

Year of expiry	Strike price, EUR	Number of shares 2010	Number of shares 2010	Number of shares 2009	Number of shares 2009
2011	2.05	26,100	26,100	26,100	103,700
2014	1.00	600,000	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	2010	2009
Present value of unfunded obligations	0	0
Present value of funded obligations	211	134
Fair value of plan assets	-126	-98
Underfunding/overfunding	85	36
Unrecognised acturial gains (+) and losses (-)	0	0
Unrecognised past service expenses	0	0
Net liability	**85**	**36**
Amounts in the balance sheet:		
Liability	85	36
Receivable	0	0
Net liability	**85**	**36**

Defined-benefit pension expenses recognised in the income statement are as follows:	2010	2009
Pension costs based on current period's service	9	10
Benefit-related interest expense	12	8
Expected return on plan assets	-9	-7
Actuarial gains (+) and losses (-)	39	-19
Pension costs based on prior periods' service	0	0
Gains/losses on plan curtailment	0	0
Total	**52**	**-8**

Actual return on plan assets was 9 571 euros in 2010 (9 924 euros in 2009).

Changes in the present value of the defined benefit obligation are as follows:	2010	2009
Defined benefit obligation at 1 January	150	132
Current service cost	9	10
Interest cost	12	8
Actuarial losses/(gains) on obligation	40	-17
Gains (+) and losses (-) based on curtailment	0	0
Business combination	0	0
Exchange difference	0	0
Benefits paid	-44	0
Defined benefit obligation at 31 December	**168**	**134**

Changes in the fair value of plan assets are as follows:	2010	2009
Fair value of plan assets at 1 January	109	88
Expected return on plan assets	9	7
Actuarial gains (+) and losses (-)	1	3
Contributions by employer	8	0
Contributions by plan participants	0	0
Business combination	0	0
Exchange difference	0	0
Benefits paid	-1	0
Fair value of plan assets at 31 December	**126**	**98**

Plan assets are comprised as follows:	2010	2009
Insurer Managed Funds	126	98

The principal actuarial assumptions used were as follows:	2010	2009
Asia		
Discount rate	8.10%	7.95%
Expected return on plan assets	7.50%	7.50%
Future salary increases	7.00%	7.00%

Amounts for the current and previous two periods are as follows:	2010	2009	2008
Present value of defined benefit obligation	211	134	130
Fair value of plan assets	126	-98	-86
Surplus (+) / deficit (-)	85	36	44
Experience adjustments on plan liabilities	43	14	7
Experience adjustments on plan assets	1	3	32

The Corporation expects to contribute EUR 0.03 million to its defined benefit pension plans in year 2011.

23. Provisions

Expense reserve

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

31 December 2008	1,113
Increase in provisions	2,122
Used provisions	-624
31 December 2009	**2,611**

The company concentrated in 2010 its electronics manufacturing in Europe into one unit. In this connection, the factory in Vuokatti, Finland, was closed and the production was transferred to the company's factory in Kuressaare, Estonia. For the closure of the Vuokatti factory, a provision of EUR 2.6 million was made for the year 2009. Major part of the provision was used during 2010, and the amount exceeding the corresponding costs, a total of EUR 1.0 million, was recorded as a credit item.

24. Interest-bearing liabilities

Non-current financial liabilities measured at amortised cost

	2010	2009
Other loans	1,899	1,870
Convertible promissory notes	6,697	6,660
Pension loans	0	0
Other loans, held-for-sale	171	513
Finance lease liabilities	807	1,955
	9,574	**10,999**

Current financial liabilities measured at amortised cost

	2010	2009
Bank loans	11,106	8,774
Pension loans	0	0
Other loans, held-for-sale	427	342
Finance lease liabilities	901	1,153
	12,435	**10,269**

The fair values of liabilities are presented in Note 27. Non-current bank loans amounting to EUR 3.1 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 risks and factors of uncertainty concerning operations as well as in Note 26 Management of financial risks, chapter 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 2009). The Group's bank loans have both variable and fixed interest rates. The Group's average interest rate is 4.75% (6.09% in 2009).

Forthcoming payable interest and instalments of loans

	2010	2009
Less than 6 months	758	722
6–12 months	956	721
1–5 years	12,314	13,775
More than 5 years	567	0
	14,595	**15,218**

The above 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	2010	2009
USD	0	0
EEK	179	474
INR	0	0
EUR	9,395	10,524
	9,574	**10,999**

Current liabilities	2010	2009
USD	2,026	1,580
EEK	300	320
INR	0	3,692
EUR	10,108	4,676
	12,435	**10,269**

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.

Due dates of finance lease liabilities	2010	2009
Finance lease liabilities – Minimum lease payments		
Less than 1 year	951	1,252
1–5 years	829	2,040
Later than 5 years	0	0
	1,780	**3,292**
Finance lease liabilities – Present value of minimum lease payments		
Less than 1 year	901	1,153
1–5 years	807	1,955
Later than 5 years	0	0
	1,708	**3,108**
Future finance charges	72	184
Total finance lease liabilities	**1,780**	**3,292**

25. Trade and other payables

Current	2010	2009
Trade payables	9,000	5,295
Cash proceeds	0	0
Accrued liabilities	3,090	5,259
Other liabilities	2,871	1,371
	14,961	**11,925**

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

Distribution of non-interest-bearing liabilities by currency, EUR	2010	2009
USD	1,089	440
SEK	15	2
CHF	118	31
GBP	21	11
NOK	1	1
JPY	8	1
SGD	0	-4
EEK	478	444
INR	2,024	1,303
EUR	11,207	9,698
	14,961	**11,925**

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 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 is responsible for the management of financial risks and reports to the President and CEO and the Board of Directors on these risks and any changes in them. The financial department identifies and assesses financial risks and obtains the necessary instruments for hedging these risks.

Hedging transactions are carried out in accordance with 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 debt financing of the subsidiary in India has previously been mostly carried out using a local loan denominated in Indian rupees, while the short-term working capital financing of the subsidiary has been denominated in US dollars. Based on the new financing agreement signed in September 2010, this loan which is denominated in Indian rupees and serves the financing of the Indian subsidiary has been transferred to a EUR-denominated loan between the financier and Incap. Incap Corporation has made a corresponding long-term investment in the subsidiary in India. This investment has been hedged using two different currency derivatives. In this connection, the following hedging instruments have been used:

Currency products in use:

Product	Quantity sold	Quantity purchased	Market value	Nominal value
Non Deliverable Forward	112,500,000 INR	2,430,856 USD	-37,290 EUR	1,880,956 EUR
Currency option	2,430,000 USD	1,786,765 EUR	31,813 EUR	

Other currencies used in the business in India are not significant in terms of currency risk management.

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 62,989.63 or an increase of EUR 85,221.27 compared with the exchange difference at 31 December 2010.

Interest rate risk

At the balance sheet date, interest-bearing liabilities in the consolidated balance sheet totalled EUR 22.0 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 2.7 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 +/- 124,998.49.

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. The reported credit losses during the financial year amount to EUR 12,420. 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 12.4 million. From this amount EUR 11.1 million is a bank loan, from which EUR 5.6 million is directed towards Indian subsidiary. In order to secure sufficient financing, a factoring financing was taken in use 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 2010 amounted to EUR 2.3 million. This includes the temporary credit facilities of EUR 1 million, which will not be used after March 2011.

In order to strengthen its financial position, Incap arranged two directed share issues in spring and autumn 2010. Accordingly, a total of EUR 4.1 million was registered in the reserve of invested unrestricted equity.

In order to estimate its liquidity Incap has drawn up a cash flow forecast by quarter, expanding up to the financial statements for the year 2011. The cash flow forecast is based on the result estimate for 2011 as given in connection with the consolidated financial statements and on the actual turnover of sales receivables and accounts payable, as well as on the targeted turnover of inventories. Based on this cash flow forecast, Incap's need for working capital is increasing towards the year end. The company'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. If the goal for the inventory turnover rate is not achieved, the financing need increases by EUR 2 million. If the goals are not achieved, the gap must be covered with additional financing. 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. Providing that the negotiations are successful, the company's working capital will be sufficient for the next 12 months. Furthermore, Incap has at the end of the financial period started 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 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 5.6 million) and Incap's credit line (EUR 1 million) and a factoring credit line (up to EUR 7 million), of which EUR 5.5 million were in use on 31 December 2010. The financing agreement can be terminated if the following covenants are not met:

Incap Group	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–	>10.9%	< 5.6	< EUR 1 million/12 months

Furthermore, the Group's EBITDA on 1 January–31 March 2011 shall be at least EUR 150,000. When calculating the covenants, interest-bearing debt (IBD) does not include the factoring limit. Equity ratio on 31 December 2010 was 13.2% and net IBD/EBITDA -42.2. Of the covenant conditions, net IBD/EBITDA was not met on the balance sheet date, but before the balance sheet date the financier informed Incap in writing that it will not exercise its right to terminate the agreement on 31 December 2010. The covenants will be tested again on 30 June 2011. 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. Most important short-term risk in materials is the availability of materials which can cause increase of price level. This risk is managed by signing framework agreements with renowned partners and by increasing efforts in business volume estimation and capacity management. 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 2010, the Group's interest-bearing net liabilities totalled EUR 21.5 million (EUR 20.6 at 31 Dec 2009) and its gearing was 383% (319.8% at 31 Dec 2009). 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. Gearing increased during the financial year. During 2010, the equity ratio dropped to 13.2% (16.2% at 31 Dec 2009).

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 2010	Fair value 2010	Carrying amount 2009	Fair value 2009
Bank loans	11,106	11,106	8,774	8,774
Pension loans	0	0	0	0
Convertible promissory notes	6,697	6,820	6,660	6,838
Other interest-bearing loans	2,497	2,497	2,725	2,813
Finance lease liabilities	1,708	1,708	3,108	3,144
Trade and other payables	14,961	14,961	11,925	11,925

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

Discount rates applied in determining fair value:	2010	2009
Bank and other loans	1.61–10.00%	1.25–10.00%

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

	2010	2009
Non-cash transactions	-2,622	1,497
Depreciation and impairment losses	2,831	2,869
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	-10
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	-188	-14
	23	**4,342**

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.
(The amounts do not include value added tax.)

	2010	2009
Less than 1 year	1,283	1,356
1–5 years	1,079	1,863
	2,361	**3,219**

The income statement for 2010 includes EUR 1.8 million of lease expenses paid for operating leases (EUR 2.0 million in 2009).

30. Collateral and contingent and related liabilities

Collateral given on behalf of own commitments	2010	2009
Mortgages	3,340	0
Business mortgages	12,028	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	1,422
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 2004–2009	0	0

31. Related-party transactions

Management's employee benefits	2010	2009
Salaries and other current employee benefits	669	701
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
	669	**701**

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	2010	2009
President and CEO	176	168
Board members		
Kalevi Laurila	48	49
Susanna Miekk-oja	36	37
Jukka Harju	0	25
Kari Häyrinen	24	25
Lassi Noponen	24	25
Raimo Helasmäki	24	0

The wages and salaries for the Board of Directors cover the full term of office for Board members from 13 April 2010 until 13 April 2011.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 outstanding shares and voting rights.

During the financial period Incap signed an agreement, in which it committed to invest EUR 0.3 million to Cleantech Future Fund. A member of the Board, Lassi Noponen, is a partner of 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

The negotiations between Incap Corporation and Lankapaja Oy which started in September 2010 regarding the sale of the sheet-metal business of Incap's Helsinki plant fell through in February 2011.

Parent Company Income Statement

1,000 euros	Note	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
Revenue	1	44,373	51,912
Changes in inventories of finished goods and work in progress	3	-665	-1,470
Other operating income	2	606	252
Raw materials and services	3	30,509	32,383
Personnel expenses	4	8,962	13,377
Depreciaton, amortisation and impairment losses	5	696	847
Other operating expenses	6	4,343	7,082
Operating profit/loss		**-197**	**-2,995**
Financial income and expenses	7	-1,035	-944
Profit/loss before extraordinary items		**-1,232**	**-3,938**
Extraordinary items	8	0	0
Profit/loss before appropriations and taxes		**-1,232**	**-3,938**
Appropriations	9	120	113
Income taxes	10	-450	0
Profit/loss for the financial year		**-1,562**	**-3,825**

Parent Company Balance Sheet

1,000 euros	Note	31 Dec 2010	31 Dec 2009
ASSETS			
Non-current assets			
Intangible assets	11	388	571
Tangible assets	11	2,492	3,146
Investments	12		
Holdings in Group companies		13,853	10,077
Other investments		311	11
Total non-current assets		**17,044**	**13,805**
Current assets			
Inventories	13	3,557	6,482
Non-current receivables	14	3,267	3,717
Current receivables	14	16,773	9,887
Cash in hand and at bank		131	196
Total current assets		**23,727**	**20,282**
Total assets		**40,771**	**34,088**
LIABILITIES			
Equity	15		
Share capital		20,487	20,487
Share premium account		44	44
Reserve for invested unrestricted equity		4,160	0
Retained earnings		-7,946	-4,120
Profit for the financial year		-1,562	-3,825
Total equity		**15,184**	**12,585**
Appropriations	16	**149**	**270**
Liabilities			
Non-current liabilities	17	6,921	7,263
Current liabilities	18	18,517	13,970
Total liabilities		**25,438**	**21,233**
Total equity and liabilities		**40,771**	**34,088**

Parent Company's Cash Flow Statement

1,000 euros	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
Cash flow from operating activities		
Operating profit/loss	-197	-2,995
Adjustments to operating profit/loss	-2,220	2,082
Change in working capital	-2,213	4,541
Interest paid	-1,022	-987
Interest received	30	19
Cash flow from operating activities	**-5,622**	**2,661**
Cash flows from investing activities		
Investments in tangible and intangible assets	-314	-118
Investment in subsidiary	-3,776	-3,000
Disposal of subsidiaries	-159	0
Proceeds from sales of tangible and intangible assets	323	19
Repayments of loan receivables	0	0
Cash flow from investing activities	**-3,926**	**-3,099**
Cash flows from financing activities		
Proceeds from share issue	4,160	0
Drawdown of loans	5,579	3,500
Loan repayments	-256	-3,232
Cash flow from financing activities	**9,483**	**267**
Change in cash and cash equivalents	**-65**	**-171**
Cash and cash equivalents at the beginning of the financial year	196	368
Cash and cash equivalents at the end of the financial year	**131**	**196**
Change in working capital		
Increase in current trade receivables	-6,420	4,343
Increase in inventories	3,222	4,222
Increase in current liabilities	985	-4,024
	-2,213	**4,541**

Notes to the Parent Company Financial Statements

ACCOUNTING POLICIES 2010

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 protection 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 2010 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 2010–2020. 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.

1. Revenue

Revenue by market area	1.1.–31.12.2010	1.1.–31.12.2009
Finland	35,769	47,447
Europe	5,878	2,655
Other	2,726	1,810
	44,373	**51,912**

2. Other operating income

	2010	2009
Capital gains on the sale of property, plant and equipment	586	237
Other income	20	14
	606	**252**

3. Raw materials and services

	2010	2009
Purchases during the financial year	15,894	25,899
Change in inventories	2,908	4,083
	18,802	**29,981**
External services	12,372	3,871
	31,174	**33,852**

4. Personnel expenses and number of personnel

	2010	2009
Average number of employees		
White-collar	81	89
Blue-collar	202	248
	283	**337**
Personnel expenses		
Wages and salaries	7,399	10,918
Pension expenses	1,536	1,724
Other social security expenses	27	735
	8,962	**13,377**
Salaries and bonus of the management		
President and the Board	332	331
	332	**331**

5. Depreciation and amortisation

Depreciation according to plan in 2010 totalled EUR 0.7 million (EUR 0.8 million in 2009). The specification of depreciation and amortisation for individual balance sheet items is included in the item 11. Property, plant and equipment. The depreciation and amortisation periods are presented in the accounting policies.

6. Other operating expense

	2010	2009
Lease payments	2,207	2,500
Maintenance expenses for machinery and properties	1,273	1,557
Other expenses	863	3,025
	4,343	**7,082**

Auditors fees		
KHT-Group Ernst & Young Oy		
Auditing fees	30	53
Certificates and statements	0	0
Tax advice	15	0
Other services	41	6
	86	**59**

7. Financial income and expenses

	2010	2009
Dividend income		
From other companies	2	1
Other interest and financial income		
From Group companies	0	0
From other companies	29	18
Interest paid and other financial expenses		
To other companies	-1,066	-963
	-1,035	**-944**

8. Extraordinary items

	2010	2009
Extraordinary income	0	0

9. Appropriations

	2010	2009
Difference between depreciation according to plan and depreciation for taxation purposes.	120	113

10. Income taxes

	2010	2009
Change in deferred tax asset	-450	0

11. Property, plant and equipment

Intangible assets

	Intangible rights	Goodwill	Other long-term expenditure	Total
Acquisition cost, 1 Jan 2010	1,776	16,337	1,682	19,795
Increase	12	0	0	12
Decrease	-51	0	0	-51
Acquisition cost, 31 Dec 2010	**1,736**	**16,337**	**1,682**	**19,755**
Accumulated amortisation and impairment losses, 1 Jan 2010	-1,294	-16,337	-1,592	-19,224
Cumulative depreciation of decreases and reclassifications	14	0	0	0
Amortisation during the year	-120	0	-37	-158
Accumulated amortisation, 31 Dec 2010	**-1,401**	**-16,337**	**-1,629**	**-19,367**
Carrying amount, 31 Dec 2010	335	0	53	388
Carrying amount, 31 Dec 2009	482	0	90	571

Part of the issuing expenses resulting from the issue of convertible promissory notes in 2007 was recognised as other long-term expenditure. Of this amount, EUR 52,660.99 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 2010	**64**	**5,051**	**24,769**	**544**	**0**	**30,428**
Increase	0	0	0	0	345	345
Decrease	-8	-419	-387	0	0	-813
Acquisition cost, 31 Dec 2010	**56**	**4,633**	**24,382**	**544**	**345**	**29,960**
Accumulated depreciation and impairment losses, 1 Jan 2010	**0**	**-2,583**	**-24,176**	**-522**	**0**	**-27,282**
Cumulative depreciation on reclassifications and disposals	0	80	273	0	0	353
Depreciation during the year	0	-251	-276	-12	0	-538
Accumulated depreciation, 31 Dec 2010	**0**	**-2,753**	**-24,180**	**-534**	**0**	**-27,467**
Carrying amount, 31 Dec 2010	56	1,879	203	9	345	2,492
Carrying amount, 31 Dec 2009	64	2,469	593	21	0	3,146

12. Investments

	Holdings in Group companies	Receivables from Group companies	Other shares	Total
Acquisition cost, 1 Jan 2010	**10,077**	**0**	**11**	**10,088**
Increase	0	3,776	300	4,076
Acquisition cost, 31 Dec 2010	**10,077**	**3,776**	**311**	**14,164**
Carrying amount, 31 Dec 2010	10,077	3,776	311	14,164
Carrying amount, 31 Dec 2009	10,077	0	11	10,088

Group companies

Incap Electronics Estonia OÜ, Kuressaare, Estonia

Incap Contract Manufacturing Services Pvt. Ltd., Bangalore, India

Euro-ketju Oy, Kajaani, Finland

Incap Corporation owns 100% of Incap Electronics Estonia OÜ 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.

13. Inventories

	2010	2009
Raw materials and consumables	2,078	4,343
Work in progress	330	470
Finished goods	1,144	1,670
Advance payments for inventory	4	0
	3,557	**6,482**

14. Assets

	2010	2009
Non-current		
Amount owed by Group companies		
Loan receivables	0	0
Deferred tax asset	3,267	3,717
Current		
Trade receivables	9,780	6,404
Amount owed by Group companies		
Trade receivables	6,118	2,528
Interest receivables	0	
Other receivables	296	
	6,414	**2,528**
Prepaid expenses and accrued income	579	955
Total receivables	**20,040**	**13,604**

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

15. Equity

	2010	2009
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 1.1.	0	0
Share issue	4,160	0
Reserve for invested unrestricted equity 31.12.	4,160	0
Retained earnings, 1 Jan	-7,946	-4,120
Recording of previous years' depreciation differences	0	0
Retained earnings, 31 Dec	-7,946	-4,120
Profit for the financial year	-1,562	-3,825
Total non-restricted equity	**-5,347**	**-7,946**
Total equity	**15,184**	**12,585**
Distributable funds		
Reserve for invested unrestricted equity	4,160	0
Retained earnings	-7,946	-4,120
Profit for the financial year	-1,562	-3,825
	-5,347	**-7,946**

16. Accumulated appropriations

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

17. Non-current liabilities

	2010	2009
Loans from credit institutions	0	0
Pension loans	0	0
Convertible promissory notes	6,750	6,750
Other liabilities	171	513
	6,921	**7,263**

All liabilities are falling due after five years.

18. Current liabilities

	2010	2009
Loans from credit institutions	9,079	3,500
Pension loans	0	0
Trade payables	3,496	2,951
Amount owed to Group companies		
Trade payables	132	936
Advances received	0	0
Other liabilities	2,872	1,442
Accruals and deferred income	2,938	5,141
	18,517	**13,970**
Total interest-bearing liabilities	9,506	3,842
Material items in accruals and deferred income		
Wages and salaries, incl. social costs	2,030	2,088
Lease payment liabilities	51	55
Interest	323	287
Expense reserve	286	2,429
Other	248	282
	2,938	**5,141**

19. Other notes to the accounts

Collateral	2010	2009
Loans for which real-estate has been mortgaged as collateral		
Loans from credit institutions	0	0
Mortgages	2,504	0
Loans for which business mortgages have been given as collateral		
Loans from credit institutions	0	0
Mortgages	12,028	12,028
Collateral given on behalf of the Group companies		
Business mortgages	9,617	12,028
Guarantees on behalf of the Group companies	0	5,680
Contingent and other liabilities		
Lease liabilities, net of VAT		
Liabilities falling due next year	838	1,093
Liabilities falling due after one yea	441	1,370

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	1,422
Lease liabilities for the Group's premises	1,256	1,800

Board of Directors' Proposal for the Disposal of Profits

The parent company's net loss for the financial year amounts to EUR 1,561,513.95. The Board of Directors is proposing to the Annual General Meeting to be held on 13 April 2011 that no dividend be distributed and that the result for the financial year be transferred to retained earnings.

Helsinki, 22 February 2011

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, 2010. 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.

Additional information

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 that company's estimation of the adequacy of the financing for the following twelve months' working capital needs include uncertainty. The set result estimate and the targeted turnover rate of inventories create uncertainty to working capital as well company's ability to meet the financing covenants of a financing agreement.

Helsinki, 23 March 2011

Ernst & Young Oy
Authorized Public Accountant Firm

Jari Karppinen
Authorized Public Accountant

Five-year Key Figures

		2010	2009	2008	2007	2006
		IFRS	IFRS	IFRS	IFRS	IFRS
Revenue	EUR million	59.2	69.8	93.9	83.0	89.3
Growth	%	-15	-26	13	-7	17
Operating profit	EUR million	-3.2	-5.0	-3.6	0.3	2.8
Share of revenue	%	-5	-7	-4	0	3
Profit before taxes	EUR million	-4.9	-6.7	-5.4	-1.1	2.3
Share of revenue	%	-8	-10	-6	-1	3
Return on equity (ROE)	% [1]	-81.0	-68.5	-33.4	-5.6	17.3
Return on investment (ROI)	% [1]	-10.6	-15.9	-8.6	1.3	10.5
Total assets	EUR million	42.6	39.7	48.9	54.2	45.5
Equity ratio	% [1]	13.2	16.2	27.0	35.3	44.7
Gearing	% [1]	383.0	319.8	146.1	103.2	43.9
Net debt	EUR million	21.7	21.3	20.7	15.8	10.7
Quick ratio		0.6	0.5	0.7	0.8	0.8
Current ratio		1.0	1.1	1.4	1.4	1.6
Investments	EUR million	0.5	1.1	1.8	1.5	7.1
Share of revenue	%	1	2	2	2	8
R&D expenditure	EUR million	0.1	0.1	0.5	0.3	0.5
Share of revenue	%	0	0	1	0	1
Average number of employees		780	751	735	678	521
Dividends	EUR million [2]	0	0	0	0	0

[1] Key figures for 2008, 2009 and 2010 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.

		2010	2009	2008	2007	2006
		IFRS	IFRS	IFRS	IFRS	IFRS
Per-share data						
Earnings per share	EUR	-0.33	-0.55	-0.44	-0.09	0.26
Equity per share	EUR	0.30	0.53	1.08	1.57	1.67
Dividend per share	EUR [2]	0	0	0	0	0
Dividend out of profit	% [2]	0	0	0	0	0
Effective dividend yield	% [2]	0	0	0	0	0
P/E ratio		-1.7	-1.2	-1.2	-14.9	9.7
Trend in share price						
Minimum price during year	EUR	0.49	0.43	0.49	1.25	1.82
Maximum price during year	EUR	0.75	0.99	1.60	2.67	2.90
Mean price during year	EUR	0.63	0.63	1.02	2.10	2.32
Closing price at end of year	EUR	0.57	0.67	0.55	1.34	2.51
Total market capitalisation at 31 Dec	EUR million	10.6	8.2	6.7	16.3	30.6
Trade volume	no. of shares	5,211,956	2,986,054	1,651,176	6,535,047	11,010,588
Trade volume	%	39	25	14	54	90
Share issue-adjusted number of shares						
Mean number during year		14,682,250	12,180,880	12,180,880	12,180,880	12,180,880
Number at end of year		18,680,880	12,180,880	12,180,880	12,180,880	12,180,880

[1] Key figures for 2008, 2009 and 2010 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, % = $\dfrac{\text{100 x profit/loss}}{\text{equity (mean for financial year)}}$

Return on investment, % = $\dfrac{\text{100 x (profit/loss + financial expenses)}}{\text{equity + interest-bearing loans (mean for financial year)}}$

Equity ratio, % = $\dfrac{\text{100 x equity}}{\text{total assets less advance payments received}}$

Gearing, % = $\dfrac{\text{100 x (interest-bearing liabilities less cash and cash equivalents)}}{\text{equity}}$

Net debt = liabilities less financial assets

Quick ratio = $\dfrac{\text{financial assets}}{\text{short-term liabilities - current advance payments received}}$

Current ratio = $\dfrac{\text{financial assets + inventories}}{\text{current liabilities}}$

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 $$= \frac{\text{net profit}}{\text{share issue-adjusted mean number of shares during financial year}}$$

Equity per share $$= \frac{\text{equity}}{\text{share issue-adjusted number of shares at end of financial year}}$$

Dividend per share $$= \frac{\text{dividend during financial year}}{\text{share issue-adjusted number of dividend-earning shares at end of financial year}}$$

Dividend out of profit, % $$= \frac{\text{100 x dividend per share}}{\text{earnings per share}}$$

Effective dividend yield, % $$= \frac{\text{100 x dividend per share}}{\text{last price at balance sheet date}}$$

Price per earnings (P/E) ratio $$= \frac{\text{last price at balance sheet date}}{\text{earnings per share}}$$

Total market capitalisation = last price at balance sheet date x number of shares in issue

Incap Corporation
Valuraudankuja 6
FI-00700 Helsinki, Finland
Tel. + 358 20 779 0550
Fax +358 9 224 4095

www.incap.fi