# ANNUAL REPORT 2008

InCap

# Contents



The financial statements for 2008 are available as a separate file.

# Incap in brief

> Incap is an internationally operating contract manufacturer. Our service offering covers the entire life-cycle of electromechanical products, from design and manufacture to repair and maintenance services. For our customers, who are leading suppliers of energy efficiency and well-being technologies, we provide new competitiveness through strategic partnerships.

>Incap has operations in Finland, Estonia and India. In 2008, the company's revenue was approx. EUR 94 million. Incap employs about 730 people and its share is listed on the NASDAQ OMX Helsinki.

# The year in brief

> There was a clear change of course in Incap's strategy. Incap abandoned the role of electronics-focused contract manufacturer and will now concentrate on serving leading equipment manufacturers in energy efficiency and well-being technology.

## Structural change in revenue

Incap Group's revenue increased by 13% on the previous year to approximately EUR 94 million. There was a clear change in the breakdown of revenue by customer industry. The demand for power technology products and well-being technology increased the most, whereas the share of telecommunications products decreased. Cooperation with a large supplier of telecommunications networks ended in a controlled manner at the end of the year.

## New strategy

A sharp change of course took place in the strategy, and the company's management and operating model were renewed at the same time. Incap seeks profitable growth by focusing on services for the leading equipment manufacturers in energy efficiency and well-being technology. The company will seek a strong market position and improve its competitiveness by expanding its service offering with life-cycle services that complement the manufacturing services.

The President and CEO of Incap Group changed and the Management Team was reformed. The organisation structure was adjusted with a strong emphasis on the customer perspective. At the core of operations are the two business units Energy efficiency and Well-being solutions, which are aligned with the customer industries. Customer accounts that are emerging and being developed further are within the Emerging Business unit.

## Moderate growth in India

The year 2008 was the first full accounting period for the Indian operations. Production capacity was developed moderately through minor equipment investments and the organisation was complemented in line with customer needs. Resources were increased in design services and material procurement in particular. We managed to gain six new customers. As their products did not reach volume production at the expected rate, the growth of the Indian company's revenue fell short of expectations.

Work on the new factory building proceeded almost on schedule, and the new premises will be inaugurated in early 2009. The Tumkur plant was also audited and approved for the TS 16949 quality certificate required by the automotive industry. In order to develop the Indian operations, a long-term financing contract was negotiated with Finnfund Oy.

## Strategic development programmes

In connection with the strategy reform, improving profitability was set as the main objective. In order to make production more efficient, the roles of different plants were revised and the number of personnel was adjusted in electronic manufacturing and the Group's support functions. Ultraprint Oy, a subsidiary manufacturing etched sheet-metal products, was sold to its operative management.

The reorganisation programme emphasises profitability and efficiency. The programme increases return on working capital, makes responsibilities clearer and adjusts and streamlines manufacturing operations. Cost savings are also sought in sourcing, and extensive cooperation with a partner in Asia was begun.

> A sharp change of course took place in the strategy, and the company's management and operating model were renewed.

| Key Figures (IFRS) | 2008 | 2007 |
|---|---|---|
| Revenue, EUR millions | 93.9 | 83.0 |
| Operating profit, EUR millions | -3.6 | 0.3 |
| % of revenue | -3.9 | 0.4 |
| Profit before taxes, EUR millions | -5.4 | -1.1 |
| % of revenue | -5.8 | -1.3 |
| Profit/loss for the period, EUR million | -5.4 | -1.1 |
| Earnings per share (EPS), euro | -0.44 | -0.09 |
| Return on investment (ROI), % | -8.6 | 1.3 |
| Return on equity (ROE), % | -33.4 | -5.6 |
| Equity ratio, % | 27 | 35 |
| Gearing ratio, % | 146 | 103 |
| Investments, EUR millions | 1.8 | 1.5 |
| % of revenue | 1.9 | 1.8 |
| Personnel at year's end | 727 | 810 |

# New strategic focus on energy efficiency and well-being

> Incap's new strategy aims to transform the company from a component manufacturer for the telecommunications sector into a solution-oriented partner for technology companies in the energy efficiency and well-being sectors. The company will also strengthen its market position by differentiating itself as a supplier of life-cycle services.

> Incap is already strongly involved in the delivery chain for solutions that improve energy efficiency and well-being. In addition to manufacturing components and complete solutions, we offer a wide selection of services covering the entire product life-cycle.

Our customers are leading companies in their respective value chains. They build competitiveness by networking and appreciate strategic business partners. By serving these companies Incap aims to improve its competitiveness and to grow profitably with focus on selected core sectors and life-cycle services.

Our extensive experience as a partner to leading technology companies in the energy and well-being segments provides a solid foundation for implementing the renewed strategy. Incap will also centralise its sales and new business resources to serve primarily its strategic business sectors.

## Carefully selected business segments

The global growth forecast for energy efficiency and well-being solutions is based on the growing demand for sustained environmental and social development. There is a broad global consensus concerning these targets.

Improved energy efficiency and environmentally friendly green energy play a critical role in climate change and the economic use of limited natural resources. Energy segment companies are a core customer group for our plants in Vaasa, Finland and in Tumkur, India. Most of our new customers in India are electric power and energy technology suppliers.

New markets are opening up in healthcare, well-being and security technologies, thanks to increased life expectancy, growing demand for services enhancing life quality and improved health awareness. This global trend is visible for instance in Asian economies, where a growing middle class is fuelling demand for well-being products.

## Organisation structure aligned with the customers' business

Our new organisation structure aims to further enhance our customers' competitiveness through trustworthy partnerships.

In line with its strategy, Incap has organised Energy efficiency and Well-being solutions as business units. Alongside them, the unit for Emerging business will serve current and developing customer relationships in different sectors.

These units with overall business responsibility will focus on serving growth sectors in which the outsourcing of product manufacturing and related service is profitable and efficient. In these sectors, our customer companies' core business competence is increasingly product development, marketing and distribution as well as creating a globally valued product brand.

## Global manufacturing capabilities

Incap's plants in Finland, Estonia and India complement each other in terms of capacity and expertise, while retaining a clear division of tasks. They also provide our global customers with a geographically extensive network.

> Our extensive experience as a partner to leading technology companies in the energy and well-being segments provides a solid foundation for implementing the renewed strategy.

The successful launch of our Indian operations strengthens the company's competitiveness in Asian markets. Incap's presence in India means that the company's current and future customers will be able to manufacture volume products more cost-efficiently than before. One of the strengths of our Intian unit is the design expertise, which is based on a proven track record.

## From components to integrated solutions and life-cycle management

Incap is known as a trusted contract manufacturing partner, who delivers technically demanding components, equipment and product entities effectively and at reasonable price.

By partnering with Incap, customers profit from secure availability of production capacity. They can focus on their core competences by transferring partial or complete responsibility for production and material sourcing to the manufacturing partner.

Successful contract manufacturing requires in-depth knowledge of customer needs as well as extensive manufacturing and technology expertise. Incap's unique competitive edge is based on proven manufacturing expertise in electronics and mechanics as well as in combining these into integrated product solutions. This is supported by versatile design, prototype, testing, NPI and after-sales services.

## Looking beyond the PCB assembly

Today, contract manufacturers of electronics and mechanics are polarising into two groups. Companies must choose whether they focus on highly price-sensitive volume production or on limited high value-adding expertise. In the telecommunications sector, for example, the profitable manufacturing of PCB assemblies requires large production volumes and a subcontractor role.

Incap has chosen an alternative route: we are looking beyond conventional contract manufacturing in cooperation with our customers. We aim to specialise in their business sectors and seek for close integration with their operations. Our major competitive edge is our ability to deliver reliable manufacturing services for demanding applications and technology products.

> Successful contract manufacturing requires in-depth knowledge of customer needs as well as extensive manufacturing and technology expertise.

# Energy efficiency solutions

> Demand for technology that improves energy efficiency is growing rapidly in the near future, in large part due to challenges brought on by climate change. As a contract manufacturing partner, Incap provides companies in the energy sector with generator and electrical motor components, emergency power sources, energy meters, power supplies, and components for electricity supply equipment.

> We provide energy technology companies with manufacturing services through our plants in Europe and Asia.

> Rising electricity prices call for energy-saving solutions and equipment. This is why demand for ecologically sustainable solutions based on energy efficient technologies and renewable energy sources is growing around the world.

Core targets guiding the sector's development are besides the reduction of carbon dioxide emissions also the maximisation of the reliability of power supplies and the minimisation of the power loss of electrical equipment. Incap helps customers to develop and implement solutions that enable them to achieve these environmentally friendly targets more effectively and economically than before.

## Global growth sector as the base for customer relationships

The Energy efficiency business unit serves internationally operating companies, which supply equipment especially to energy production, the electric power industry, as well as electric power supply and power electronics sectors. The remote use of electricity networks and the remote reading of electricity consumption are also growing in popularity and open up new business opportunities in the energy sector's value chain.

The business unit delivers rotor components for electric motors and generators, power sources for various electrotechnical equipment, as well as UPS equipment for uninterrupted and undisturbed current input. In addition to manufacturing, Incap provides its energy-segment customers with design capacity and other life-cycle services.

For energy-sector companies, we offer manufacturing services from a choice of Incap plants in Europe and Asia. A significant part of our Indian unit's customers operate in the energy technology sector, where one of our strengths in comparison with competing companies in the region is our local design competence.

## More efficient use of contract manufacturing

The core of Incap's service offering is a reliable manufacturing service for products, assemblies and components, with each of them complementing the customer's own expertise. We provide our partners with long-term availability of manufacturing capacity as well as the agility and flexibility to react to changing demand.

Customers who require a full-scope manufacturing partner can profit from Incap's product integration expertise, which covers electronic and mechanical components and their integration into box-build products. Incap's life-cycle services ensure optimum product manufacturability, rapid ramp-up, continuous maintenance, and controlled ramp-down.

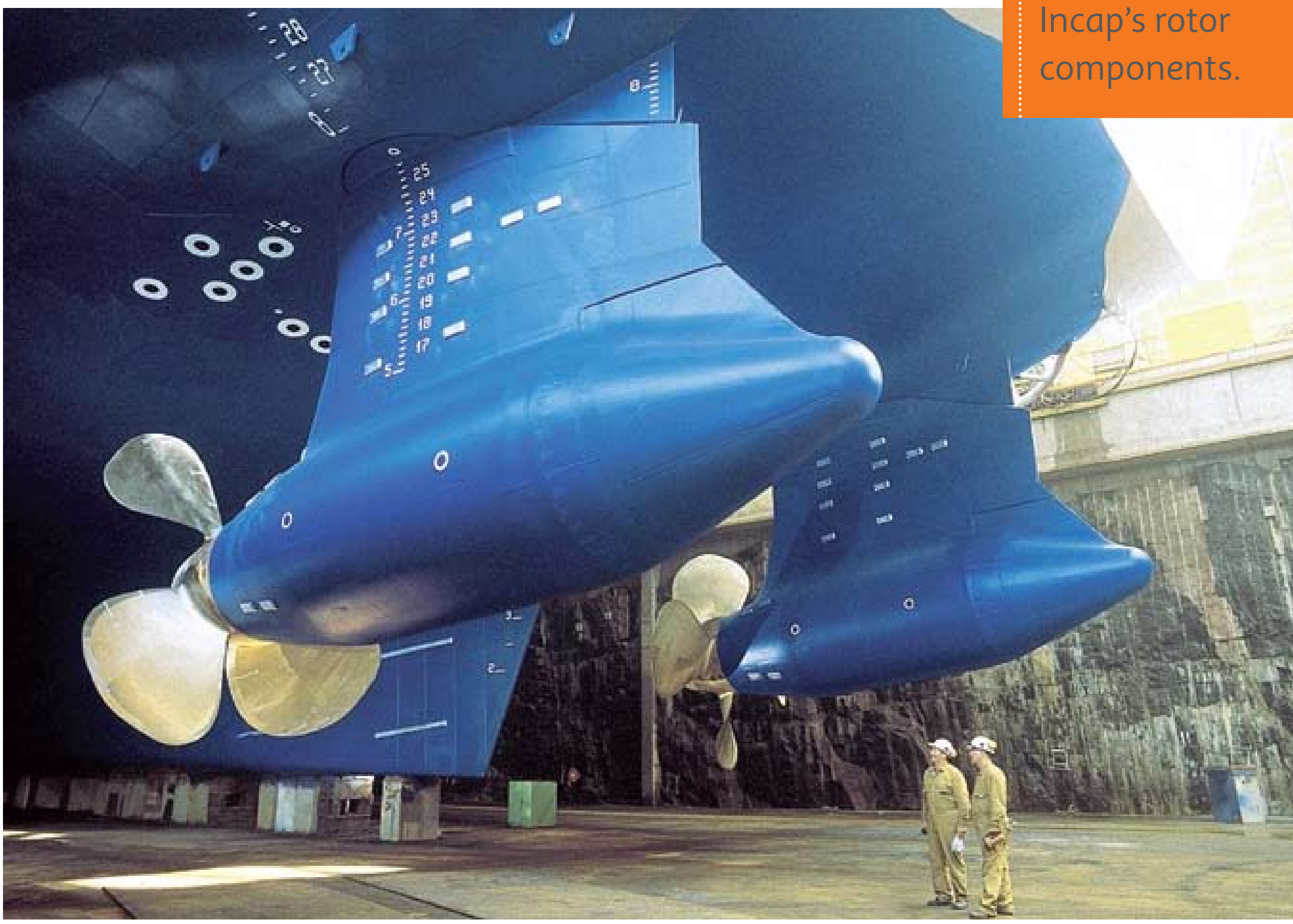
Contract manufacturing also includes the cost-effective use of materials and components as well as their competitive sourcing. Incap takes responsibility for sourcing after the customer has transferred partial or complete manufacturing of the product to the company.

## Efficiency through the versatile competence in energy technology

We aim to achieve a better understanding of the energy sector than our competitors and use this knowledge to develop product solutions for the sector's technology needs. Our ambition is to be an efficient, service-minded and flexible partner for leading companies in the sector.

Our core competitive edge in the energy segment is our ability to offer both extensive life-cycle services and unique expertise in the integration of electronics, electric power engineering and machine shop products – all from one contract manufacturer.

> Increased wind power use is boosting demand for Incap's rotor components.



# Well-being solutions

> The Well-being solutions business unit provides technology companies in healthcare, well-being, security and entertainment industries with versatile equipment manufacturing services, which are complemented by a broad range of value-added services for product life-cycle management.

> Increasing average life expectancy is having a major impact on the development of the healthcare and well-being sector. This means growing demand for solutions that promote health, life quality and wellness.

In the well-being sector, the global trend is the introduction of consumer goods alongside conventional medical technologies. For example, more and more consumers are interested in monitoring their fitness exercise and transferring stored performance data between electronic devices.

The growing demand for security technologies is also a global trend, which opens new business opportunities. Security solutions for air traffic and public premises as well as the surveillance of residential areas and properties are attracting increased global attention. Incap's contract manufacturing programme includes security technology such as airport security gates and different locks.

## Customers at the top of their businesses

The Well-being solutions business unit's customers have in common well-known and respected brands, some of which are global market leaders. Incap is the natural choice of partner in terms of expertise and production capacity for international well-being technology companies that value long-term cooperation and a strong business partnership.

The business unit's customers' end products are health and patient care monitors, performance measuring devices for sports, electronic weighing scales, dentistry equipment, slot machines, metal detectors, locks, and weather forecasting equipment. These solutions are marked by increasingly sophisticated data technology and the growing importance of built-in features for users.

> Rising life expectancy and health awareness are increasing demand for well-being technology.


> By partnering with Incap, customers can free more time and resources for their core businesses.

## Clean & lean

Incap provides its customers in well-being sector with ISO-certified manufacturing services. Contract manufacturing also includes the cost-effective use of materials and components as well as their competitive sourcing. Incap takes responsibility for sourcing after the customer has transferred partial or complete manufacturing of the product to the company.

We can deliver customised manufacturing services for well-being technologies from our plants in Finland, Estonia and India.

## The customer and Incap complement each other

Incap's manufacturing partnerships are characterised by a clear division of responsibilities: the customer focuses on developing the product's core features, while Incap is taking care of the manufacture and assembly of the product – often on a turnkey basis. We also help our customers to design the product in the way that the manufacturing and testing are done efficiently and the product can be launched quickly to the market.

For many of our customer companies, the key strategic priority is building of a strong international brand and securing effective distribution and marketing channels. This also includes industrial design, usability, and the development of key software features. By partnering with Incap, customers can free more time and resources to meet all these challenges.

# Incap's service offering

> Our services cover the entire life-cycle of a product. We are able to take overall responsibility for our customer's product, from product design to maintenance. We focus on technically demanding products, in which our operational flexibility, high quality and good service provide customers with added value.

## Design services and materials sourcing

The customer gains the greatest added value from Incap's design services from the extra attention that is given to manufacturability as part of the design process. Our services cover all key areas, from product and testing design to product integration and maintenance design. We offer our expertise in mechanics and HW design, the selection and sourcing of materials and components, as well as manufacturing and testing technology.

## Prototypes and pre-series, production ramp-up

Our efficient productisation service ensures that the transition of products from the design stage to actual volume production occurs smoothly, so that the product is delivered to the market quickly and successfully. We use professional project management to transfer a product's manufacturing from the customer to us or between production plants. We are also prepared to receive the outsourcing of the customer's entire production. We manufacture prototypes for electronics and sheet-metal mechanics quickly and flexibly.

## Serial production, final assembly and testing

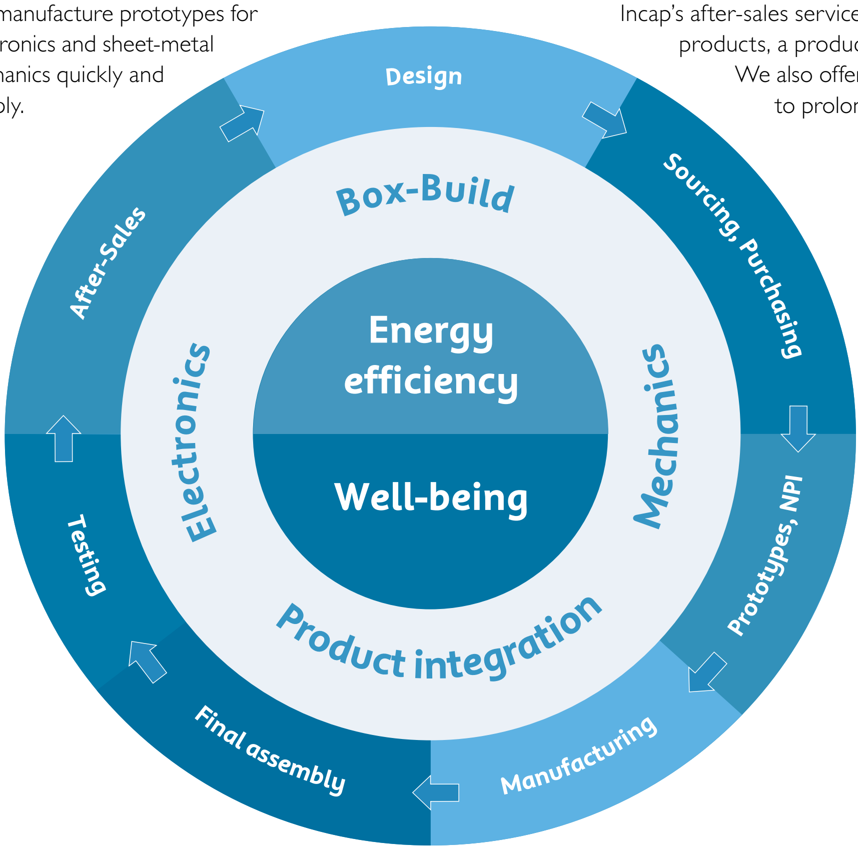
The manufacturing of electronic products consists of widely used manufacturing processes, such as automatic and manual assembly, protective coating, final assembly and product testing. In the manufacture of sheet-metal products, we employ the latest technology, which enables the manufacture of demanding products and the precise and speedy machining of complicated shapes.

Box-build products are a growing part of our comprehensive service. The assembly of products incorporating both electronic and mechanical components, or the box-build/product integration services, may also include the packing of products in the customer's own packaging and direct delivery to end users.

Process and product testing is used to ensure the quality and performance of products. We employ advanced testing technologies in product testing.

## After-sales services

Incap's after-sales services include, in addition to the repair of products, a product maintenance and spare parts service. We also offer maintenance design, which can be used to prolong a product's service life.



## Mission

Incap provides its customers with new competitiveness as their strategic business partner.

## Vision

Incap is a leading supplier of manufacturing and life-cycle services for electromechanical products among selected customers.

## Values

### Customer focus

We build enduring partnerships based on mutual trust and commitment with our customers.

### Profitability

We ensure our competitiveness with cost-consciousness and the correct targeting of resources.

### Continuous improvement

We guarantee the company's success by developing our operations in line with the customers' needs.

### Respect for the individual

We support open interaction and a constructive team spirit in our working community.

## Strengths

### Experience and professional skill

Thanks to a history of over 30 years, Incap has solid experience in the methods used in the manufacture of electronics and sheet-metal mechanics. We have developed our operations together with our customers, based on their needs.

### Focus on customers and commitment

Our organisation has been shaped in line with the customers' needs. We operate near our customers and therefore, dealing with us is easy and straightforward. The strong commitment and good service attitude of our personnel are qualities which underpin our customer relationships.

### Speed and flexibility

Our operational models and manufacturing technologies have been built on small and medium-sized production series. Our customers' needs and forecasts often change at short notice, which means that the flexibility and agility of our operations are tested daily.

### Quality and delivery reliability

Energy-efficiency, healthcare and security equipment have high quality requirements, as our customers' products are used in demanding environments which require above-average dependability and operating reliability. Delivery reliability forms a part of high-quality service and is one of the most important benchmarks of our operations.

## Objectives

### By the year 2010

Incap has a sound business foundation for operating and growing
> good return on working capital

Incap has a unique market position
> differentiated profile in its business segment
> leading position in selected customers
> operating in esteemed customer segments

Incap has positive growth prospects
> operating in growing customers and markets
> chance to expand operations through networking
> offering significant upside as an investments

# Review by the President and CEO

> In 2008, the keyword at Incap Corporation was change, which began with the redefining of the Group's overall strategy. We made profitability our primary target. To achieve this goal, we have renewed our business priorities and organisation considerably.

The new strategy raises profitability as Incap's primary target. The core of the new strategy is customer perspective and a deeper integration with the customer's operations. These factors also play an important role in the development of our service offering.

Incap is looking for profitable growth by partnering with leading equipment manufacturers of energy efficiency and well-being technologies. We aim to take advantage of our proven business sector-specific expertise and to strengthen our position in growth segments where the outsourcing of production to manufacturing partners will continue to increase in the future.

We will further increase the share of electromechanical box-build products in our production portfolio and develop increasingly versatile life-cycle services, from product design and ramp-up to maintenance and controlled ramp-down. With the implementation of our new strategy, we will place even greater emphasis on value-adding services related to manufacturing.

The strategic realignment has proven to be necessary, because our position as a conventional contract manufacturer with emphasis on PCB assembly was difficult to sustain and our competitiveness especially in the volume production of telecommunication products had weakened.

The new alignment means that the telecommunications sector will play a significantly smaller role in Incap's operations. The sector's share in our revenue contracted noticeably, when cooperation with a major telecommunications customer ceased at the end of 2008.

## Strategy-based organisation and renewed Group structure

In 2008, the company's management also underwent major changes as part of the new strategic alignment. The company has a new President and CEO, a new CFO as well as new sales, material sourcing and production directors.

Incap's organisation was renewed according to the strategy by forming sector-specific business units, which will pursue active engagement and enthusiasm for growth at customer interface. The company also established new director-level positions for the business units and recruited key persons to oversee the units' operations and development.

During the year under review, the company carried out co-determination negotiations in electronics manufacturing and Group operations. The negotiations aimed to adjust personnel resources to changing demand. The Group structure was changed in July, when Ultraprint Oy, a subsidiary manufacturing etched sheet-metal products in Kempele, was sold to its management.

## Positive business development

In 2008, the company initiated and expanded cooperation with several customers. In Europe, the most significant expansion in cooperation was carried out with ABB, RAY (Finland's Slot Machine Association) and Rapiscan. In India, we gained six new customers, including the TATA Group's Taco Sasken

Automotives Electronics, Emerson Network Power and Mango Global.

Production development focused on building future production capabilities, such as the development of a process-based operational model, the strengthening of new product introduction, and the improvement of quality assurance. The focus for material sourcing was shifted to Asia, where the company began cooperation with a local business partner.

Incap's design services in India were strengthened considerably in the past year. The solution proved to be successful, as demand for this service was brisk locally and internationally. The company also began construction of a new plant in India, established offices in Bangalore, and complemented the subsidiary's organisation. In addition, our India plant was audited successfully for quality certification required by customers in the automotive industry.

## Improved profitability as main target

In 2008, the Group's profitability was unsatisfactory. As a result, we enhanced the review of customer-specific profitability, leading to the re-evaluation of pricing and to the controlled termination of delivery contracts with some customers.

We reduced fixed costs by improving the efficiency of Group operations, even though these measures created non-recurring costs as well. Other targets aiming at enhanced profitability focus on increasing sales margins and enhancing material management. The long-term development of Incap's Indian operations will in future benefit from the financing granted by Finnfund.

## Outlook for 2009

The market situation will continue to be uncertain, though none of our customers have so far indicated any significant weakening of demand. Many of Incap's customers operate in post-cyclical sectors which are not first affected by the recession. At the moment, it is impossible to estimate when and with what force the global uncertainty may affect our customers and our operations.

The outlook for profitability development continues to be challenging, and the company will pursue measures to improve profitability as stated in the reorganisation programme for 2009. We trust that customers will see our new operational model as a positive change, which, in turn, will provide us with new business opportunities.

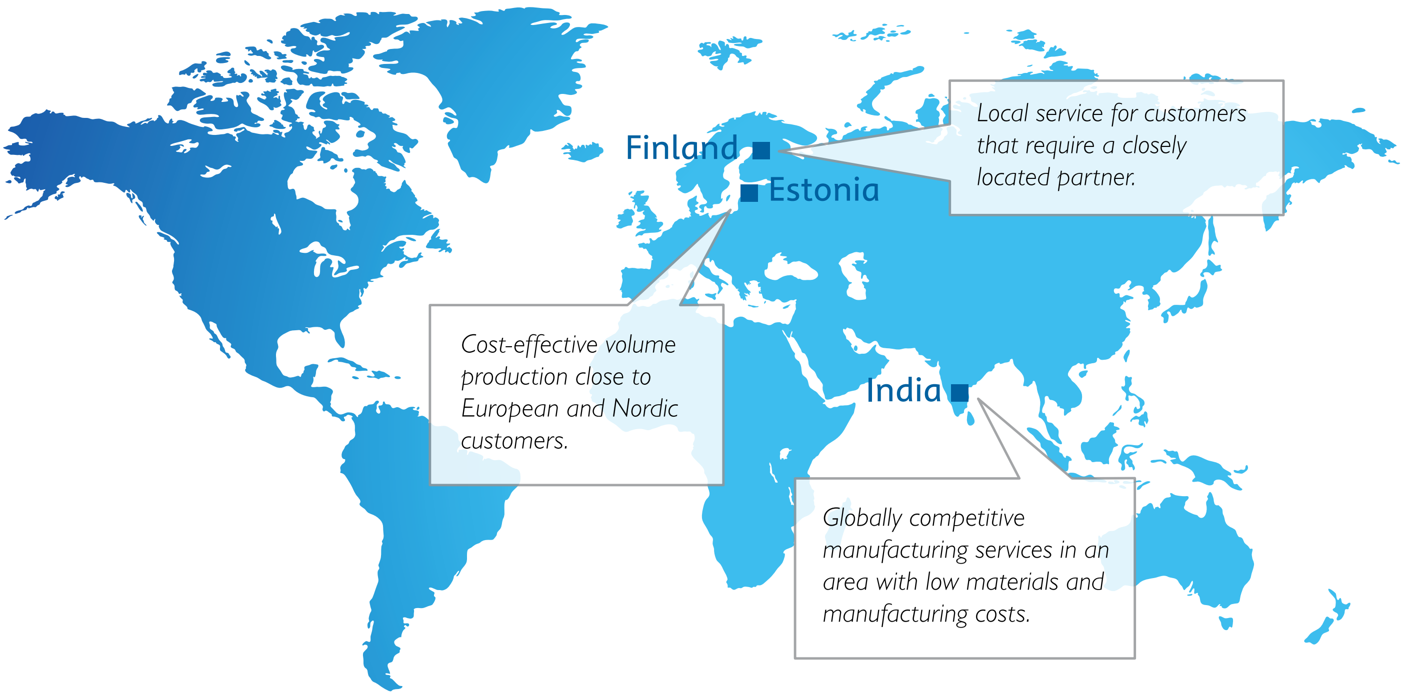
Improving the competitiveness is a continuous challenge in contract manufacturing: increased customer focus and operational efficiency will help us achieve our ambitious targets. We must be innovative and courageous, and not cling to old business models. We must be open-minded and look for new solutions in cooperation with our customers, partners and entire personnel. I would like to thank all these key groups for the year 2008.

Helsinki, March 2009

Sami Mykkänen
President and CEO

# Incap's market position in contract manufacturing

> Incap is among the 40 largest manufacturers in terms of revenue in the European contract manufacturing market. In the Indian market, Incap is the sixth largest contract manufacturer.




The global contract manufacturing market is divided into two segments. Large international contract manufacturers have developed their services for large manufacturing batches and concentrate on serving customers that manufacture telecommunications or consumer products in particular. Low costs are a very significant competitive factor for these customers. The second contract manufacturer segment comprises small and medium-sized contract manufacturers specialised in specific customer industries, products or geographic areas.

Incap falls into the second category and differentiates from other players based on the following:

> Incap focuses on serving manufacturers in energy efficiency and well-being technology.
> Incap offers services for the entire life-cycle of the product.
> Incap operates internationally and offers local service not only in Europe, but also in Asia.
> Incap leverages the opportunities of Asia in the sourcing of materials.
> Incap has solid experience with both electronics and mechanics and is able to leverage this competence in the manufacture of product entities.
> Incap has a broad customer base, so it does not depend on trends in the demand of a single customer or industry.
> Incap has been a manufacturing partner of the world's leading equipment suppliers for more than 30 years.
> Incap is listed on the NASDAQ OMX Helsinki under Industrials/Electrical Equipment.

## Gaining a solid market position through specialisation

In accordance with its strategy, Incap focuses on services for equipment manufacturers of energy and well-being technology. The choice was natural as the profitability of business based on electronics and telecommunications decreased with tight competition, and thus operations were sensitive to fluctuations in demand. Focusing on small and medium-sized manufacturing batches did not provide sufficient competitive edge as such.

The selected customer industries are growing solidly due to global trends. The development of the health care and well-being sector is driven by the increase in average life expectancy and general increase in living standards. The growth of energy technology, on the other hand, is fuelled by increasing electricity prices and the need to utilise renewable energy sources.

# Trends in contract manufacturing

> The demand for contract manufacturing services continued to grow in 2008 and the outsourcing of production is expected to boost also in future. Original equipment manufacturers need a versatile manufacturing partner in order to focus their own resources on their core business and the marketing of their own brand.

## Market growth will slow down

According to estimates by several research institutes, the revenue of global contract manufacturing increased by approximately 5% on average in 2008. In 2009, the growth is forecast to slow to approximately 3%. A sharp decline in investments and general demand due to the global recession also impact the operation of contract manufacturers.

As the competition becomes tighter, large contract manufacturers aim to expand their operating areas and take part also in tenders that they were not previously interested in due to small manufacturing quantities or value.

According to some estimates, a high number of restructuring activities will be seen in contract manufacturing in the next few years. New companies, many of which depend on only a few customers or a limited industry, have emerged in the industry in the last few years. If the economic operational conditions of these often small companies strongly deteriorate, their position as a contract manufacturing partner will weaken due to the risk related to delivery reliability.

In addition, global original equipment manufacturers in particular require their manufacturing partners to operate near their own markets. Local contract manufacturers are therefore in a weaker position in the competition than those capable of serving the customer on several continents.

According to some estimates, original equipment manufacturers will pull the manufacturing of products back to their own production when the market situation weakens, which would further decrease the revenue of contract manufacturers. On the other hand, due to the pressure on prices, original equipment manufacturers may be even more interested in outsourcing manufacturing to contract manufacturers.

> Global original equipment manufacturers in particular require their manufacturing partners to operate near their own markets.

## Customers require extensive services

Several contract manufacturers have expanded their service offering. At first, operations focused on electronics and the PCB assembly. Subsequently, services have been expanded to mechanics and design and after-market services, so many contract manufacturers are capable of providing the entire manufacturing process of products.

Extensive service that covers the life-cycle of the product is a necessity, as original equipment manufacturers are willing to make their operations more efficient and reduce the number of suppliers and partners. Then, contract manufacturers that are able to provide all the services related to the product from design to volume manufacturing and service take priority over others.

The position of the contract manufacturer becomes even stronger if it operates near the customer's product development and final markets. In this case, the contract manufacturer is able to act swiftly in product design, prototype fabrication and preseries production, enabling the product to be launched quickly to generate revenue.

## New fields

The most recent trend in the industry is that of contract manufacturers expanding outside the traditional industries – computer hardware, telecommunications technology and industrial electronics. Some manufacturers have reported that they are specialising in medical, automotive or military electronics equipment. A few large contract manufacturers have also started manufacturing challenging and complicated mechatronic products.

# Customer in the focus of development

> Incap experienced a pleasing increase in revenue and entered into new collaborative agreements, particularly in the manufacturing of energy and power technology products. The customer-oriented nature of Incap's operations is emphasised in the new strategy focusing on services for energy efficiency and well-being technology equipment suppliers.

Incap Group's revenue for 2008 increased by 13% on the previous year. The majority of the growth was due to expanded collaboration in the deliveries of rotor components and slot machines. During the year, a large number of new products entered pre-series production and volume production. In addition, cooperation with several customers expanded into larger sub-assemblies.

There was a significant change in business structure when volume production for two customers in the telecommunications sector ceased at the end of 2008. Manufacturing collaboration in prototypes and pre-series production with one of the customers continues. Some of the revenue for 2008 comprised sales of materials used in these customers' products to the customers.

Indian revenue amounted to approximately EUR 8 million and fell short of the original target. The reason for the slow growth was the start-up of new customer accounts being slower than anticipated – in some cases, the time from first contact to the ramp-up of volume production took as much as a year and a half.

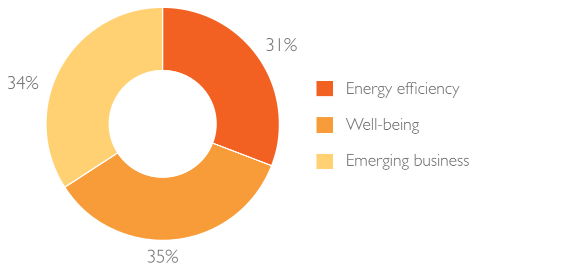
## Strategic change of course

The strategy work that started in the spring resulted in the decision to forcefully realign Incap's operations. The change of course was natural as Incap's position in the electronics products manufacturing chain was weakening in telecommunications products in particular whose margins have continuously decreased. Business built on the PCB assembly did not provide sufficient competitive edge, and the company had to seek new ways to facilitate profitable growth.

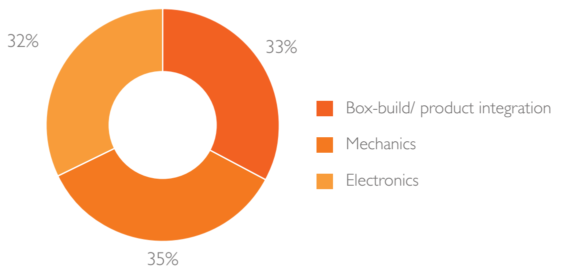
As Incap is highly proficient in the manufacture of advanced product entities, electromechanical and technologically demanding products were chosen to be the focus of the service offering. Incap concentrates on serving customers in strongly growing industries that need a comprehensive manufacturing partner. In order to build a differentiating competitive edge, Incap develops new added value services based on the customers' needs.

In addition, the Group's organisation and operating model were realigned with the new strategy. The plant-based organisation structure was replaced with business units based on key customer industries, and these units have a strong role in the management of business operations as a whole.

Revenue by business unit, %




Revenue by product segment, %



## Favourable development in customer relationships

Several new delivery agreements were signed during 2008. Incap's market share in the manufacturing of rotor components for wind generators and magnetic poles for electric motors increased further. Collaboration with ABB, Finland's Slot Machine Association and Rapiscan Systems deepened to increasingly extensive product entities. Long-term manufacturing cooperation was started with Powernet Oy in energy technology applications.

Cooperation was started with six new customers in India, most of them engaged in energy technology. Sub-assemblies of UPS equipment for industrial use are manufactured for Emerson Network Power. GSM- and CDMA-based point of sale terminals are manufactured for Mango Global as turnkey deliveries. Vehicle positioning and information systems are manufactured for Taco Sasken. Product entities for the energy technology and industrial electronics industries comprise the majority of the Indian plant's production.

Manufacturing quantities of telecommunications products temporarily increased during the autumn as discontinued products were manufactured for the customer's stock. In connection with the disposal of the products, the material stock used in their manufacture was sold to customers.

A campaign was launched in Europe to attract new customers, mainly among equipment manufacturers in the energy sector. Sales resources were strengthened in all countries of operations.

## Plants will specialise based on their strengths

The roles of the different plants were clarified to make manufacturing operations more efficient. After a sharp decline in the demand for telecommunications products, the Vuokatti plant will focus on the manufacture of prototype and pre-series production of electronics, and the plant's personnel and manufacturing capacity will be adjusted to match this role. At the end of the year, an automatic SMD line was moved from Vuokatti to India, where it will be installed in the new industrial plant completed in early 2009.

The plants' production areas were rearranged according to the needs of assembling large units. In Kuressaare, additional premises were leased as a result of increasing production quantities. In Vaasa, machine capacity was increased and new production personnel were recruited after the extent of rotor component deliveries increased considerably with a cooperation agreement signed with a customer.

In order to develop the Group's quality assurance, a management system tool that includes quality documentation and descriptions of the Group's main and support processes was adopted. The quality assurance system supports the realisation of Incap's new strategy and harmonises the plants' separate quality systems.

Incap sold its subsidiary that offers etching services and manufacturing of flexible circuit boards to the operative management of the subsidiary. Ultraprint Oy's expertise differed from Incap's other operations, and its development as a separate branch would have drawn resources from other activities. The subsidiary employed 12 persons, and the sale did not have a significant impact on Incap's revenue or earnings.

## Aiming at consolidating the financial foundation

In order to boost profitability, the actions that were started the previous year continued, aiming at increasing the sales margin and profits through e.g. decreased raw material costs. The productivity of plants was sought among others with a partial reform of the production bonus system.

> In 2008, Incap signed several new manufacturing agreements and expanded its cooperation with current customers.

The reorganisation programme that began in August focused on improving profitability, increasing the return on working capital and adjustment of the cost structure. The measures included increasing the extent of deliveries and service offering, cutting down low-margin or unprofitable assignments and increasing production in the Indian and Estonian plants.

Some of the reorganisation programme measures had a favourable impact on earnings towards the end of the year, even though the full impact on profitability will not be seen until 2009.

In order to finance the Indian investments and working capital, Incap and Finnfund entered into a financing contract whereby Finnfund invested EUR 2 million in Incap's subsidiary in India. Once Incap has taken out Finnfund's investment in full, Finnfund's holding in Incap's Indian subsidiary will amount to approximately 33%.

## Competitive edge through new life-cycle services

In addition to manufacturing electromechanical product entities, Incap will provide design, ramp-up, testing, repair and maintenance services that cover the full life-cycle of products.

Incap's product design covers applicable mechanics, electronics and SW design. The demand for design services has increased along with Incap's offering and competence, and in India in particular, customers are interested in design as well.

It is very important for the customer that the manufacturing of products or production as a whole is moved to Incap quickly and smoothly. The procedure applied in the take-up of new products was developed, and all plants adopted an identical project management process.

Thanks to new customer accounts and delivery agreements, there was a large number of new products in the production ramp-up stage. Resources of the NPI function (New Product Introduction) responsible for productisation projects were increased to guarantee effective take-up of not only individual products but also the entire production of customers.

## Focus of material procurement in Asia

As material costs account for a significant part of Incap's manufacturing expenses, the key aim in material sourcing and procurement activities was to lower the purchase prices of materials and components. The focus of sourcing was moved to Asia because of this, launching comprehensive collaboration with a Chinese partner. Alternative sources were tested in components as well as other raw materials, and direct material deliveries from Asia to Europe and India started during the latter half of the year.

Material management was made more efficient by streamlining the sourcing and procurement operating model and strengthening the Indian purchasing organisation.

> In India, Incap manufactures vehicle tracking systems for a customer belonging to the TATA Group.

## Focus of operations in 2009

Improving profitability is a key target, and measures of the reorganisation programme will be continued in 2009. Production capacity will be adjusted and allocated to different plants depending on demand and customer needs. Material management will be made more efficient and fixed costs will be cut further.

Fine-tuning and establishment of the new operating model will continue during the first half of 2009. The business units will go deep into key customers' business and aim at expanding the cooperation with them. The target is to increase the customer-specific market share. Services will be developed so that Incap will be able to provide as large an extent of the customer's manufacturing-related needs as possible. New customers will be sought particularly from the leading equipment manufacturers in energy efficiency and well-being industries and other growing sectors.

# Competence with attitude

> In Incap's business – contract manufacturing of technologically demanding products – the personnel's professional competence, service attitude and responsibility are a significant competitive factor. Developing the personnel's commitment and job satisfaction is a key target of the HR policy.

## Reaching the targets through collaboration

The task of HR management is to promote internal cooperation and high-quality managerial work. In promoting cooperation, the most important means are open flow of information and interaction, which is supported by, for example, internal communications. Performance appraisal discussions are an important tool that align the company's and the individual's objectives and make the areas of focus concrete both for long-term development and daily work.

Due to the organisational and personnel changes in 2008, the performance appraisal discussions were performed only partially. The strategy announced in August was communicated in information sessions and other internal forums. The new operating model based on business units was fine-tuned during the rest of the year, and the implementation of strategy at the individual level will proceed in the performance appraisal discussions that started at the beginning of 2009.

## Number of personnel

At the beginning of 2008, Incap employed a total of 739 people and at year's end 727 people. The largest unit in terms of the number of employees is the Tumkur plant with 194 employees at year's end.

In addition to Incap employees, there are also employees hired from staffing agencies. At the beginning of the year, such employees numbered over 100 and at year's end 50.

The number of personnel was adjusted due to a decrease in demand and profitability. During the year, statutory negotiations in accordance with the Cooperation Act took place in materials management, Group services and the Vuokatti and Helsinki plants. In connection with these negotiations, the employment of a total of 19 employees was terminated and 35 people were laid off temporarily.

## Development of competence

In addition to training, in the development of personnel also other means are utilised, such as hands-on learning and sharing of competence in teams.

During 2008, internal training was arranged among others in IT skills, electronic processing of invoices and the use of ERP system. In production, the focus was on new manufacturing technologies, and e.g. ESD and welding training was arranged. Quality work was developed with training in the use of the new quality management software and audit training.

The induction of new employees was strengthened in some plants by starting regular induction events and creating tools for induction in production.

Development of managerial work is one of the focus areas of HR management. Unit- and function-specific supervisors' meetings discussed the practices and tools of daily management and sought solutions to support managerial work together.

At year's end, a training cooperation project with TKK Dipoli was started, providing sales and quality management software and in auditing with additional resources and competence.

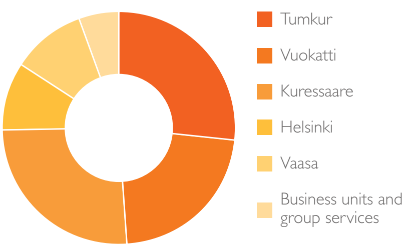
## Incentives and reward system

The company's reward system aims to encourage and commit the personnel to strategy-compliant activity. The reward system comprises production bonuses, a bonus scheme for white-collar workers and the management's option scheme.

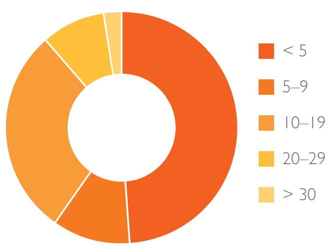
In 2008, production employees were paid a production bonus tied to the realisation of plant-specific metrics set for efficiency of production, delivery accuracy and rate of complaints. The bonus scheme for white-collar workers was tied to the earnings target and could not be realised due to the negative earnings development.

The reward scheme approved for 2009 covers all employees. The level of production bonuses is tied to indicators set for delivery accuracy and rate of complaints, among others. The bonuses for white-collar workers will be paid based on the realisation of objectives set for earnings and return on working capital.

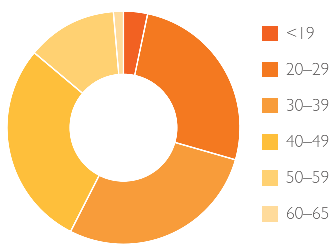
Personnel by location




Years in service




Age breakdown of personnel



# Responsibility for tomorrow

> Incap practices and develops its business operations in such a way that the productivity and competitiveness are improved in harmony with the demands of the company's stakeholders and the environment. Company's corporate social responsibility is underpinned by the values of sustainable development.

## Responsibility to stakeholders

Incap respects and adheres to international agreements on human and children's rights as well as employees' rights. Incap monitors the operations of its suppliers and service providers and conducts regular supplier assessments which are used to examine suppliers' social responsibility in addition to their quality and delivery reliability.

Incap is in regular contact with decision-makers and other stakeholders in areas where the company has production facilities. In accordance with its annual plan, Incap sponsors non-profit campaigns in localities where it has facilities and provides support to non-profit causes that promote the well-being of children.

## Financial responsibility

Incap's financial success promotes the implementation of its corporate social responsibility principles. A good earnings trend ensures that operations and working conditions are improved constantly and guarantees jobs for employees.

Incap recognises its responsibility as a part of a supply chain when dealing with customers and with its own suppliers, and strives to promote the success of all of its partners in co-operation. The company aims to maximise the return on the capital invested by shareholders in the company and to ensure that the company's value grows steadily.

## Social responsibility

Incap fosters the well-being of its employees by developing occupational safety and healthcare and by supporting activities that maintain working ability. Employee satisfaction is gauged with regular surveys, where the company's results are also compared to respective companies. Employee expertise is developed via goal-oriented training and the promotion of work motivation is addressed in manager training, among others. Incap's personnel policy is based on equality between the sexes, nationalities and races.

Incap supports its customers in improving product safety by, among other things, paying special attention to eliminating risk factors in products in the design stage. Quality inspections and testing carried out during the manufacturing process prevent faulty goods from reaching the market.

## Environmental responsibility

In accordance with its quality and environmental policy, Incap is committed to using natural resources responsibly, to constantly improving the management of environmental issues as well as to preventing harmful environmental effects.

Incap strives after minimising raw material waste in its production and uses methods and materials in its manufacturing processes, which cause as little damage to the nature as possible.

# Certified quality

> Manufacturing operations were developed based on customer feedback and internal audits. The Indian manufacturing unit was audited and approved for an automotive quality certificate. A project in which a process-based operating system will be adopted was started in order to improve comprehensive quality control.

## Extensive system certification

Every unit of the Incap Group has an ISO 9001 compliant quality system and certificates according to the ISO 14001 environmental standard. The Indian plant was granted a certificate according to the ISO 14001 environmental standard by TÜV Rheinland in 2008. The Indian plant was audited and approved for the TS 16949 quality certificate required by the automotive industry.

The Vuokatti and Helsinki plants were granted a certificate according to the ISO 13485:2003 quality standard applied in the manufacturing of medical equipment in 2008; the Kuressaare plant already held this certificate. The Helsinki plant has also been approved for the manufacturing of products for hospital use based on an audit by VTT's Tampere accreditation body.

## Comprehensive quality management

An integrated software solution was obtained to improve quality management. The software enables a move from current plant-specific quality systems to process-based quality management covering the entire company. The management software is used for documenting the extensive description and definition of processes, which had begun already earlier.

The Group's quality and environmental policy was renewed, and quality documentation was developed further.

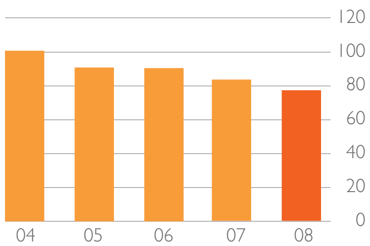
Internal development emphasised the significance of total quality. Internal audit methods were fine-tuned, and e.g. induction of new personnel to their tasks was made more effective.

All plants had several customer audits, providing concrete feedback for the development of operations. The plants' basic processes were developed with the aim of ensuring high quality in all production stages. Quality-related training was also increased.

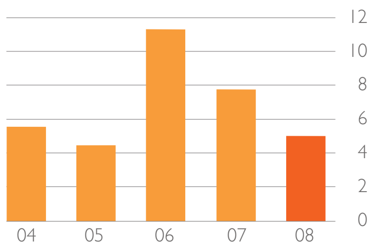
## Customer feedback provides a basis for development

The respondent rate of the annual customer satisfaction survey remained nearly the same as the previous year. According to the results of the survey, Incap's strengths were being easy to deal with, having competent personnel, attending to environmental and social responsibility and technological competence in production. Based on the 2008 survey, there is particular room for improvement in competitiveness of pricing, delivery accuracy and innovativeness.

Power consumption, kWh/turnover in k€



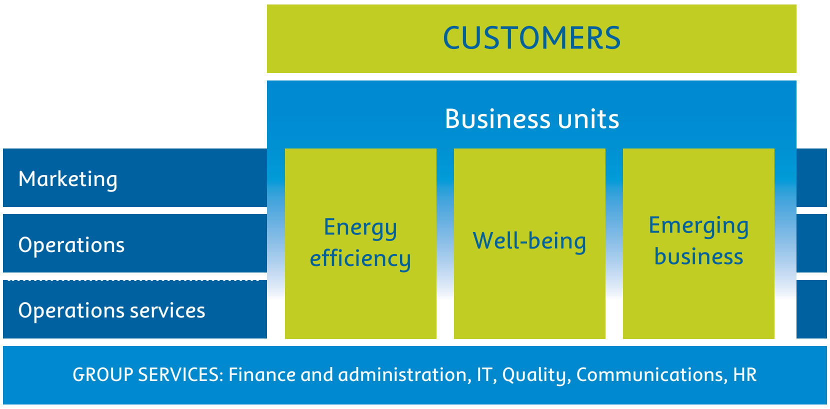

Defective products of customer deliveries, DPPM



# Organisation

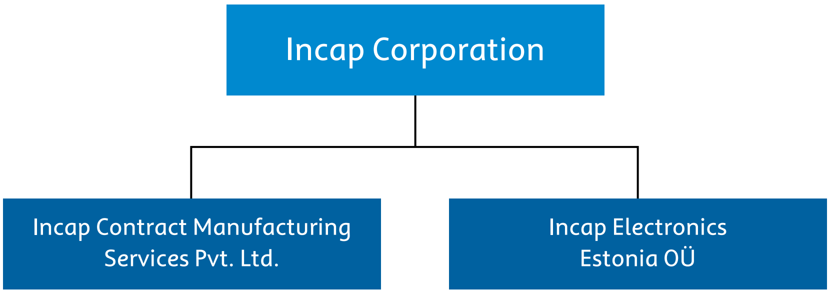
Incap renewed its organisational structure in accordance with the new customer-oriented strategy. Customers and their needs are setting guidelines for our operations and therefore, the Business Units that are responsible for customer relationships play an important role in steering the company's operations.

Operations Unit serves the business units and its mission is to provide the most efficient and competitive manufacturing services possible. Operations services are responsible for sourcing, ramp-up of new products as well as for design and other value-adding services.




## Corporate structure

Incap Corporation, the parent company of Incap Group, is a limited company which is registered in Finland and has a domicile in Helsinki. In addition to the parent company, the subsidiaries Incap Electronics Estonia OÜ and Incap Contract Manufacturing Services Pvt. Ltd. are included in the Group.



# Corporate governance

> In its operations, Incap Corporation complies with the Finnish Companies Act, its own Articles of Association and the regulations and instructions concerning public listed companies. Further, the company follows the regulations and rules of NASDAQ OMX Helsinki Ltd. and complies among others with the Guidelines for Insiders published by the Helsinki Exchange.

Incap Corporation complies, with two exceptions, with the Finnish Corporate Governance Code for listed companies that was issued on 1 January 2009 by The Securities Market Association. These exceptions are:

- Incap will publish a separate corporate governance statement in connection with the financial statements and report by the Board of Directors for the financial year starting on 1 January 2009.
- Incap will update the information on the company's website in the extent described in the Finnish Corporate Governance Code after the Annual General Meeting to be held in spring 2009.

## Annual General Meeting

Incap Corporation's highest decision-making body is the general meeting of shareholders, which at the invitation of the Board, convenes once a year in an Annual General Meeting. The General Meeting is held within six months of the end of the financial period, generally in April. An extraordinary General Meeting is arranged if shareholders who represent a total of at least 10% of the company's shares, request it in written form for a specified issue to be decided in the General Meeting.

The tasks falling within the competence of the Annual General Meeting are defined in the Companies Act and the Articles of Association. The most important matters to be decided at the General Meeting include amending the Articles of Association, raising the share capital, approving the financial statements, adopting the profit and loss account and balance sheet, deciding on the payment of dividends, confirming the number of members on the Board of Directors and electing the members of the Board and the Auditors.

The company announces the agenda for the General Meeting in a Notice of Meeting that is published as a stock exchange release and on the company's website at least 21 days prior to the General Meeting. At the same time, the company publishes the total number of shareholders and votes on the date of the notice, the documents that will be presented to the General Meeting, the proposals of the Board or of another authorised body as well as eventual items that have been included in the agenda without any proposal for a decision to be made. The information is available on the company's website at least until the end of the General Meeting.

The names of the prospective Director candidates announced to the Board of Directors are published in the Notice of Meeting, provided that the candidates are supported by shareholders holding at least 10% of the votes conferred by the shares in the company and provided that the candidates have given their consent to being elected and that the company has received the information in good time so that it can be included in the Notice of Meeting. Candidates that are proposed in corresponding order after the publication of the Notice of Meeting are disclosed separately. The personal information on the candidates is published on the company's website.

The General Meeting is organised in the way that promotes, with the available reasonable means, the shareholders to participate in the meeting and to exercise their ownership rights effectively.

Present at the General Meeting are the President and CEO, the Chairman of the Board of Directors and, if possible, all the members of the Board of Directors. Persons proposed to the Board for the first time participate in the General Meeting that decides on their election, unless there are well-founded reasons for the absence. Also the Auditor is present at the Annual General Meeting.

The minutes of the General Meeting with results of the voting as well as the appendices to the minutes relating to the decisions of the General Meeting shall be published on the company's website within two weeks after the General Meeting.

Incap Corporation's Articles of Association do not contain redemption clauses and the company is not aware of shareholder agreements or agreements restricting the transfer of the company's shares.

In 2008, the Annual General Meeting was held on 10 April in Oulu. A total of 16 shareholders participated, representing a total of 62.5 per cent of the company's shares and voting rights.

## Board of Directors

The administration of Incap Corporation and the due arrangement of its operations are attended to by the Board of Directors. The Annual General Meeting determines the number of members on the Board of Directors and elects the Directors. Under the Articles of Association, the Board of Directors shall have from four to seven ordinary members. The term of office for members of the Board of Directors is one year and it commences from the date of the Annual General Meeting at which they are elected and ends at the close of the next Annual General Meeting. Directors can be re-elected.

The Annual General Meeting elects the members of the Board. When the number of Directors and the composition of the Board are decided, the needs of the company's operations and the present development stage of the company shall be taken into consideration with the target to ensure an efficient management of the Board's tasks. Persons to be elected to the Board shall have the qualifications required by the duties and the possibility to devote a sufficient amount of time to the work. Both genders are represented on the Board.

When electing Board members, it is taken into consideration that the majority of the Directors must be independent of the company. In addition, at least two of the Directors representing this majority must be independent of significant shareholders in the company. The Board is evaluating the independence of the members and informs who are independent of the company and who are independent of significant shareholders. For the evaluation of a member's qualifications and independence, a member shall give to the Board adequate information and inform also on the eventual changes in the information.

New members of the Board of Directors are introduced to the company's affairs. The President and CEO is responsible for ensuring that Directors are provided at all times with enough necessary information on the company's operations.

Incap Corporation's Board of Directors steers and supervises the company's operational management. The most important tasks of the Board of Directors are to:

> decide on the Group's strategic objectives
> decide on the Group structure and organisation
> review and approve interim reports, the consolidated financial statements and the Report of the Board of Directors
> approve the Group's operating plan, budget and investment plan
> decide on mergers and acquisitions, divestments and other corporate restructuring
> decide on individual investments of strategic and financial importance and contingent liabilities according to the approval guidelines of the company
> approve the Group's financing agreements and contractual risks that are above average
> approve the Group's risk management and reporting procedures
> approve the Group's financing policy
> approve the framework of the Management Team's terms of employment and pay
> decide on the Group's performance bonus system
> appoint the President and CEO and decide on his or her compensation
> ensure that the company's management system is functional.

The Board of Directors ensures that the company has specified guidelines for internal control and that the company is monitoring the proper functioning of the control. Further, the Board of Directors ensures that the company has specified the values and ethical principles that the company shall comply with in its operations.

The Board of Directors has drawn up written rules of procedure for its work, describing the major tasks, operating principles and decision-making procedures of the Board of Directors. The Board of Directors meets as required and it has a quorum when at least half of the members are present. The decisions are made by the statutory majority and in case the votes are even, the Chairman of the Board has the decisive vote. The Board will elect the Chairman among its members.

The Board of Directors draws up an action plan and annual calendar for the period between General Meetings. The plan includes among others the meeting schedule and the regular topics of the agenda. The number of the meetings during financial year as well as the average attendance of Directors at the meetings is recorded in the Report of the Board of Directors.

The Board conducts an annual evaluation of its performance and working methods using an internal self-assessment method that is described in the Board's rules of procedure.

The biographical details and holdings of the Directors and information on the remuneration paid to Directors and their other financial benefits for the financial year are published in the Annual Report and on the company's website.

The Incap Group does not have a Supervisory Board and the Board of Directors has not appointed committees.

The Board of Directors shall take care of the duties of an audit committee in accordance with the written rules of procedure for its work. In this role, the Board of Directors among others

> monitors the efficiency of internal controlling, internal auditing and risk management
> monitors and controls the reporting process of financial statements and other financial information
> monitors the statutory audit of the financial statements
> evaluates the independence of the Auditor
> prepares the proposal for the election of the Auditor to the Annual General Meeting.

The Annual General Meeting in 2008 resolved to elect four members to the

Board of Directors. Jukka Harju, Kari Häyrinen, Kalevi Laurila and Susanna Miekk-oja were elected to seats on the Board of Directors. At its organisation meeting, the Board of Directors elected from amongst its number Kalevi Laurila as Chairman and Susanna Miekk-oja as Vice Chairman of the Board. The Board of Directors convened 22 times in 2008 and the average attendance was 98 per cent.

The 2008 Annual General Meeting confirmed that the annual remuneration paid to the Chairman of the Board of Directors shall be EUR 48,000, the annual remuneration paid to the Vice-Chairman of the Board of Directors shall be EUR 36,000 and the annual remuneration paid to Directors shall be EUR 24,000. A fee of EUR 200 is paid for each meeting. The salaries and remuneration paid to Directors in 2008 totalled EUR 190,800. No consultation fee was paid to the Board members.

None of the Directors is part of the share-based compensation system.

## President and CEO

The company's line operations are managed by the President and CEO, who carries out his or her duties in accordance with the instructions and regulations laid down by the Board. The President and CEO informs the Board of Directors of the development of the company's business operations and financial situation as well as oversees the legality of the company's operations and accounting and the reliable organisation of treasury management.

The President and CEO is elected by the Board of Directors, which decides on the President and CEO's salary and other benefits. The terms and conditions of the President and CEO's employment are specified in writing in his or her written employment contract that is approved by the Board of Directors. The Chairman of the Board of Directors is the President and CEO's supervisor. The President and CEO participates in Board meetings as a presenting officer, but is not a Board member.

The biographical details and the holdings of the President and CEO are disclosed in the Annual Report and on the company's website in the same extent than the respective information of Board members. In addition, the company publishes the President and CEO's salary and other financial benefits included in his or her contract, shares and stock options received as remuneration, retirement age and the criteria for determining his or her pension, period of notice and the terms and conditions of salary for the period of notice and eventual other compensation payable on the basis of termination.

Juhani Hanninen, M.Sc. (Eng.), served as the President and CEO of the Incap Group from 1 January until 31 May 2008. The salary and remuneration paid to him for 2008 amounted to a total of EUR 385,677. At the close of the financial year, Juhani Hanninen holds 18,000 Incap shares, 30,000 stock options 2004A, 30,000 stock options 2004B and 31,600 stock options 2004C. He has subscribed convertible promissory notes offered in 2007, which entitle to subscribe altogether 20,000 pieces of Incap Corporation shares. The employment contract of Juhani Hanninen terminated on 31 December 2008.

As from 1 June 2008, Sami Mykkänen, B.Sc. (Eng.), served as the President and CEO of the Incap Group. The salary and remuneration paid to him for 2008 for this duty amounted to a total of EUR 148,972. Sami Mykkänen holds at the close of the financial year a total of 11,400 Incap shares. The retirement age of the President and CEO is determined in accordance with the Employees' Pensions Act. The chief executive's period of notice is six months, and if his executive contract is terminated by the company, he will be paid the salary during the period of notice.

## Other management

The Incap Group's Management Team assists the President and CEO in the management of line operations and participates in the preparation of matters that are to be dealt with by the Board of Directors. In addition to the President and CEO, the Management Team includes the executives in charge of the company's different functions. The members of the Management Team are appointed by the President and CEO, who also decides on the terms and conditions of the employment and salaries of the Management Team's members following the one-over-one principle. The Management Team meets regularly under the direction of the President and CEO, following the general guidelines of the Board of Directors.

The composition of the Management team with the members' biographical details and areas of responsibility as well as the members' holdings are disclosed in the Annual Report and on the company's website.

## Salary and incentives

Information on the remuneration and other financial benefits of the Board of Directors as well as the total number of shares and stock options held by the President and CEO and the Management Team are published in the Annual Report and on the company's website.

The main criteria concerning the compensation system covering the President and CEO and other executives are decided upon by the Board of Directors and they are disclosed in the Annual Report and on the company's website.

At the close of the financial year 2008 the Board members and entities under their control, the President and CEO and the Management Team own a total of 2,088,718 shares and 137,400 stock options.

Of the salary and remuneration paid to the President and CEO and the Management Team during the financial year 2008, 91% fell for the fixed salary and 9% for the variable salary. The variable share was based on the decision of the Board of Directors and was given depending on the launch of the structural changes in line with the strategy.

At the close of the financial year, two members of the Management Team were included in the share-based reward system launched in 2004.

## Internal control, risk management and internal audit

Incap Group's internal audit reviews and evaluates the systems of the internal control, the legality and appropriateness of the risk management activities, the efficient and economical use of resources as well as the reliability of the information used in management and decision-making.

Internal audit covers all units and functions in Incap Group. The audit is primarily focused on activities that are central to the reliability of the company's operations.

Internal audit follows the operating instructions and plan that have been accepted by the Board of Directors. The audit is planned using a risk-based three-year action plan which includes the functions to be reviewed and the auditing resources on annual basis.

Internal audit has been organised by means of an external audit service provided by Tuokko Tilintarkastus Oy (PKF International), an external, independent, skilled and adequately resourced authorised public accounting firm. Internal audit function reports to the Board of Directors and the President and CEO. The Board of Directors is responsible for the appropriateness and independency of the internal audit.

Internal audit aims also to promote further development of the risk management in different functions of the company.

Risk management is part of the company's control system. The principles of the company's risk management are specified in writing. The supervision of business risks is part of the normal tasks of the Management Team and the Board of Directors. The company's risks are divided according to the objects to financial and financing risks, market risks, contractual risks, production risks, environmental risks and supplier risks, among others. Essential features in the risk management are the coverage of control and actions, systematic approach, essentiality, continuity, competence, traceability and documentation.

The significant short-term risks and uncertainties related to the business operations are described in interim reports and financial statement releases. The Board of Directors also evaluates the most important risks and uncertainties in the Report of the Board of Directors.

## Insiders

The Incap Group's Guidelines for Insiders comply with the NASDAQ OMX Helsinki's Guidelines for Insiders, which came into effect on 2 June 2008, and they have been posted on the company's website. The Guidelines for Insiders have been distributed to all insiders and compliance with the Guidelines is supervised by, for example, inspecting the information on and trading by insiders once a year.

According to the company's Guidelines for Insiders, permanent insiders may not trade in the company's shares or equivalent securities in the 14-day period before the publication of an interim report or the financial statement bulletin. The appropriate time for such trading is within 28 days from the publication of an interim report and financial statement bulletin, nevertheless with the provision that a person who is a permanent insider does not have in his or her possession at that time any other insider information. The members of the Board of Directors and the Management Team as well as the secretary to the Board of Directors must always ascertain the appropriateness of their own trading by checking with the person in charge of insider issues prior to ordering the purchase or sale of shares. Persons who are temporary insiders must not engage in trading in the company's shares during the time when they are insiders participating in a particular project.

The Group's permanent insiders are recorded in a register kept by Euroclear Finland Ltd. (former Finnish Central Securities Depository Ltd.). The register is divided into a public and non-public register. The public register includes the members of the Board of Directors, the Auditor and the deputy Auditor, the President and CEO and the Management Team. The non-public register includes Incap employees who have regular access to insider information in the course of their duties and whom the President and CEO has specified as insiders. A register of project-specific insiders is kept by Corporate Administration.

## Audit

The primary purpose of the audit is to confirm that the financial statements give a true and fair view of the company's result of operations and financial position. In addition, the Auditor inspects the legality of the company's administration.

The Auditor is elected each year at the Annual General Meeting for a term that ends at the conclusion of the next Annual General Meeting. The proposal for Auditor made by the Board of Directors or by the shareholders having at least 10% of the companies votes will be published in the Notice of Meeting provided that the candidate has given his or her consent to the election and that the company has received the information in good time so that it can be included in the Notice of Meeting. If the candidate for an Auditor is not known to the Board at that time, a proposal made in a similar manner will be announced separately.

The fees paid to the Auditor, as well as the fees paid for non-audit services, if any, are reported in the Annual Report and on the company's website.

The 2008 Annual General Meeting re-elected as the company's Auditor the independent firm of accountants Ernst & Young Oy. The Auditor was paid a total of EUR 55,601 in audit fees and for other services a total of EUR 6,060.

## Communications

In connection with its financial statements and report of the Board of Directors, Incap will release a separate report on the corporate governance and steering principles for the financial year starting on 1 January 2009. Information on the issues addressed in the Corporate Governance Code is provided on the company's website (www.incap.fi), which is available in Finnish and English.

Incap provides consequent and comprehensive information on its financial development and other issues relevant to its operations. Incap's investor communications aim to ensure that all stakeholders are provided with sufficient information on the company's operations simultaneously.

# Board of Directors

## Kalevi Laurila

*Chairman of the Board*
*B.Sc. (Eng.), Executive MBA, born 1947*
*Non-executive director*

Kalevi Laurila has been a member of the Board of Directors of Incap Corporation since 2002. Previously he was CEO of JMC Tools Oy and Turveruukki Oy as well as a director with Rautaruukki Oyj. Kalevi Laurila is a member of several other corporate boards.

Incap shares (direct owning, ownings of family members and controlled corporations): 2,037,918
Share options: -

## Susanna Miekk-oja

*Vice-Chairman of the Board*
*M.Sc., born 1950*
*A non-executive director, who is independent of the company and its major shareholders*

Susanna Miekk-oja has been a member of the Board of Directors of Incap Corporation since 2007. She serves as Director at Sampo Bank Plc Wealth Management. She has previously been running capital markets operations and starting asset management activities. She has also acted as Managing Director of a fund management company. Susanna Miekk-oja has held a number of corporate board positions.

Incap shares: 12,000
Share options: -

## Jukka Harju

*M.Sc. (Eng.), M.Sc. (Econ.), born 1956*
*A non-executive director, who is independent of the company and its major shareholders*

Jukka Harju has been a member of the Board of Directors of Incap Corporation since 2007. He is a Partner of Boier Capital Ltd. Previously he has among others served as Chief Operating Officer and Executive Vice President at Elektrobit Corporation, as Managing Director at Tellabs Ltd. and in various positions at Nokia Telecommunications Ltd. (present Nokia Siemens Networks). Jukka Harju is also a member of the Board of Directors of Elektrobit Corporation.

Incap shares: -
Share options: -

## Kari Häyrinen

*M. Sc. (Eng.), MBA, born 1959*
*A non-executive director, who is independent of the company and its major shareholders*

Kari Häyrinen has been a member of the Board of Directors of Incap Corporation since 2008. He serves as Senior Vice President, Global Insight and Strategy at Finpro ry. Previously he has among others served as President for APAC Region at Perlos Corporation and Elcoteq SE.

Incap shares: 6,400
Share options: -

# Management

## Sami Mykkänen
*President & CEO*

B.Sc. (Eng.), born 1973
With the company since 2007. Previous positions with Powerwave Technologies and its predecessors ADC, REMEC and Solitra among others in China.

Incap shares: 11,400
Stock options: 100,000 (allocated in February 2009)

## Jarmo Kolehmainen
*Director, Energy Efficiency Asia*
*Managing Director of Incap CMS Pvt. Ltd.*

B.Sc. (Eng.), born 1965
With the company since 2008. Previous positions among others with Perlos Telecommunication & Electronic Components (India) Pvt. Ltd.

Incap shares: -
Stock options: -

## Jari Koppelo
*Director, Energy Efficiency Europe*

B.Sc. (Eng.), born 1975
With the company since 2008. Previous positions among others with ABB and Serres Oy.

Incap shares: -
Stock options: -

## Kimmo Akiander
*Director, Well-being Solutions*

M. Sc. (Eng.), born 1969
With the company since 2008. Previous positions among others with Cencorp Corporation, Efore Plc and Ascom Energy Systems.

Incap shares: -
Stock options: -

## Mikko Hirvinen
*Chief Operations Officer*

Born 1968
With the company since 2007. Previous positions among others with Pulse Finland Oy and Orbis Oy.

Incap shares: -
Stock options: -

## Eeva Vaajoensuu
*CFO*

M. Sc. (Econ.), born 1969
With the company since 2008. Previous positions among others with Sarlin Group and Schindler Plc.

Incap shares: -
Stock options: -

## Hannele Pöllä
*Director, Communications and Human Resources*

Translation diploma (DKK), commercial institute graduate (MKT), Diploma in Corporate Communication Management (VJD), born 1955.
With the company since 2000. Previous positions with Instrumentarium Corporation, Hoechst Fennica Oy and Nextrom Oy.

Incap shares: 3,000
Stock options: 45,800

# Shares and shareholders

> Incap Corporation has one series of shares and a total of 12,180,880 shares. Company's share capital registered in the trade registry was 20,486,769,50 euros on 31 December 2008. Share's accounting countervalue is EUR 1.68. The company does not own any of its own shares.

Incap Corporation's shares are listed on the NASDAQ OMX Helsinki. In the Nordic OMX List, Incap belongs to the Small Cap segment and the industry sector of Incap is Information Technology. The standard industrial classification of Incap's shares changed after the report period on February 2009, after which the new classification is Industrial/Electrical Equipment. The company code is ICP and the book-entry type code is ICP1V.

The price of Incap Corporation's share varied in the range of EUR 0.49 to EUR 1.60 during the financial year. The last quotation in trading at the end of the year was EUR 0.55. The total trading of the share during the financial year was 14%. The company's market capitalisation on 31 December 2008 was 6,699,484 euros. At the close of the financial year, the company had 1,003 shareholders, and 3.7% of the shares were nominee-registered.

## Authorisations by the Board of Directors

On 10 April 2008 the Annual General Meeting authorised the Board of Directors to increase the share capital through one or more rights issues, by granting stock options and/or issuing convertible bonds, entitling to increase the share capital by a maximum of 4,000,000 shares. The Board of Directors exercised part of the authorisation after financial period on 2 February 2009 and launched a new share-based incentive scheme in order to commit the management and key personnel. The incentive scheme includes a total of 600,000 stock options.

## Shareholder agreements

The Board of Directors is not aware of any shareholder agreements concerning the ownership and voting rights of the company's shares.

## Stock option scheme 2004

The stock option scheme introduced in 2004 includes a total of 630,000 option rights, entitling their holders to subscribe for an equal number of shares. The shares that can be subscribed for through the exercise of the stock options represent a maximum of 4.9% of the company's shares and the votes conferred by the shares after any possible increase in share capital.

Stock options are divided into stock options A, B and C. The subscription price of shares with 2004A and 2004B option warrants is EUR 2.25, which is the trade volume weighted average quotation of the Incap share traded on the Helsinki Exchanges from 1 May to 31 May 2004. The subscription price with 2004C option warrants is accordingly the trade volume weighted average quotation of the Incap share traded on the Helsinki Exchanges between 1 March and 31 March 2006, i.e. EUR 2.05. The subscription price of shares through the exercise of option warrants will be lowered, on each record date for the distribution of dividends, by the amount of dividends, to be decided after the commencement of the period for determining the subscription price of the share and prior to the share subscription.

The subscription period for shares with 2004A option warrants is from 1 April 2007 to 30 April 2009, with 2004B option warrants from 1 April 2008 to 30 April 2010 and with 2004C option warrants from 1 April 2009 to 30 April 2011. The subscription period for shares through the exercise of option warrants 2004A shall only begin, however, when the average price of the Incap share exceeds EUR 3.00. By option warrants 2004B, the respective average minimum price is EUR 4.20. For option warrants 2004C, there is no minimum share price defined.

The purpose of the stock options is to commit key personnel to the company on a long-term basis. Should a person cease to be employed by or in the service of the company before each share subscription begins, such a person must offer his or her option warrants back to the company without compensation for any value that the options may have gained. Also linked to the option scheme is a share ownership programme by which key personnel shall acquire the company's shares with 20% of the gross yield received from the stock options.

## Stock option scheme 2009

The stock option scheme launched on February 2009 consists of a total of 600,000 option rights and entitling to subscription for 600,000 of Incap Corporation's share. In February 2009, a total of 100,000 options were distributed to the President and CEO and further 100,000 options will be distributed provided that the objectives set by the Board of Directors for the company's operating profit and return on working capital in 2009 are met. A maximum of 400,000 options will be distributed to the company's key personnel in two issues, provided that the objectives set by the Board of Directors for the company's operating profit and return on working capital in 2009 and 2010 are met and that each one reaches his or her individual objectives.

The shares that can be subscribed for through the exercise of the stock options represent a maximum of 4.7% of the company's shares and the votes conferred by the shares after any possible increase in share capital.

Stock options will be divided into stock options 2009A, 2009B and 2009C. The number of 2009A options amounts to 100,000 pieces, 2009B options to 100,000 pieces and 2009C options to 400,000 pieces. The subscription price of shares with all option warrants shall be one euro. The subscription period for shares with 2009A option warrants is from 1 April 2010 to 31 January 2014, and with 2009B and 2009C option warrants from 1 April 2011 to 31 January 2014.

At the issuing stage, all stock options that are not distributed shall be issued to Euro-Ketju Oy, a wholly-owned subsidiary of Incap Corporation, and they will be distributed by a separate decision of the Board of Directors.

## Shareholdings of the Board of Directors and the President

The members of the company's Board of Directors and the president, their circle of acquaintances as well as the companies under their control, owned a total of 2,067,718 shares, or 17% of the company's shares outstanding and voting rights.

## Development of share capital 1991–2008

| Date | | Changes, 1,000 euros | Registered on | Share capital, 1,000 euros |
|---|---|---|---|---|
| 31.1.1991 | Merger | 5,760 | 26.2.1992 | 7,862 |
| 28.4.1992 | Increase | 424 | 25.11.1992 | 8,286 |
| 30.9.1992 | Decrease | 4,972 | 2.12.1992 | 3,314 |
| 15.1.1993 | Increase | 32 | 11.8.1993 | 3,347 |
| 16.3.1994 | Increase | 563 | 21.12.1994 | 3,910 |
| 10.3.1997 | Increase | 978 | 21.3.1997 | 4,889 |
| 5.5.1997 | Increase | 975 | 5.5.1997 | 5,864 |
| 4.5.1998 | Increase | 40 | 4.5.1998 | 5,904 |
| 21.3.2002 | Increase | 14,583 | 24.4.2002 | 20,487 |

## Breakdown of shareholdings by sector on 31 December 2008

| | Owners | | Shares and votes | |
|---|---|---|---|---|
| | pcs | % | pcs | % |
| Private enterprises | 69 | 6.9 | 7 549,179 | 62.0 |
| Financial institutions | 8 | 0.8 | 825,279 | 6.8 |
| Public sector entities | 4 | 0.4 | 791,501 | 6.5 |
| Non-profit organisations | 5 | 0.5 | 14,501 | 0.1 |
| Households | 917 | 91.4 | 3,000,420 | 24.6 |
| Total | 1,003 | 100.0 | 12,180,880 | 100.0 |
| Nominee registered shares | 4 | | 445,307 | 3.7 |

## Breakdown of shareholdings by number of shares on 31 December 2008

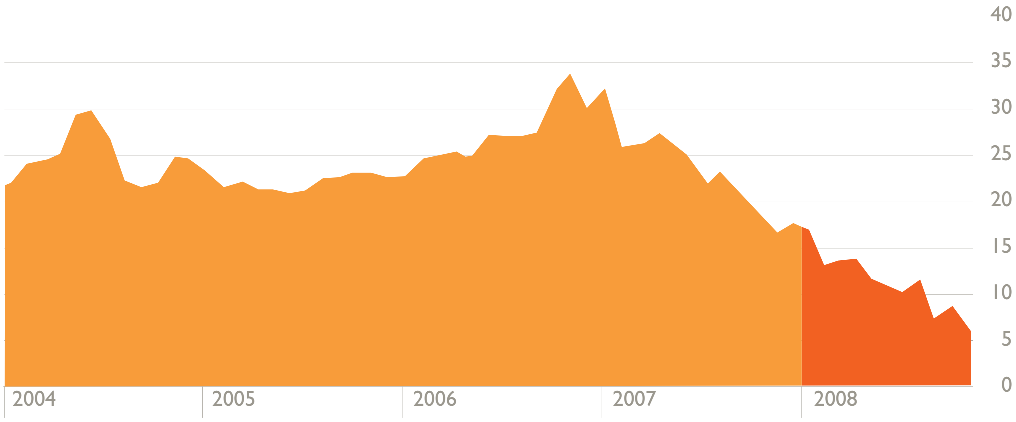
| Shares | Shareholders | | Shares and votes | |
|---|---|---|---|---|
| pca | pcs | % | pcs | % |
| 1–100 | 145 | 14.5 | 9,235 | 0.1 |
| 101–500 | 289 | 28.8 | 94,292 | 0.8 |
| 501–1 000 | 197 | 19.6 | 172,647 | 1.4 |
| 1 001–5 000 | 241 | 24.0 | 630,706 | 5.2 |
| 5 001–10 000 | 56 | 5.6 | 422,303 | 3.4 |
| 10 001–50 000 | 54 | 5.4 | 1,190,591 | 9.8 |
| 50 001–100 000 | 10 | 1.0 | 717,248 | 5.9 |
| 100 001–500 000 | 8 | 0.8 | 2,026,154 | 16.6 |
| 500 001– | 3 | 0.3 | 6,917,704 | 56.8 |
| Total | 1,003 | 100.0 | 12,180,880 | 100.0 |

## Largest shareholders on 31 December 2008

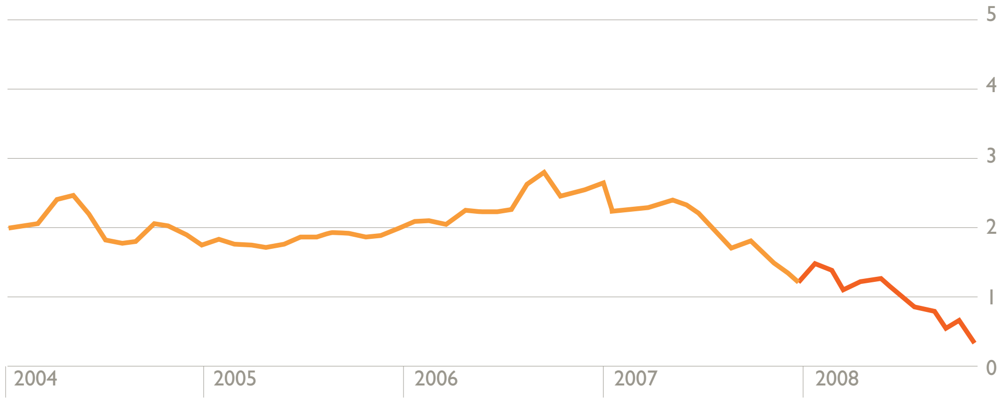
| | Share, pcs | Percentage of shares and votes, % |
|---|---|---|
| Etra Invest Oy Ab | 3,551,001 | 29.2 |
| JMC Finance Oy | 1,845,296 | 15.1 |
| Ingman Finance Oy Ab | 1,521,407 | 12.5 |
| Ilmarinen Mutual Pension | 500,000 | 4.1 |
| Svenska Handelsbanken AB (publ) | 367,000 | 3.1 |
| Sampo Plc | 290,672 | 2.4 |
| City of Turku Risk Management Fund | 271,501 | 2.2 |
| Laurila Kalevi Henrik | 187,557 | 1.5 |
| Thominvest Oy | 150,000 | 1.2 |
| Lehtonen Jussi Tapio | 133,000 | 1.1 |

List of 50 largest shareholders is available on Incap's website at www.incap.fi and is updated once a month.

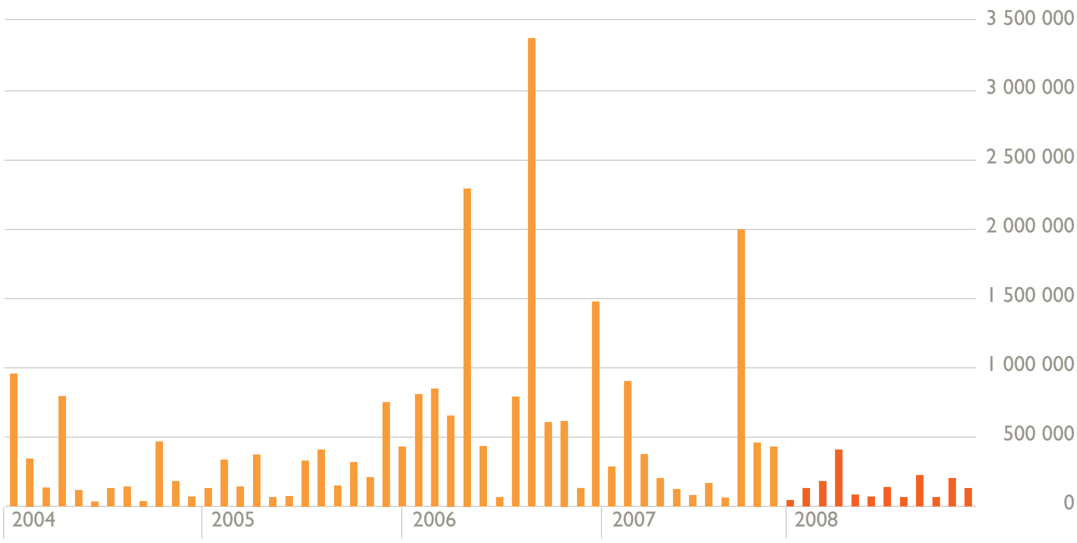
## Market capitalisation 2004–2008, EUR million




## Share price 2004–2008, EUR




## Turnover volume 2004–2008, number of shares



# Information for shareholders

## Annual General Meeting

The Annual General Meeting of Incap Corporation will be held on Friday, 3 April 2009 beginning at 3.00 p.m. in the World Trade Center Helsinki at the address Aleksanterinkatu 17, 00100 Helsinki. In order to attend the Annual General Meeting, shareholders must be registered in the Shareholder Register kept by Euroclear Finland Ltd. (former Finnish Central Securities Depository Ltd.) no later than by 24 March 2009. Owners of nominee-registered shares, who would like to attend the Annual General Meeting must be added into Shareholder Register on 24 March 2009 at the latest. For this the shareholder should be in contact with his/her account operator.

Registration for attending the AGM must be made no later than 4.00 p.m. on Thursday, 26 March 2009.

Registration can be made
> by email to laura.kuusela@incap.fi
> by a letter to Incap Corporation/ Laura Kuusela, Valuraudankuja 6, 00700 Helsinki
> by phone on +358 40 509 4757/ Laura Kuusela
> by fax to the number +358 10 612 5680.

It is requested that any proxies be delivered when registering for the meeting.

## Financial information

The publication dates for financial reports in 2009 are the following:
> Financial Statements for 2008 on Wednesday, 25 February 2009
> Interim Report for January-March on Wednesday, 6 May 2009
> Interim Report for January-June on Wednesday, 5 August 2009
> Interim Report for January-September on Wednesday, 4 November 2009.

Incap follows a two weeks' silent period and does not make statements on the company's financial development or meet with capital market representatives two weeks before publication of its financial statements or interim reports.

Incap publishes stock exchange releases on events which are of major significance for the company and are estimated to have an impact on the share price. Press releases provide information on the company's operations that is not expected to influence the share price. Stock exchange announcements contain information of an administrative or technical nature, such as the dates of releasing financial information or company events.

## Publications

Incap's Annual Report, Interim Reports as well as stock exchange releases are published in Finnish and English. They are also available on the company's website at the address www.incap.fi. The main information directed at investors is grouped under the website heading "Investors".

Any mail to shareholders is sent to the addresses given in the register of Euroclear Finland Ltd. Shareholders must make notification of changes of address by reporting the information to book-entry register of the bank with which they have a book-entry account.

Publications can be ordered from Corporate Communications by e-mail at communications@incap.fi, at the address Incap Corporation/Communications, Valuraudankuja 6, 00700 Helsinki or by phone on +358 40 509 4757/Laura Kuusela.

## Investor relations

The task of Incap's investor communications is to support the correct price formation of Incap's share by providing precise and up-to-date information on the Incap Group's business operations and financial development. By means of open, timely and versatile information the company seeks to ensure that all market participants receive information that is the same and adequate, so that they can assess the company as a prospective investment.

When publishing its results, Incap arranges press conferences for analysts, investors, providers of financing and members of media. A Capital Markets Day for investors, analysts and providers of financing is held once a year. In addition, the company's representatives meet with shareholders, investors and analysts at investor fairs, in seminars, at functions arranged by various organisations and in one-on-one meetings. The presentation material of company events is available on the company's website.

Incap's investor relations are managed by Hannele Pöllä, Director, Communications and Human Resources, tel. +358 40 504 8296, hannele.polla@incap.fi.

## Analysts who follow Incap share

To the best of our knowledge, at least the following parties follow Incap as a portfolio investment. Incap is not responsible for the content of such analyses or the estimates presented in them.

Hannu Rauhala
Pohjola Bank Plc.
Tel. +358 10 252 4392
hannu.rauhala@pohjola.fi

Gideon Bolotowsky
OsakeTieto (Share Information, an investor research organisation)
Tel. +358 9 681 1990
gideon.bolotowsky@osaketieto.com

# Year 2008 releases

## January

Incap sold its manufacturing premises in Helsinki to Sponda plc. The sales price was approx. EUR 5.3 million. *(Stock exchange release, 3 January 2008)*

Incap Group's Chief Financial Officer, Ms Anne Sointu, will move to another company and the search for a new CFO was started. *(Press release, 7 January 2008)*

## February

Incap published preliminary information on financial results in 2007. The full-year's operating profit was estimated to be positive. *(Stock exchange release, 5 February 2008)*

Incap launches co-determination negotiations in its materials and purchase functions as well as in the corporate support functions in Finland. *(Stock exchange release, 11 February 2008)*

Incap starts co-determination negotiations regarding temporary layoffs at Vuokatti factory. *(Stock exchange release, 28 February 2008)*

## March

Incap published Financial Statements for 2007 and reported that Group's revenue amounted to EUR 83.0 million, which was about 7% lower than the previous year. Revised operating profit totalled EUR 0.3 million, or 0.4% of revenue. Net profit for the financial year was EUR 1.1 million negative. *(Stock exchange release, 4 March 2008)*

Notice of the Annual General Meeting of Incap Corporation. *(Stock exchange release, 4 March 2008)*

Incap Corporation's Annual Report and a summary of year 2007 releases were published. *(Stock exchange announcement, 25 March 2008)*

Eeva Vaajoensuu was appointed to CFO and a member of Management Team of Incap Corporation. *(Press release, 28 March 2008)*

## April

Co-determination negotiations concerning Incap's materials and corporate support functions were concluded. As a result, five people were made redundant. *(Stock exchange release, 2 April 2008)*

Due to increase of order backlog the co-determination procedures concerning personnel at Incap's Vuokatti factory were discontinued. *(Stock exchange release, 3 April 2008)*

Incap Corporation's Annual General Meeting was held on 10 April 2008 in Oulu. Annual General Meeting approved the new Articles of Association, elected four members to Board of Directors and authorised the Board to decide on increasing the share capital. *(Stock exchange release, 10 April 2008)*

Correction of the information on fees for the Board of Directors given in the release on AGM decisions. *(Stock exchange release, 10 April 2008)*

## May

Incap's revenue for January-March was EUR 20.3 million and operating profit EUR 1.3 million negative. Net profit for the report period was EUR 1.7 million negative. *(Stock exchange release, 7 May 2008)*

Incap Corporation and Finland's Slot Machine Association (RAY) signed a cooperation agreement on the assembly of slot machines, which RAY outsourced to two manufacturers based on public competitive procurement. *(Stock exchange release, 7 May 2008)*

## June

Incap Corporation's President and CEO Mr. Juhani Hanninen assumed responsibility for the development of Incap's marketing and sales. Mr. Sami Mykkänen, was appointed President and CEO for Incap Corporation on temporary basis. *(Stock exchange release, 2 June 2008)*

## July

Incap Corporation sells its subsidiary operating in the manufacture of etched sheet-metal products to the operative management of the subsidiary. The sale of the subsidiary did not have any remarkable effect on Incap Group's result. *(Stock exchange release, 16 July 2008)*

## August

Incap published its Interim Report January-June 2008. The revenue was EUR 46.7 million, up 29% on the same period the previous year. Operating profit was EUR 1.9 million negative and net profit for the report period amounted to EUR 2.7 million negative. Profitability was burdened among others by increased production costs and delayed revenue growth in India. *(Stock exchange release, 6 August 2008)*

Invitation to Incap's Capital Markets Day. *(Stock exchange release, 14 August 2008)*

Incap published its new strategy and operating model. Incap is targeting at profitable growth by focusing on the service of leading equipment manufacturers operating in energy efficiency and well-being technologies. Incap will improve its competitive edge by expanding the service offering by life-cycle services connected with manufacturing. The organisation was renewed by centralising business responsibility in units based on customer segmentation. *(Stock exchange release, 26 August 2008)*

Because of decreased demand for telecommunications products, Incap Corporation started cooperation negotiations at the Vuokatti plant. *(Stock exchange release, 26 August 2008)*

## October

Incap started cooperation with six new customers in India. Most of the new customers operate in the energy technology. *(Press release, 22 October 2008)*

Incap concluded co-determination procedure at Vuokatti factory. As a result, 12 people were made redundant and a total of 67 persons were laid off temporarily. *(Stock exchange release, 23 Ocotober 2008)*

## November

Incap's revenue in January-September increased by approx. 20% on the same period the previous year, amounting to EUR 68.1 million. Operating profit was EUR 2.4 million negative and net profit for the report period was EUR 3.5 million negative. Profitability was affected among others by non-recurring items for organisational development and personnel arrangements. *(Stock exchange release, 5 November 2008)*

Finnfund made a share capital investment, totalling EUR 2 million, to Incap's operations in India. *(Stock exchange release, 26 November 2008)*

## December

Sami Mykkänen was appointed to President and CEO for Incap Corporation. *(Stock exchange release, 1 December 2008)*

Incap and Powernet reach an agreement on the manufacture of power supplies at Incap's factory in Kuressaare. *(Press release, 16 December 2008)*

Schedule for Incap Corporation's financial reporting in 2009 was published. *(Stock exchange announcement, 22 December 2008)*

# Contact information

## Incap Corporation

| | |
|---|---|
| Domicile | Helsinki |
| Website | www.incap.fi |
| E-mail | info@incap.fi |
| Business ID | FI 0608849-6 |

## Corporate office

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### Helsinki unit

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## Incap Contract Manufacturing Services Pvt. Ltd.

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Fax +91 80 4075 1199

### Tumkur unit

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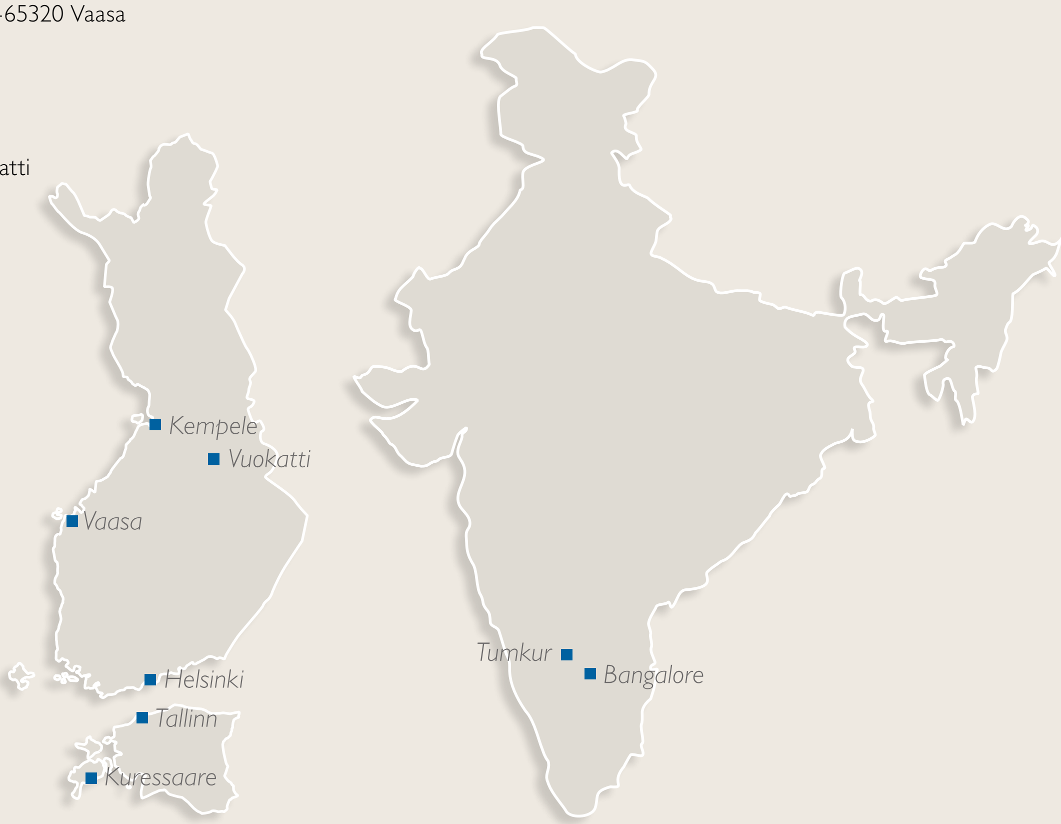

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FINANCIALS 2008

# Contents

# Report of the Board of Directors 2008

A clear change in direction was made in Incap's strategy, according to which the company now will focus on serving equipment manufacturers in energy efficiency and well-being technology. In the same context, Incap applied for a transfer of its share from the Nordic Stock Exchange's Information Technology sector to the Industrials category. The change entered into force after the end of the financial period in February 2009.

The company strengthened its competitive position through the offering of comprehensive solutions and design and other life-cycle services. Consolidated revenue increased by 13% from the previous year. In addition to increased production and financing costs, profitability was strained by expenses related to operational development and personnel arrangements, as well as the development of revenue in India beeing slower than expected.

## Operating environment

Through its new strategy, Incap has transferred to business areas where the growth rate is expected to be quicker than average. The general demand for manufacturing services remained at a good level in 2008, and the demand for energy and electric equipment manufacturing, in particular, developed positively.

Tight competition between contract manufacturers created cost and price pressures. The transfer of production and related functions to areas of low cost levels continued especially among products manufactured in large series. Customers outsourced services related closely to manufacturing to an even greater extent, such as the design of new products and re-design of old products. Customers are reducing the number of partners, aiming at acquiring larger product entities from a single supplier.

The uncertainty in the global economy was, above all, seen as tighter financial markets.

## Revenue and earnings in 2008

Incap Group's revenue amounted to about EUR 93.9 million, i.e., it was 13% higher than the previous year (2007: EUR 83.0 million). The increase was mainly caused by the expanded manufacturing cooperation in rotor components and slot machines. During the year, a number of new products were introduced in pre-serial manufacture and volume production. Product entities increased their share of overall deliveries in line with the company's targets, and revenue particularly from customers in the energy and security technology as well as in the well-being technology industries developed favourably.

There was a significant change in the structure of revenue as volume manufacturing for two telecommunications customers was terminated at the end of 2008. The revenue produced by these customers over the entire year decreased as expected, even though the manufacture of products in the customer's reserve stock increased the revenue temporarily in the latter half of the year. About EUR 4.5 million of the consolidated revenue comprised sales of materials used mainly in telecommunications products at a sales margin lower than in normal production. Manufacturing cooperation in prototype and small set products with another customer will continue.

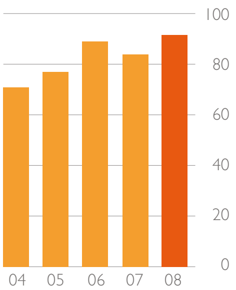
The Group's operating result over the entire year stood at EUR -3.6 million, including the non-recurring expense reserve of about EUR 0.8 million registered for the final quarter of the year regarding reorganisation of the production structure. During the year, non-recurring costs amounted to EUR 1.8 million.

Because of tight competition on the contract manufacturing market, great pressure was directed at sales margins. However, the price level of certain products could be increased through price adjustments agreed upon with the customers.

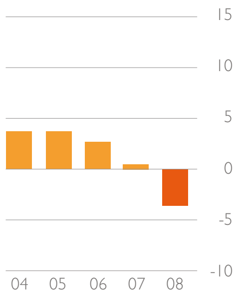
Particularly at the beginning of the year, a number of new products were at the start-up stage in production, reducing productivity with an impact on profitability. A similar impact was caused by the emphasis of manufacturing on material-dominant products where the share of components and raw materials from the products' total value is high.

The amount of inventories at the end of the financial period was EUR 16.1 million. The level of EUR 15 million set as the objective could not be reached because some of the final deliveries of telecommunications products to be terminated extended over the turn of the year to the first quarter of 2009.

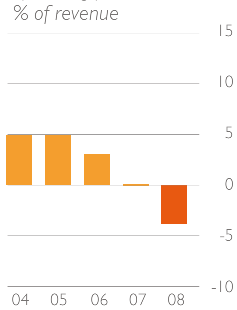
*Revenue, EUR million*



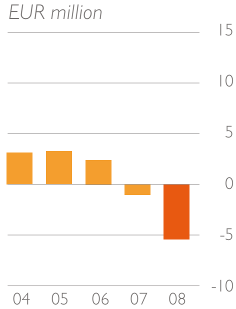

*Operating profit, EUR million*




*Operating profit, % of revenue*




*Profit before taxes, EUR million*



Net loss for the financial period amounted to EUR 5.4 million (2007: net loss of 1.1 million). The result for the period was particularly influenced by the increase in financing costs related to the development of the operations in India.

Earnings per share amounted to EUR -0.44 (EUR -0.09), while equity per share stood at EUR 1.08 (EUR 1.57).

## Indian operations

Year 2008 was the first full financial period for the Indian subsidiary, Incap Contract Manufacturing Services Pvt. Ltd.

Agreements with six significant new customers were signed in India during 2008. The products of these customers proceeded to the prototype and pre-series stage during the year, but volume production could not be started at the expected rate. As a result, the revenue of the Indian company increased less than expected, and operating profit did not cover all expenses.

The production capacity of the Indian subsidiary was developed moderately through small machine acquisitions and the organisation was built according to customers' needs. Plant production was focused on PCB assembly for applications in energy technology and industrial electronics, as well as on the manufacture of product entities, such as emergency power sources and power units.

The Indian manufacturing services expanded to automotive industry during 2008, which is a new customer area for the company. The Tumkur plant was audited and approved for the TS 16949 quality certificate required by the automotive industry.

The construction of new production facilities advanced nearly on schedule in Tumkur. The construction of the new facilities did not cause any costs for Incap because the new building was included in the business transaction signed with TVS in 2007.

## Development and reorganisation of operations

The focus of material sourcing was transferred to Asia over the review period by launching cooperation with a partner operating in the region. Cost-effective sources of material were utilised in purchases of electronics and mechanics. The Indian plant increased strategic sourcing resources.

Incap is aiming at new competitive benefits through the development of life-cycle services. Design service resources were increased, particularly in India where the design unit of 12 people provides design, testing and certification of mechanics, electronics and PCBs for customers, including those operating outside India.

The objective of the reorganisation programme launched in August is to achieve significant cost savings and strengthen the company's financial base. The programme emphasises the improvement of the working capital ratio and profitability, and also the adaptation of the cost structure. In order to reach the objective, there will be measures for expanding the service offering, eliminating low-margin or unprofitable assignments, and further increasing the role of Indian and Estonian plants in service production. The majority of the measures in the reorganisation programme will be reflected in the result during 2009.

## Redefining the strategy

Incap redefined its strategy strongly, aiming at profitable growth by focusing particularly on serving leading device manufacturers in energy-efficiency and well-being technology. The company will increase its competitiveness by expanding its service selection through life-cycle services that supplement the manufacturing services. The company's organisational model was renewed and the business responsibility was centralised in units formed on the basis of customer segments.

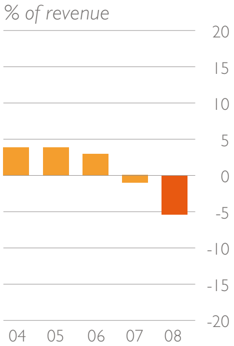
Thanks to its expertise, Incap has excellent possibilities for strengthening its position in the new, growing customer segments where outsourcing of manufacturing and related services continues to increase. Strongly growing areas include applications related to improving energy-efficiency and increasing well-being. Incap is already strongly involved in the delivery chain of these applications.

## Financing and cash flow

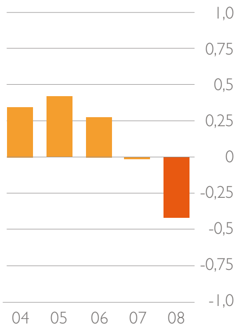
The Group's equity ratio was 27.0% (35.3%). Interest-bearing net liabilities totalled EUR 19.3 million (EUR 19.7 million) and the gearing ratio was 146.1% (103.2%). Net financial expenses were EUR 1.8 million (EUR 1.4 million) and depreciation and amortisation expense was EUR 2.8 million (EUR 2.8 million).

The Group's equity at the close of the financial period amounted to EUR 13.2 million (EUR 19.1 million). Debt totalled EUR 35.7 million (EUR 35.1 million), of which interest-bearing debt amounted to EUR 19.9 million (EUR 20.7 million).

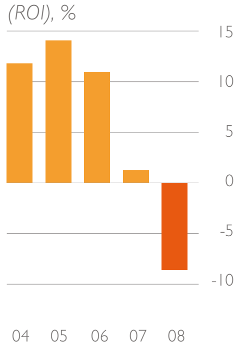
*Profit before taxes, % of revenue*



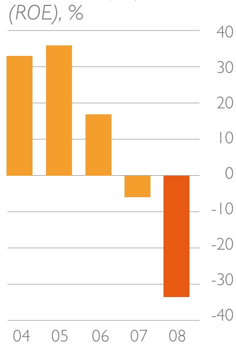

*Earnings per share (EPS), EUR*




*Return on investment (ROI), %*




*Return on equity (ROE), %*



The Group's quick ratio was 0.7 (0.8) and the current ratio is 1.4 (1.4). Cash flow from operations was EUR 1.4 million (EUR -4.0 million) and the change in cash and cash equivalents was a decrease of EUR 0.3 million (an increase of EUR 0.5 million).

In order to finance Indian investments and working capital, Incap signed a financing agreement with Finnfund (Finnish Fund for Industrial Cooperation Ltd.), through which Finnfund executed a share capital investment of EUR 1.9 million in Incap's Indian subsidiary, Incap CMS Pvt. Ltd. The financing was withdrawn in full after the close of the financial period in January 2009.

Incap aims at securing its liquidity primarily by improving the efficiency of the management of working capital.

## Research and development

The expenses arising from Incap's research and development operations stood at EUR 0.5 million (EUR 0.3 million).

## Capital expenditures

The Group's capital expenditures over the financial period were EUR 1.8 million (EUR 1.5 million) or 1.9% (1.8%) of revenue. Manufacturing capacity was renewed the most strongly at the Vaasa rotor component plant and in the Tumkur production. Of capital expenditures, EUR 0.5 million was acquired for financial leasing (EUR 0.2 million)

## Environmental issues

All of Incap's plants employ environmental and quality assurance systems certified by Lloyd's or TÜV Rheinland. The environmental system corresponds to the ISO 14001:2004 standard and the quality system complies with the ISO 9001:2000 standard.

The Helsinki, Kuressaare and Vuokatti plants have been granted the ISO 13485:2003 certificate which is widely applied to the manufacture of medical devices. The Indian plant was audited and approved for the TS 16949 quality certificate required by the automotive industry.

## Personnel

At the beginning of the year, the Incap Group employed 739 people, and 727 at the end of the period. On average, the company employed 735 people in 2008 (678). The number of personnel decreased by 2% from the previous year. At the end of the year, 47% of the personnel worked in Finland (45%), 26% in Estonia (27%) and 28% in India (28%).

At the end of the year, 303 of Incap's personnel were women and 429 were men. Permanently employed staff comprised 601 people, and there were 126 fixed-term employees. There were eight part-time employment contracts at the end of the year.

During the year, there were negotiations pursuant to the Co-operation Act in material management and group services as well as at the Vuokatti and Helsinki plants. As a result, 19 people where discharged and 35 people were laid off temporarily. In group services, the number of personnel was reduced by seven people.

## Group Management

The company's President and CEO during the financial period was Juhani Hanninen, M.Sc. (Eng.), on 1 January – 31 May 2008 and Sami Mykkänen, B.Sc. (Eng.), on 1 June – 31 December 2008. The members of the Group Management Team at the close of the financial period included Kimmo Akiander (Wellbeing Solutions, as of 1 December), Jari Koppelo (Energy Efficiency Europe, as of 24 November), Jarmo Kolehmainen (Energy Efficiency Asia and Incap Contract Manufacturing Services Pvt. Ltd.), Mikko Hirvinen (Operations, as of 2 June), Eeva Vaajoensuu (Finance and Administration, as of 14 April) and Hannele Pöllä (Communications and HR).

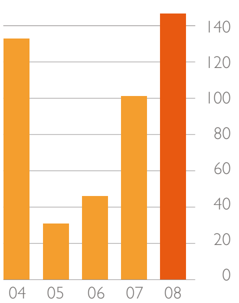
In addition, Liam Kenny (Materials and Logistics, until 30 April), Niklas Skogster (Business Development, until 14 November), Anne Sointu (Finance and Administration, until 14 April), Jukka Turtola (Global Sales and Marketing, until 10 September) and Tuula Ylimäki (Ultraprint Oy, until 17 July) served with the Group Management Team for part of the year.

## Decisions of the Annual General Meeting

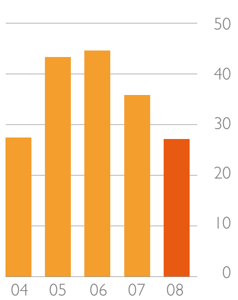
Incap Corporation's Annual General Meeting was held in Oulu on 10 April 2008. The AGM approved the 2007 financial statements of the Group and parent company and discharged those accountable from liability. No dividends were paid for 2007.

The AGM authorised the Board of Directors to decide within one year of the AGM on the increase of share capital through one or more rights issues and the granting of options so that the total number of shares to be subscribed for on the basis of the

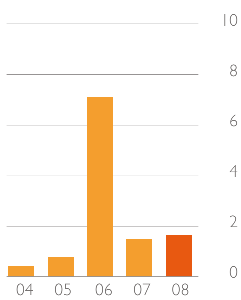
*Gearing, %*



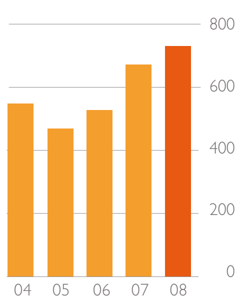

*Equity ratio, %*




*Investments, EUR million*




*Average number of employees*



authorisation will be a maximum of 4,000,000 of which a maximum of 600,000 shares can be used for options. The Board of Directors exercised the authorisation after the financial period on 2 February 2009 as it decided on granting options to the company's Management and key personnel. The option programme includes a total of 600,000 options, entitling to subscription for an equal number of the company's shares.

## Board of Directors and Auditors

The Annual General Meeting re-elected Kalevi Laurila, Susanna Miekk-oja and Jukka Harju as members of the Board of Directors. Kari Häyrinen was elected to the Board of Directors as a new member. The Board of Directors elected from among its members Kalevi Laurila as Chairman and Susanna Miekk-oja as Deputy Chairman. The Board of Director's secretary was Jari Pirinen, LL.M.

In 2008, the Board of Directors convened 22 times and the Board members' average rate of participation in the meetings was 98%.

Ernst & Young Oy acted as the company's auditor.

## Shares and shareholders

Incap Corporation has one series of shares and the number of shares is 12,180,880. During the financial period, the share price varied between EUR 0.49 and EUR 1.60 (EUR 1.25 and EUR 2.67), and the closing price of the year was EUR 0.55 (EUR 1.34). During the financial period, the trading volume was 14% of outstanding shares (54%).

At the end of the financial period, the company had 1,003 shareholders (1,004). Nominee-registered owners represented 3.7% (6.1%) of all shares. The company's market capitalisation on 31 December 2008 was EUR 6.7 million (EUR 16.3 million). The company does not own any of its own shares.

The standard industrial classification of Incap's shares changed after the close of the financial period on 2 February 2009, after which the new classification is Industrial Products and Services and the industrial code is 20104010 (Electrical Components and Equipment).

## Share-based incentive programmes

At the close of the financial period, the Incap Group had a share option scheme that was introduced in 2004 and commits key employees to long-term share ownership. There are a total of 630,000 share options, entitling their holders to subscribe for an equal number of shares. On the basis of the subscriptions, Incap's share capital can increase by a maximum of EUR 1,058,400. At the end of the year, three people were within the scope of the option scheme.

After the close of the financial period on 2 February 2009, Incap Corporation's Board of Directors launched an option scheme, consisting of a total of 600,000 option rights and entitling to subscription for 600,000 of Incap Corporation's shares. In February 2009, 100,000 options were distributed to the President and CEO, and another 100,000 options will be distributed in 2010, provided that the objectives set by the Board of Directors for the company's operating profit and return on working capital in 2009 are met. A maximum of 400,000 options will be distributed to the company's key personnel in two issues, provided that the objectives set by the Board of Directors for the company's operating profit and return on working capital in 2009 and 2010 are met and that each reaches its individual objectives.

## Short-term risks and factors of uncertainty concerning operations

Incap's risk management policy divides risks into risks related to the operating environment, operational risks, and liability and financing risks. Incap's risk management focuses primarily on risks that threaten the objectives and continuity of business operations. In order to utilise business opportunities, Incap is prepared to take controlled risks within the limits of the Group's risk management resources.

Fluctuations in global economy and customer sectors have an indirect impact on Incap's demand and financial position. Incap's sales are spread over several customer sectors, which hedges the company against sharp seasonal changes. The Group will continue to balance its customer base so that dependency on a single customer or several customers operating in the same sector will not expose the company to a significant financial risk.

Incap's industry – contract manufacturing – is highly competitive and places great pressure on the management of cost levels. The company aims at managing the risk by continuously monitoring and controlling operational efficiency and cost levels. Incap has enhanced the flexibility of its cost structure by spreading its production to different countries and coordinating manufacturing between Finland and other countries.

Incap is continuously assessing the organisation of its different functions, and the sufficiency and level of its personnel resources. This aims at ensuring that the organisation operates efficiently, competence is at the correct level and the company can provide its customers with the services they need and see to its obligations toward other stakeholders without interruptions, while maintaining high quality. Significant factors for competitiveness include the availability of labour force and the development of labour costs in the countries where Incap has operations.

The quality, manufacturing and distribution problems of material suppliers, and changes in the world market prices of materials have an impact on the availability and prices of materials used by Incap.

The general development in the financial market and the future profitability trend of the company affect the company's financing position. Incap aims at securing its liquidity through efficient management of working capital, and different financing options will be assessed for lowering the financing costs. The Group's interest and currency risk is controlled through the selected financing structure which is based on financing instruments with fixed and variable interest rates in the selected currencies.

The company reviews its insurance regularly as part of risk management.

The operating environment is expected to be very challenging during the current financial period. The reorganisation programme launched in 2008 is aimed at improving the cost structure and adding flexibility.

## Objectives for 2009

The improvement of profitability is a central objective in 2009. Measures following the reorganisation programme will be continued to adapting the production capacity and allocating it to different plants according to demand and customer needs. The efficiency of material sourcing will be improved and costs will be eliminated further.

The new operational model will continue to be fine-tuned and stabilised at the beginning of 2009. Business units will study the key customers' operations thoroughly and aim at expanding cooperation with them. The objective is to increase the customer-specific market share through new products and larger delivery packages.

New customer relationships will be sought, particularly among leading device manufacturers in the energy-efficiency and well-being industries, and in other growth areas.

Services will be developed so that Incap can provide its customers with as large a portion of the needs related to product manufacturing as possible.

## Outlook for 2009

Incap's estimates of future business development are mainly based on its customers' estimates that include more uncertainty than usual due to the economic recession. According to current information, Incap estimates the consolidated revenue to be lower in 2009 than in 2008. Full-year operating profit (EBIT) is estimated to improve clearly from 2008.

## Board of Directors' proposal for the distribution of profit

The parent company's loss from the financial period is EUR 3,908,068.33. The Board of Directors will propose for the Annual General Meeting to convene on 3 April 2009 that no dividend be paid and the loss from the period be left in equity.

## Annual General Meeting in 2009

Incap Corporation's Annual General Meeting will be held on Friday 3 April 2009 at 3:00 p.m. in Helsinki World Trade Center at Aleksanterinkatu 16, 2nd floor, Helsinki.

Helsinki, 24 February 2009

INCAP CORPORATION
Board of Directors

# Consolidated Income Statement

| 1,000 euros | Note | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|---|
| CONTINUING OPERATIONS | | | |
| Revenue | 3 | 93,925 | 83,010 |
| Other operating income | 4 | 53 | 3,166 |
| Changes in inventories of finished goods and work in progress | | 791 | -999 |
| Work performed by the enterprise and capitalised | | 0 | 99 |
| Raw materials and consumables used | | 66,672 | 56,896 |
| Personnel expenses | 7 | 18,722 | 15,979 |
| Depreciation and amortisation | 6 | 2,823 | 2,753 |
| Other operating expenses | 5 | 10,165 | 9,343 |
| **Operating profit/loss** | | **-3,612** | **303** |
| Financing income and expenses | 9 | -1,810 | -1,356 |
| **Profit/loss before tax** | | **-5,422** | **-1,053** |
| Income tax expense | 10 | 21 | -49 |
| **Profit/loss for the year from continuing operations** | | **-5,401** | **-1,102** |
| Earnings per share from profit for the year attributable to equity holders of the parent | | | |
| Basic, from continuing operations | 11 | -0.44 | -0.09 |
| Diluted, from continuing operations | 11 | -0.44 | -0.09 |

# Consolidated Balance Sheet

| 1,000 euros | Note | 31 Dec 2008 | 31 Dec 2007 |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | 11,250 | 12,883 |
| Goodwill | 13 | 969 | 1,326 |
| Other intangible assets | 13 | 1,311 | 1,575 |
| Other financial assets | 14 | 16 | 21 |
| Deferred tax assets | 15 | 4,148 | 4,223 |
| **Total Non-current Assets** | | **17,693** | **20,028** |
| **Current assets** | | | |
| Inventories | 16 | 16,153 | 14,882 |
| Trade and other receivables | 17 | 14,444 | 18,367 |
| Cash and cash equivalents | 18 | 641 | 944 |
| **Total Current Assets** | | **31,239** | **34,192** |
| **Total Assets** | | **48,932** | **54,220** |
| EQUITY AND LIABILITIES | | | |
| **Equity attributable to equity holders of the parent** | 19 | | |
| Share capital | | 20,487 | 20,487 |
| Share premium account | | 44 | 44 |
| Exchange differences | | -478 | -216 |
| Retained earnings | | -6,864 | -1,188 |
| **Total equity** | | **13,190** | **19,127** |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 15 | 99 | 121 |
| Interest-bearing loans and borrowings | 23 | 12,977 | 11,188 |
| **Current liabilities** | | | |
| Trade and other payables | 24 | 15,731 | 14,294 |
| Interest-bearing loans and borrowings | 23 | 6,935 | 9,490 |
| **Total liabilities** | | **35,742** | **35,093** |
| **Total equity and liabilities** | | **48,932** | **54,220** |

# Consolidated Cash Flow Statement

| 1,000 euros | Note | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net income | | -3,612 | 303 |
| Adjustments to operating profit | 27 | 2,760 | -372 |
| Change in working capital | | 3,702 | -3,070 |
| Interest paid | | -1,640 | -977 |
| Interest received | | 143 | 142 |
| **Cash flow from operating activities** | | **1,353** | **-3,974** |
| **Cash flow from investing activities** | | | |
| Capital expenditure on tangible and intangible assets | | -1,698 | -1,974 |
| Proceeds from sales of tangible and intangible assets | | 160 | 3,118 |
| Acquisition of subsidiary | | 0 | -8,261 |
| Sale of shares of subsidiary | | 50 | 0 |
| **Cash flow from investing activities** | | **-1,488** | **-7,117** |
| **Cash flow from financing activities** | | | |
| Drawdown of loans | | 1,753 | 14,316 |
| Repayments of borrowings | | -838 | -1,116 |
| Repayments of obligations under finance leases | | -1,063 | -1,643 |
| **Cash flow from financing activities** | | **-148** | **11,557** |
| **Change in cash and cash equivalents** | | **-283** | **466** |
| Cash and cash equivalents at beginning of period | | 944 | 500 |
| Effects of changes in exchange rates | | -20 | -22 |
| **Cash and cash equivalents at end of period** | | **641** | **944** |

# Consolidated Statement of Changes in Equity

| | Share capital | Share premium account | Exchange differences | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Equity at 1 January 2007** | 20,487 | 44 | 0 | -206 | 20,325 |
| Change in exchange differences | 0 | 0 | -216 | 0 | -216 |
| Options and share-based compensation | 0 | 0 | 0 | 120 | 120 |
| Net income and losses recognised directly in equity | 0 | 0 | -216 | 120 | -95 |
| Profit for the year | 0 | 0 | 0 | -1,102 | -1,102 |
| Total income and losses for the year | 0 | 0 | -216 | -982 | -1,197 |
| **Equity at 31 December 2007** | 20,487 | 44 | -216 | -1,188 | 19,127 |

| | Share capital | Share premium account | Exchange differences | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Equity at 1 January 2008** | 20,487 | 44 | -216 | -1,188 | 19,127 |
| Change in exchange differences | 0 | 0 | -262 | 0 | -262 |
| Options and share-based compensation | 0 | 0 | 0 | -275 | -275 |
| Net income and losses recognised directly in equity | 0 | 0 | -262 | -275 | -537 |
| Profit for the year | 0 | 0 | 0 | -5,401 | -5,401 |
| Total income and losses for the year | 0 | 0 | -262 | -5,676 | -5,938 |
| **Equity at 31 December 2008** | 20,487 | 44 | -478 | -6,864 | 13,190 |

# 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; Incap Contract Manufacturing Services Pvt. Ltd., Bangalore, India; and Euro-ketju Oy. The former subsidiary Ultraprint Oy was sold to its operating management of the subsidiary during the financial year.

## 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 2008. 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, Ultraprint Oy (until 15 July 2008), Incap Contract Manufacturing Services Pvt. Ltd. and Euro-ketju Oy.

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

### Translation of items denominated in foreign currency

#### Separate companies

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

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

#### Group

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

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

### Property, plant and equipment

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

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

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

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

Depreciation of an item of property, plant and equipment ceases when the asset is classified as for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

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

## Borrowing costs

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

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

## Government grants

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

## Intangible assets

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

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

Research and development expenditure is recorded as an expense in the income statement.

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

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

## Inventories

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

## Leases

### The Group as lessee

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

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

## Impairment of assets

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

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

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

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

## Employee benefits

### Pension obligations

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

### Share-based payment

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

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

## Provisions

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

The Incap Group has made a reserve for restructuring in accordance with IAS 37. The details of the recognition have been specified in section 22 of the Notes to the Consolidated Financial Statements.

## 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. 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 three years. For the time exceeding this, a growth factor of 10% has been used, with other essential factors being a discount rate of 18.2% and 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 IAS 14. 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:

IFRS 7 Financial Instruments: Disclosures
IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8 Scope of IFRS 2
IFRIC 9 Reassessment of Embedded Derivatives
IFRIC 10 Interim Financial Reporting and Impairment
IAS 39 Financial Instruments: Recognition and Measurement
IFRIC 11: IFRS 2 Group and Treasury Share Transactions
IFRIC 12 Service Consession Arrangements
IFRIC 14 IAS 19– The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRS1 First-time Adoption of International Financing Reporting Standards and IAS27 Consolidated and Separate Financial Statements; changes concerning "cost of investment in a subsidiary, jointly controlled entity of associate"
IFRS2 Share-Based Payment, Vesting Conditions and Cancellations; change in standard
IFRS8 Operating segments (1 January 2009) replacing the IAS 14 Standard
IAS1 Presentation of Financial Statements; change (1 January 2009)
IAS23 Borrowing costs; change (1 January 2009)
IAS32 Financial Instruments: Presentation; change in standard
IFRS5 Non-current Assets Held for Sale and Discontinued Operations
IAS16 Property, Plant and Equipment; changes in principles for calculation
IAS20 Accounting for Government Grants and Disclosure of Government Assistance; changes in principles for calculation
IAS28 Investments in Associates; changes in principles for calculation
IAS 38 Intangible Assets; changes in principles for calculation
IAS40 Investment Property; changes in principles for calculation
IFRS3 Business Combinations and IAS27 Consolidated and Separate Financial Statements (implemented in the Group as from 1 January 2010).
IFRIC13 Customer Loyalty Programmes (1 January 2009)
IFRIC15 Agreement for Construction of Real Estate
IFRIC16 Hedges of a Net Investments in a foreign operation
IFRIC17 Distribution on non-cash assets to owners
IFRIC18 Transfer of assets from customers.

## 1. Sale of group companies

Incap Corporation sold as per 16 July 2008 its 100-% owned subsidiary Ultraprint Oy to the subsidiary's operating management.

| Result of Ultraprint Oy, IFRS | 1 Jan–15 Jul 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Revenue | 521 | 1,152 |
| Expenses | -633 | -1,165 |
| **Profit/Loss** | **-112** | **-13** |

Effect of the sale of Ultraprint Oy to the financial position of the Group

| | Fair value | Carrying amount |
|---|---|---|
| Property, plant and equipment | 556 | 556 |
| Intangible assets | 16 | 16 |
| Investments | 1 | 1 |
| Inventories | 59 | 59 |
| Trade and other receivables | 175 | 175 |
| Cash and cash equivalents | 0 | 0 |
| **Total current assets** | **807** | **807** |
| | | |
| Loss of disposal of non-current assets | -206 | 0 |
| Non-current interest-bearing liabilities | -127 | -127 |
| Current interest-bearing liabilities | -383 | -383 |
| Trade and other payables | -205 | -205 |
| **Total liabilities** | **-921** | **-715** |
| | | |
| Net assets | -114 | 92 |
| Goodwill decrease due to disposal | 164 | 0 |
| Total disposal price | 50 | 0 |
| Cash and cash equivalents of sold companies | 0 | 0 |
| Cash flow effect of sold Group companies | 50 | 0 |

There were no sales of business operations in the Group in 2007.

## 2. Acquired operations

No business acquisitions were made during financial year 2008.

Of the decrease of goodwill in 2008, exchange difference amounts to EUR 104 thousands and decrease to EUR 89 thousands. Decrease is due to the cancellation of the write-downs of inventories that were made at the time of the acquisition.

### Acquisitions in financial year 2007

Incap Corporation's subsidiary Incap Contract Manufacturing Services Pvt. Ltd., established in India in April 2007, acquired a business unit manufacturing electronics and box-build products from TVS Electronics Limited on 31 May 2007. The number of personnel transferred in the business acquisition was 228, and the revenue for seven months, EUR 4.9 million is included in the 2007 income statement.

The total acquisition cost was EUR 8.3 million, paid in cash. In addition to the cash consideration, a total of EUR 0.5 million in consultancy fees and other costs immediately associated with the acquisition are included in the acquisition cost. Part of the acquisition cost exceeding the balance sheet value, EUR 1.2 million, was allocated to intangible rights by calculating fair values for the acquired customer base. The remaining business value of 1.2 million euros is based on Incap's improved position in the Asian contract manufacturing markets. Goodwill in the financial statements 2007 includes 0.2 million euros of revaluation of inventories based on the contract of business transfer.

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

| | Fair value | Balance sheet value |
|---|---|---|
| Property, plant and equipment | 1,783 | 1,783 |
| Advance payment for building | 979 | 979 |
| Customer contracts and associated customer relationships (incl. in other intangible assets) | 1,233 | 0 |
| Inventories | 1,941 | 1,941 |
| Trade and other receivables | 2,616 | 2,616 |
| Total assets | **8,552** | **7,319** |
| | | |
| Trade and other payables | -1,454 | -1,454 |
| | | |
| Net assets | 7,099 | 5,866 |
| Acquisition cost | 8,261 | 0 |
| Goodwill | 1,162 | 0 |

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

| | | |
|---|---|---|
| Acquisition cost paid in cash | 8,261 | 0 |
| Cash and cash equivalents of acquired subsidiary | 0 | 0 |
| Effect on cash flow | **8,261** | **0** |

## 3. Revenue

| | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Revenue from the sale of goods | 93,812 | 82,846 |
| Revenue from the services | 114 | 164 |
| | **93,925** | **83,010** |

## 4. Other operating income

| | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Net gains on the disposal of property, plant and equipment | 6 | 3 118 |
| Lease income for previous years | 0 | 0 |
| Other income | 47 | 47 |
| | **53** | **3 166** |

## 5. Other operating expenses

| | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Lease expenses | 2,144 | 1,675 |
| Operating and maintenance expenses for property and machinery | 2,485 | 2,495 |
| Other expenses | 5,536 | 5,174 |
| | **10,165** | **9,343** |

| Auditors' fees | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Auditing fees | 88 | 86 |
| Certificates and statements | 0 | 0 |
| Tax advice | 7 | 14 |
| Other services | 12 | 21 |
| | **107** | **121** |

## 6. Depreciation and amortisation

| | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Depreciation and amortisation by assets class | 0 | 0 |
| Intangible assets | 332 | 217 |
| | | |
| Tangible assets | | |
| Buildings | 288 | 27 |
| Machinery and equipment | 2,080 | 2,150 |
| Other tangible assets | 123 | 116 |
| | **2,491** | **2,537** |
| | | |
| Total depreciation, amortisation and impairment losses | 2,823 | 2,753 |

## 7. Employee benefits expense

| | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Wages and salaries | 15,478 | 12,584 |
| Pension costs - defined contribution plans | 2,094 | 2,013 |
| Pension costs - defined-benefit plans | 15 | 42 |
| Expense of share-based payments | 0 | 121 |
| Other statutory employer expenses | 1,135 | 1,220 |
| | **18,722** | **15,979** |
| | | |
| Average number of Group personnel during the period | **735** | **678** |

Information on management's employee benefits is presented in Note 30 Related-party Transactions.
Information on share options granted is presented in Note 20 Share-based Payment.

## 8. Research and development costs

A total of EUR 0.5 million in research and development costs has been recorded as an annual expense in the income statement in 2008 (EUR 0.3 million in 2007).

## 9. Financial income and expenses

| | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| **Financial income** | | |
| Dividend income from available-for-sale financial assets | 3 | 3 |
| Interest income from investments held until due date | 0 | 20 |
| Interest income from other deposits | 58 | 4 |
| Interest income from trade receivables | 78 | 108 |
| Interest income from loan receivables | 4 | 0 |
| Foreign exchange gains on liabilities | 314 | 0 |
| | **456** | **135** |
| | | |
| **Financial expenses** | | |
| Interest expenses from financial liabilities measured at amortised cost | -566 | -619 |
| Interest expenses from convertible promissory notes | -480 | -276 |
| Other interest expenses | -499 | -375 |
| Exchange rate losses | -334 | -90 |
| Other financial expenses | -388 | -132 |
| | **-2,267** | **-1,492** |
| | | |
| Total financial income and expenses | **-1,810** | **-1,356** |

Interest expenses include variable lease payments of EUR 0.1 million (EUR 0.2 million in 2007) recorded as lease expenses from finance lease agreements.

## 10. Income tax

| | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| **Income tax in the income statement** | | |
| Deferred income tax | 21 | -49 |
| | | |
| **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** | | |
| Profit before taxes | -5,422 | -1,053 |
| Tax at the applicable rate in the home country | 1,410 | 274 |
| Divergent tax rates of foreign subsidiaries | -62 | -303 |
| Tax-free income | -2 | 0 |
| Expenses that are not deductible | -12 | -7 |
| Other temporary differences | 156 | 137 |
| Use of tax losses | -1,489 | -100 |
| Changes in deferred tax assets for previous years | 0 | -76 |
| Changes in deferred tax liabilities for previous years | 21 | 26 |
| | **21** | **-49** |
| **Deferred taxes in the balance sheet** | | |
| Deferred tax assets | 4,148 | 4,223 |
| Deferred tax liabilities | -99 | -121 |
| | **4,049** | **4,103** |

Deferred tax assets and liabilities are presented in Note 15 .

## 11. 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.

| | 2008 | 2007 |
|---|---|---|
| Profit for the year attributable to equity holders of the parent | -5,401 | -1,102 |
| Weighted average number of shares during the period | 12,180,880 | 12,180,880 |
| Undiluted earnings per share, EUR/share, | -0.44 | -0.09 |

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 23 Interest-bearing Liabilities.

| | 2008 | 2007 |
|---|---|---|
| Profit for the year attributable to equity holders of the parent, continuing operations | -5,401 | -1,102 |
| Weighted average number of shares during the period | 12,180,880 | 12,180,880 |
| Dilution effect of issued share options | 0 | 2,469 |
| Share-weighted diluted average price used in calculating adjusted earnings per share | 12,180,880 | 12,183,349 |
| Diluted earnings per share, EUR/share | -0.44 | -0.09 |

## 12. Property, plant and equipment

| | Land | Buildings and advances | Machinery and equipment | Other tangible assets | Total |
|---|---|---|---|---|---|
| Acquisition cost, 1 Jan 2008 | 576 | 6,576 | 44,556 | 689 | 52,396 |
| Increase | 3 | 535 | 1,415 | 125 | 2,079 |
| Disposals | 0 | 0 | -119 | 0 | -119 |
| Reclassifications between items | 0 | -181 | -1,399 | -25 | -1,605 |
| Sale of assets in Group companies | -3 | -514 | -1,389 | 0 | -1,906 |
| Exchange differences | -76 | -181 | -138 | -22 | -417 |
| Acquisition cost, 31 Dec 2008 | 499 | 6,236 | 42,927 | 766 | 50,428 |
| | | | | | |
| Accumulated depreciation and impairment losses, 1 Jan 2008 | 0 | -2,369 | -36,644 | -500 | -39,513 |
| Depreciation | 0 | -288 | -2,080 | -123 | -2,491 |
| Increase | 0 | 0 | 0 | 0 | 0 |
| Cumulative depreciation on reclassifications and disposals | 0 | 0 | 34 | 0 | 34 |
| Reclassifications between items | 0 | 168 | 1,217 | 25 | 1,410 |
| Cumulative depreciation on sales of assets in Group companies | 0 | 158 | 1,191 | 0 | 1,350 |
| Exchange differences | 0 | 2 | -8 | 38 | 32 |
| Accumulated depreciation and impairment losses, 31 Dec 2008 | 0 | -2,329 | -36,290 | -560 | -39,179 |
| | | | | | |
| Carrying amount, 1 Jan 2008 | 576 | 4,207 | 7,911 | 188 | 12,883 |
| Carrying amount, 31 Dec 2008 | 499 | 3,907 | 6,637 | 207 | 11,250 |
| | | | | | |
| Acquisition cost, 1 Jan 2007 | 60 | 5,318 | 42,671 | 523 | 48,572 |
| Increase | 0 | 48 | 1,005 | 128 | 1,181 |
| Consolidation of operations | 546 | 1,283 | 934 | 40 | 2,803 |
| Exchange differences | -31 | -73 | -54 | -2 | -161 |
| Acquisition cost, 31 Dec 2007 | 576 | 6,576 | 44,556 | 689 | 52,396 |
| | | | | | |
| Accumulated depreciation and impairment losses, 1 Jan 2007 | 0 | -2,099 | -34,494 | -408 | -37,001 |
| Depreciation | 0 | -270 | -2,150 | -92 | -2,512 |
| Accumulated depreciation and impairment losses, 31 Dec 2007 | 0 | -2,369 | -36,644 | -500 | -39,513 |
| | | | | | |
| Carrying amount, 1 Jan 2007 | 60 | 3,219 | 8,177 | 114 | 11,571 |
| Carrying amount, 31 Dec 2007 | 576 | 4,207 | 7,911 | 188 | 12,883 |

### Finance leases

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

| | Buildings | Machinery and equipment | Total |
|---|---|---|---|
| **31 Dec 2008** | | | |
| Acquisition cost | 0 | 15,906 | 15,906 |
| Accumulated depreciation | 0 | -11,550 | -11,550 |
| Carrying amount | 0 | 4,355 | 4,355 |
| **31 Dec 2007** | | | |
| Acquisition cost | 183 | 17,187 | 17,370 |
| Accumulated depreciation | -183 | -11,852 | -12,035 |
| Carrying amount | 0 | 5,335 | 5,335 |

Increases on the acquisition cost of property, plant and equipment include assets leased on finances leases totalling EUR 0.6 million in 2008 (EUR 0.2 million in 2007).

## 13. Intangible assets

| | Goodwill | Other intangible assets | Total |
|---|---|---|---|
| Acquisition cost, 1 Jan 2008 | 3,041 | 4,403 | 7,443 |
| Increase | 0 | 221 | 221 |
| Disposals | -89 | 0 | -89 |
| Sale of assets in Group companies | -390 | -18 | -408 |
| Exchange difference | -104 | -172 | -276 |
| Acquisition cost, 31 Dec 2008 | 2,458 | 4,434 | 6,892 |
| | | | |
| Accumulated amortisation and impairment losses, 1 Jan 2008 | -1,714 | -2,828 | -4,543 |
| Amortisation | 0 | -332 | -332 |
| Cumulative depreciation on sales of assets in Group companies | 226 | 2 | 228 |
| Exchange difference | 0 | 34 | 34 |
| Accumulated amortisation and impairment losses, 31 Dec 2008 | -1,489 | -3,123 | -4,612 |
| | | | |
| Carrying amount, 1 Jan 2008 | 1,326 | 1,575 | 2,901 |
| Carrying amount, 31 Dec 2008 | 969 | 1,311 | 2,279 |
| | | | |
| Acquisition cost, 1 Jan 2007 | 1,879 | 2,918 | 4,797 |
| Increase | 0 | 323 | 323 |
| Consolidation of operations | 1,220 | 1,233 | 2,453 |
| Exchange difference | -58 | -72 | -130 |
| Acquisition cost, 31 Dec 2007 | 3,041 | 4,403 | 7,443 |
| | | | |
| Accumulated amortisation and impairment losses, 1 Jan. 2007 | -1,714 | -2,587 | -4,302 |
| Amortisation | 0 | -241 | -241 |
| Accumulated amortisation and impairment losses, 31 Dec. 2007 | -1,714 | -2,828 | -4,543 |
| | | | |
| Carrying amount, 1 Jan 2007 | 164 | 331 | 495 |
| Carrying amount, 31 Dec 2007 | 1,326 | 1,575 | 2,901 |

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 budget for the next financial year and on three-year forecasts approved by management. Cash flows generated after the forecast period approved by management are extrapolated using an even growth factor of 10% for Indian subsidiary and as other key variables the 18.15 % discount rate and the estimated operating profit before depreciation.

Based on calculations, there are no indications of impairment on goodwill and other intangible assets with an indefinite useful life.

If the revenues used in testing would decrease by 30% during each forthcoming year, this would not yet call for impairment of goodwill.

## 14. Other financial assets

| | 2008 | 2007 |
|---|---|---|
| Publicly quoted shares | 4 | 4 |
| Unquoted shares | 12 | 17 |
| Total available-for-sale investments at the end of the year | **16** | **21** |

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

## 15. Deferred tax assets and liabilities

| | 1 Jan 2008 | Recorded in income statement | Exchange differences | 31 Dec 2008 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Tax losses carried forward | 4,223 | 0 | -75 | 4,148 |
| **Deferred tax liabilities** | | | | |
| Accumulated depreciation difference | 121 | -21 | 0 | 99 |

| | 1 Jan 2007 | Recorded in income statement | Exchange differences | 31 Dec 2007 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Tax losses carried forward | 4,310 | -76 | -11 | 4,223 |
| **Deferred tax liabilities** | | | | |
| Accumulated depreciation difference | 147 | -26 | 0 | 121 |

Amount of deferred tax assets is based on the Board of Directors' estimate on the future development of the company. The non-recorded cumulative tax assets on tax losses carried forward totalled EUR 5.8 million in 2008 (EUR 4.6 million in 2007).

## 16. Inventories

| | 2008 | 2007 |
|---|---|---|
| Raw materials and supplies | 11,353 | 11,166 |
| Work in progress | 1,687 | 1,259 |
| Finished goods | 2,582 | 2,354 |
| Advance payments | 531 | 103 |
| | **16,153** | **14,882** |

EUR 0.9 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 0.8 in 2007).

## 17. Trade and other receivables

| | 2008 | 2007 |
|---|---|---|
| Trade receivables | 12,845 | 15,387 |
| Loan receivables | 13 | 13 |
| Prepaid expenses and accrued income | 1,249 | 2,602 |
| Other receivables | 337 | 365 |
| | **14,444** | **18,367** |

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

| | 2008 | 2007 |
|---|---|---|
| Not past due | 8,487 | 11,385 |
| Past due | | |
| Less than 30 days | 3,301 | 2,776 |
| 30–60 days | 528 | 523 |
| 61–90 days | 43 | 387 |
| More than 90 days | 487 | 315 |
| | **12,845** | **15,387** |
| Items recorded as credit losses | 18 | 12 |

## Distribution of current receivables by currency, EUR

| | 2008 | 2007 |
|---|---|---|
| USD | 1,916 | 355 |
| SEK | 50 | 33 |
| GBP | 1 | 0 |
| EEK | 172 | 162 |
| INR | 1,369 | 2,613 |
| EUR | 10,937 | 15,204 |
| | **14,444** | **18,367** |

## 18. Cash and cash equivalents

| | 2008 | 2007 |
|---|---|---|
| Cash and bank accounts | 515 | 591 |
| Short-term investments | 127 | 353 |
| | **641** | **944** |

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

## 19. Notes to the statement of changes in equity

| | Number of shares | Share capital | Share premium account | Total |
|---|---|---|---|---|
| 31 December 2008 | 12,180,880 | 20,487 | 44 | 20,531 |
| 31 December 2007 | 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 2006. 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 2007). The shares are fully paid in.

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

## 20. Share-based payment

At the balance sheet date, the Group had a share option plan, granted on 25 February 2004, which commits key personnel to ownership of Incap shares on a long-term basis. A component of the share option plan is a share-ownership programme according to which key employees must purchase the company's shares with 20 per cent of the gross proceeds from exercised share options. If a person's employment or contractual relationship with the company ends prior to the commencement of each share subscription period, the person must tender their options back to the company, forfeiting any cumulative gain in value on the options. This provision, however, does not apply in the case of retirement or death. The warrants are divided into warrants 2004A, 2004B and 2004C. A maximum of 630,000 warrants were granted, entitling their holders to subscribe for 630,000 Incap Corporation shares. It is a condition for the granting of warrants 2004A and 2004B in the issue stage that the option holder has acquired a certain amount of Incap shares, as decided in advance by the Board of Directors, prior to the granting of the warrants. It is a condition for the granting of warrants 2004C that certain profit criteria based on the Incap Group's financial targets, as defined separately by the Board of Directors, are met. The share subscription period for warrants 2004A is from 1 April 2007 to 30 April 2009; for warrants 2004B, from 1 April 2008 to 30 April 2010; and for warrants 2004C, from 1 April 2009 to 30 April 2011. The subscription price of shares to be subscribed for with warrants 2004A and 2004B is the trade volume weighted average price of the Incap share on the Helsinki Stock Exchange from 1 May to 31 May 2004 (EUR 2.25 per share), and with warrants 2004C, the trade volume weighted average price of the Incap share on the Helsinki Stock Exchange from 1 March to 31 March 2006 (EUR 2.05 per share). The subscription period for shares to be subscribed for with the warrants will not commence until the average price of the Incap share exceeds a certain share price level that is defined in detail in the terms and conditions. The subscription price of a share to be subscribed for with the warrants shall be lowered, on each record date for the dividend payout, by the amount of dividends declared after commencement of the subscription period and prior to the share subscription. The number of warrants 2004A and 2004B which have been granted is 133,000 each, and the number of warrants 2004C is 139,400.

No new options were granted during the financial year. The main terms governing the determination of the fair value of granted equity instruments that were accepted earlier.

| | 2006 | 2005 | 2004 | All share options |
|---|---|---|---|---|
| Number of instruments granted | 139,400 | 38,000 | 244,000 | 421,400 |
| Average (weighted) subscription price | 2.05 | 2.25 | 2.25 | 2.18 |
| Average (weighted) maturity | 5.3 | 4.5 | 5.5 | 5.4 |
| Expected average (weighted) volatility | 51.0% | 66.0% | 72.0% | 71.2% |
| Average (weighted) risk-free interest rate | 3.3% | 2.5% | 3.7% | 3.4% |
| Expected personnel reductions (at grant date) | 9.0% | 9.0% | 9.0% | 9.0% |
| Total fair value, euros | 139,818 | 27,104 | 234,926 | 401,848 |

| | |
|---|---|
| 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

| | 2008 Average weighted strike price, euros/share | Number of options | 2007 Average weighted strike price, euros/share | Number of options |
|---|---|---|---|---|
| Beginning of year | 2.25 | 301,700 | 2.17 | 347,500 |
| New options granted | 0 | 0 | 0 | 0 |
| Share options forfeited | 2.18 | -225,600 | 2.18 | -45,800 |
| Share options outstanding at end of year | 2.18 | 76,100 | 2.17 | 301,700 |

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

| Year of expiry | Strike price (EUR) | Number of shares 2008 | Number of shares 2007 | Number of shares 2006 | Number of shares 2005 |
|---|---|---|---|---|---|
| 2009 | 2.25 | 25,000 | 99,000 | 114,000 | 133,000 |
| 2010 | 2.25 | 25,000 | 99,000 | 114,000 | 133,000 |
| 2011 | 2.05 | 26,100 | 103,700 | 119,500 | |

## 21. 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.

| | 2008 | 2007 |
|---|---|---|
| Change in defined-benefit pension liability in the income statement | 15 | 42 |
| Defined-benefit pension liability in the balance sheet | 44 | 40 |

## 22. Provisions

| | Restructuring provision |
|---|---|
| 31 December 2007 | 0 |
| Increase in provisions | 1,506 |
| Used provisions | -393 |
| 31 December 2008 | **1,113** |

Because of the decline in the manufacturing volumes of telecommunications products the company launched a restructuring programme and registered a corresponding provision for expenses. The provision is exptected to be used during 2009.

## 23. Interest-bearing liabilities

### Non-current financial liabilities measured at amortised cost

| | 2008 | 2007 |
|---|---|---|
| Bank loans | 2,955 | 233 |
| Convertible promissory notes | 6,623 | 6,586 |
| Pension loans | 0 | 0 |
| Other loans | 855 | 1,166 |
| Finance lease liabilities | 2,545 | 3,203 |
| | **12,977** | **11,188** |

## Current financial liabilities measured at amortised cost

| | 2008 | 2007 |
|---|---|---|
| Bank loans | 5,388 | 7,770 |
| Pension loans | 0 | 0 |
| Other loans | 342 | 440 |
| Finance lease liabilities | 1,205 | 1,281 |
| | **6,935** | **9,490** |

The fair values of liabilities are presented in Note 26.

Of non-current financial liabilities, EUR 0 will be due for repayment in more than five years (EUR 0.02 million in 2007). The Group's bank loans have both variable and fixed interest rates. The Group's average interest rate is 5.75% (6.32% in 2007). The amounts of the Group's variable rate loans and their interest rate adjustment periods,in accordance with their agreements, are as follows:

| | 2008 | 2007 |
|---|---|---|
| Less than 6 months | 5,215 | 5,438 |
| 6–12 months | 4,334 | 4,485 |
| 1–5 years | 0 | 0 |
| Later than 5 years | 0 | 0 |
| | **9,550** | **9,923** |

## Distribution of interest-bearing liabilities by currency, EUR

| | 2008 | 2007 |
|---|---|---|
| Non-current liabilities | | |
| USD | 0 | 0 |
| EEK | 798 | 1,073 |
| INR | 2,955 | 0 |
| EUR | 9,225 | 10,115 |
| | **12,977** | **11,188** |
| Current liabilities | | |
| USD | 1,505 | 1,352 |
| EEK | 307 | 707 |
| INR | 992 | 3,879 |
| EUR | 4,130 | 3,552 |
| | **6,935** | **9,490** |

## 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 conversio 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 | 2008 | 2007 |
|---|---|---|
| Finance lease liabilities - Minimum lease payments | | |
| Less than 1 year | 1,370 | 1,453 |
| 1–5 years | 2,723 | 3,428 |
| Later than 5 years | 0 | 30 |
| | **4,093** | **4,910** |
| | | |
| Finance lease liabilities - Present value of minimum lease payments | | |
| Less than 1 year | 1,205 | 1,281 |
| 1–5 years | 2,545 | 3,175 |
| Later than 5 years | 0 | 28 |
| | **3,750** | **4,483** |
| | | |
| Future finance charges | 344 | 427 |
| | | |
| Total finance lease liabilities | **4,093** | **4,910** |

## 24. Trade and other payables

| | 2008 | 2007 |
|---|---|---|
| Current | | |
| Trade payables | 9,472 | 9,398 |
| Cash proceeds | 23 | 13 |
| Accrued liabilities | 4,174 | 3,083 |
| Other liabilities | 2,062 | 1,799 |
| | **15,731** | **14,294** |

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

### Distribution of non-interest-bearing liabilities by currency, EUR

| | 2008 | 2007 |
|---|---|---|
| USD | 483 | 811 |
| SEK | 40 | 41 |
| CHF | 74 | 37 |
| GBP | 10 | 14 |
| NOK | 0 | 1 |
| JPY | 1 | 2 |
| SGD | 6 | 0 |
| EEK | 567 | 707 |
| INR | 1,748 | 1,130 |
| EUR | 12,803 | 11,552 |
| | **15,731** | **14,294** |

## 25. 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 management. 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. The company does not apply hedge accounting in accordance with IAS 39.

### Currency risks

The Incap Group mainly operates in the euro zone and Estonia, where operations are not exposed to any remarkable currency risks. In this respect, the Group did not undertake any hedging measures against changes in currency exchange rates during the financial year. After the close of the financial year, hedging measures were implemented.

The debt financing of the subsidiary in India has been mostly carried out using local loans denominated in Indian rupees. The short-term working capital financing of the subsidiary in India is denominated in US dollars, and is used to hedge the local USD-denominated transaction exposure. Other currencies used in the business in India are not significant in terms of currency risk management.

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 an increase of EUR 179,693.86 or a decrease of EUR 219,625.83 compared with the exchange difference at 31 December 2008.

### Interest rate risk

At the balance sheet date, interest-bearing liabilities in the consolidated balance sheet totalled EUR 19.9 million, about half of which had a fixed rate and half a variable rate. The durations of the loans are 1–6 years. 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 +/- 97,733.21.

### 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. During the financial year, a credit loss of EUR 64,229.90 was recognised in the income statement. 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. Separate collateral is requested for major individual business transactions. During the financial year, the Group did not renegotiate payment terms for receivables that would otherwise have been due or whose value would have decreased. Receivables transferred in connection with the acquisition of the business in India were mostly collected by the end of the year, and the remaining receivables are not exposed to particular risks. No credit insurance has been used to hedge trade receivables.

The aging structure of trade receivables is presented in section 17 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 optimal size of cash funds in the liquidity reserve is determined in the operating guidelines for the Group's financing. The company strives to ensure the availability and flexibility of financing using credit facilities and other forms of financing. Unused credit facilities and liquid funds at 31 December 2008 amounted to EUR 2.7 million. One of Incap Group's financing agreements includes covenants, some of which are not fulfilled at the moment. The financing partner in charge has informed that it will not apply to the covenants but will continue the negotiations on the continuation of the respective financing agreement. The general development in the financial market and the future profitability trend of the company affect the company's financing position. Incap aims at securing its liquidity through efficient management of working capital, and different financing options will be assessed for lowering the financing costs. In the financial statements the loans are treated in accordance with the valid agreement conditions.

### Materials risk

The company has been exposed to risks related to the availability of materials and fluctuations in their prices. Threats created by these risks are managed by the signing of framework agreements with renowned partners. The effects of fluctuations in the prices of materials are taken into consideration in supply agreements signed with customers.

### 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 2008, the Group's interest-bearing net liabilities totalled EUR 19.3 million (EUR 19.7 at 31 Dec 2007) and its gearing was 146.2% (103.2% at 31 Dec 2007). 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 due to the financial development of the year and the financing of the acquisition of the business in India in 2007. During 2008, the equity ratio dropped to 27.0% (35.3% at 31 Dec 2007).

## 26. Fair values of financial assets and liabilities

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

| | Carrying amount 2008 | Fair value 2008 | Carrying amount 2007 | Fair value 2007 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Bank loans | 8,343 | 8,342 | 8,003 | 8,005 |
| Pension loans | 0 | 0 | 0 | 0 |
| Convertible promissory notes | 6,623 | 6,852 | 6,586 | 6,405 |
| Other interest-bearing loans | 1,197 | 1,285 | 1,606 | 1,772 |
| Finance lease liabilities | 3,750 | 3,761 | 4,483 | 4,480 |
| Trade and other payables | 15,731 | 15,731 | 14,294 | 14,294 |

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

Discount rates applied in determining fair value

| | 2008 | 2007 |
|---|---|---|
| Bank and other loans | 1.25% – 6.00% | 1.25% – 7.68% |

## 27. Adjustments to cash flows from operations

| | 2008 | 2007 |
|---|---|---|
| Non-cash transactions | | |
| Depreciation and impairment losses | 2,823 | 2,753 |
| Change in finance lease agreements due to IFRS adjustments | 0 | -1,661 |
| Lease payments in cash flow from financing activities | 0 | 1,533 |
| Employee benefits expense | -275 | 121 |
| Transfer of capital gains on tangible assets to cash flow from investments | 0 | -3,118 |
| Gains (-) and losses (+) of disposals of fixed assets and other non-current assets | 212 | 0 |
| | **2,760** | **-372** |

## 28. 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.)

| | 2008 | 2007 |
|---|---|---|
| Less than 1 year | 1,510 | 2,126 |
| 1–5 years | 2,317 | 3,138 |
| | **3,828** | **5,263** |

The income statement for 2008 includes EUR 2.1 million of lease expenses paid for operating leases (EUR 1.7 million in 2007).

## 29. Collateral and contingent and related liabilities

| | 2008 | 2007 |
|---|---|---|
| Collateral given on behalf of own commitments | | |
| Mortgages | 0 | 34 |
| Business mortgages | 12,028 | 12,281 |
| | | |
| Collateral given on behalf of others | | |
| Guarantees on behalf of subsidiaries | 0 | 131 |
| | | |
| Repurchase liability for trade receivables sold to finance companies | 4,950 | 2,092 |
| | | |
| 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 2004–2008 | 0 | 40 |

Incap Corporation has used the obligation in the end of financial year 2007, as the leaseholder, to acquire the shares of the property Valuraudankuja Oy from Varma-Sampo Insurance Company. In the financial statements 31 December 2006 the repurchase price corresponding to fair value is EUR 3.3 million.

## 30. Related-party transactions

| Management's employee benefits | 2008 | 2007 |
|---|---|---|
| Salaries and other current employee benefits | 876 | 430 |
| Share-based payment | 0 | 37 |
| | **876** | **466** |

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 | 2008 | 2007 |
|---|---|---|
| President and CEO | 535 | 260 |
| | | |
| **Board members** | | |
| Seppo Arponen | 0 | 7 |
| Juha-Pekka Kallunki | 8 | 26 |
| Kalevi Laurila | 66 | 45 |
| Timo Leinilä | 0 | 7 |
| Sakari Nikkanen | 9 | 27 |
| Jorma Terentjeff | 0 | 10 |
| Susanna Miekk-oja | 50 | 29 |
| Jukka Harju | 34 | 20 |
| Kari Häyrinen | 25 | 0 |

The wages and salaries for the Board of Directors cover the full term of office for Board members from 10 April 2008 until 3 April 2009.
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 2,067,718 shares, or 17% of the company's shares outstanding and voting rights.

## 31. Events occurring after the balance sheet date

In order to finance Indian investments and working capital, Incap signed a financing agreement with Finnfund (Finnish Fund for Industrial Cooperation Ltd.), through which Finnfund executed a share capital investment of EUR 1.9 million in Incap's Indian subsidiary, Incap CMS Pvt. Ltd. The financing was withdrawn in full after the close of the financial period in January 2009, after which Finnfund owns 32.6% of the share capital of Incap CMS Pvt. Ltd. According to the agreement terms, Incap's detachment from the agreement will occur in 2011 at the earliest. For the Indian subsidiary, the investment comprises equity financing. Due to the terms and conditions of the loan, the investment is regarded as a long-term loan in the Group's IFRS financial statement. The investment will be entered in 2009 book-keeping as EUR 1,897,000 and its fair value is EUR 1,689,000 calculated at a three-year loan period.

After the close of the financial period on 2 February 2009, Incap Corporation's Board of Directors launched an option scheme, consisting of a total of 600,000 option rights and entitling to subscription for 600,000 of Incap Corporation's shares. In February 2009, 100,000 options were distributed to the President and CEO, and another 100,000 options will be distributed in 2010, provided that the objectives set by the Board of Directors for the company's operating profit and return on working capital in 2009 are met. A maximum of 400,000 options will be distributed to the company's key personnel in two issues, provided that the objectives set by the Board of Directors for the company's operating profit and return on working capital in 2009 and 2010 are met and that each reaches its individual objectives. The options have no significant effect on the result in the future.

# Parent Company Income Statement

| 1,000 euros | Note | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|---|
| Revenue | 1 | 78,891 | 75,157 |
| Changes in inventories of finished goods and work in progress | 3 | 687 | -1,107 |
| Other operating income | 2 | 21 | 27 |
| | | | |
| Raw materials and services | 3 | 56,611 | 53,378 |
| Personnel expenses | 4 | 16,090 | 13,351 |
| Depreciaton, amortisation and impairment losses | 5 | 1,350 | 1,739 |
| Other operating expenses | 6 | 8,585 | 8,184 |
| | | | |
| **Operating profit/loss** | | **-3,037** | **-2,575** |
| | | | |
| Financial income and expenses | 7 | -952 | -584 |
| | | | |
| **Profit/loss before extraordinary items** | | **-3,990** | **-3,159** |
| | | | |
| Extraordinary items | 8 | | 3,118 |
| | | | |
| **Profit/loss before appropriations and taxes** | | **-3,990** | **-41** |
| | | | |
| Appropriations | 9 | 82 | -84 |
| Income taxes | 10 | 0 | -593 |
| | | | |
| **Profit/loss for the financial year** | | **-3,908** | **-718** |

# Parent Company Balance Sheet

| 1,000 euros | Note | 31 Dec 2008 | 31 Dec 2007 |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| Intangible assets | 11 | 706 | 1,053 |
| Tangible assets | 11 | 4,022 | 3,898 |
| Investments | 12 | | |
| Holdings in Group companies | | 7,077 | 6,945 |
| Other investments | | 11 | 11 |
| **Total non-current assets** | | **11,816** | **11,906** |
| **Current assets** | | | |
| Inventories | 13 | 10,644 | 10,914 |
| Non-current receivables | 14 | 3,717 | 3,800 |
| Current receivables | 14 | 13,785 | 16,996 |
| Cash in hand and at bank | | 368 | 268 |
| **Total current assets** | | **28,514** | **31,976** |
| **Total assets** | | **40,330** | **43,883** |
| LIABILITIES | | | |
| **Equity** | 15 | | |
| Share capital | | 20,487 | 20,487 |
| Share premium account | | 44 | 44 |
| Retained earnings | | -212 | 506 |
| Profit for the financial year | | -3,908 | -718 |
| **Total equity** | | **16,411** | **20,319** |
| **Appropriations** | **16** | **382** | **464** |
| **Liabilities** | | | |
| Non-current liabilities | 17 | 7,605 | 8,150 |
| Current liabilities | 18 | 15,932 | 14,951 |
| **Total liabilities** | | **23,537** | **23,100** |
| **Total equity and liabilities** | | **40,330** | **43,883** |

# Parent Company's Cash Flow Statement

| 1,000 euros | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Operating profit/loss | -3,037 | -2,575 |
| Adjustments to operating profit/loss | 2,176 | 1,739 |
| Change in working capital | 3,906 | -4,898 |
| Interest paid | -1,035 | -421 |
| Interest received | 85 | 119 |
| **Cash flow from operating activities** | **2,095** | **-6,036** |
| **Cash flows from investing activities** | | |
| Investments in tangible and intangible assets | -1,186 | -918 |
| Acquisition of subsidiary | -1,000 | -4,019 |
| Disposal of subsidiaries | 50 | 0 |
| Proceeds from sales of tangible and intangible assets | 50 | 3,118 |
| Repayments of loan receivables | 382 | -112 |
| **Cash flow from investing activities** | **-1,704** | **-1,931** |
| **Cash flows from financing activities** | | |
| Drawdown of loans | 539 | 8,893 |
| Loan repayments | -830 | -1,092 |
| **Cash flow from financing activities** | **-291** | **7,801** |
| **Change in cash and cash equivalents** | **100** | **-166** |
| Cash and cash equivalents at the beginning of the financial year | 268 | 434 |
| **Cash and cash equivalents at the end of the financial year** | **368** | **268** |
| **Change in working capital** | | |
| Increase in current trade receivables | 2,911 | -3,006 |
| Increase in inventories | 269 | 1,459 |
| Increase in current liabilities | 726 | -3,351 |
| | **3,906** | **-4,898** |

# Notes to the Parent Company Financial Statements

## ACCOUNTING POLICIES 2008

### 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 straight-line 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 | 20–24 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 and the company has not carried out any hedging measures against exchange rate fluctuations during the financial year.

#### 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 2008 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 2009–2019. A tax asset is recognized 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 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Finland | 67,365 | 58,425 |
| Europe | 7,207 | 9,684 |
| Other | 4,319 | 7,049 |
| | **78,891** | **75,157** |

## 2. Other operating income

| | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Capital gains on the sale of property, plant and equipment | 8 | 0 |
| Other income | 13 | 27 |
| | **21** | **27** |

## 3. Raw materials and services

| | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| **Raw materials and consumables** | | |
| Purchases during the financial year | 45,269 | 39,230 |
| Change in inventories | 262 | 1,460 |
| | **45,532** | **40,690** |
| External services | 10,392 | 13,796 |
| | **55,924** | **54,486** |

## 4. Personnel expenses and number of personnel

| | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| **4.1 Number of personnel Average number of employees of the parent company during the year** | | |
| White-collar | 93 | 100 |
| Blue-collar | 265 | 251 |
| | **358** | **351** |
| **4.2 Personnel expenses** | | |
| Wages and salaries | 13,171 | 10,741 |
| Pension expenses | 2,022 | 1,929 |
| Other social security expenses | 897 | 680 |
| | **16,090** | **13,351** |
| **4.3 Salaries and bonus of the management** | | |
| President and the Board | 725 | 430 |

## 5. Depreciation and amortisation

Depreciation according to plan in 2008 totalled EUR 1.4 million (EUR 1.7 million in 2007). The specification of depreciation and amortisation for individual balance sheet items is included in the item "Intangible and Tangible Assets". The depreciation and amortisation periods are presented in the accounting policies.

## 6. Other operating expense

| | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Lease payments | 2,665 | 2,632 |
| Maintenance expenses for machinery and properties | 2,028 | 2,042 |
| Other expenses | 3,892 | 3,511 |
| | **8,585** | **8,184** |

### Auditors fees

| | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| KHT-Group Ernst & Young Oy | | |
| Auditing fees | 56 | 50 |
| Certificates and statements | 0 | 0 |
| Tax advice | 3 | 6 |
| Other services | 3 | 13 |
| | **62** | **69** |

## 7. Financial income and expenses

| | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Dividend income | | |
| From other companies | 2 | 3 |
| **Other interest and financial income** | | |
| From Group companies | 0 | 8 |
| From other companies | 83 | 108 |
| **Interest paid and other financial expenses** | | |
| To other companies | -1,037 | -704 |
| | **-952** | **-584** |

## 8. Extraordinary items

| | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Extraordinary income | 0 | 3 118 |

Extraordinary income is sales gain from the sales of Helsinki factory premises.

## 9. Appropriations

| | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Difference between depreciation according to plan and depreciation for taxation purposes | 82 | 84 |

## 10. Income taxes

| | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Change in deferred tax asset | 0 | -593 |

## 11. Property, plant and equipment

### Intangible assets

| | Intangible rights | Goodwill | Other long-term expenditure | Total |
|---|---|---|---|---|
| Acquisition cost, 1 Jan 2008 | 1,579 | 16,337 | 1,682 | 19,599 |
| Increase | 164 | 0 | 0 | 164 |
| Acquisition cost, 31 Dec 2008 | 1,744 | 16,337 | 1,682 | 19,763 |
| | | | | |
| Accumulated amortisation and impairment losses, 1 Jan 2008 | -1,056 | -15,973 | -1,518 | -18,546 |
| Amortisation during the year | -109 | -364 | -37 | -510 |
| Accumulated amortisation, 31 Dec 2008 | -1,164 | -16,337 | -1,555 | -19,057 |
| | | | | |
| Carrying amount, 31 Dec 2008 | 579 | 0 | 127 | 706 |
| Carrying amount, 31 Dec 2007 | 524 | 364 | 164 | 1,053 |

Part of the issuing expenses resulting from the issue of convertible promissory notes during the financial year was recognised as other long-term expenditure. Of this amount, EUR 127,012.99 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 2008 | 60 | 4,685 | 24,416 | 516 | 0 | 29,677 |
| Increase | 0 | 390 | 493 | 28 | 110 | 1,021 |
| Decrease | 0 | 0 | -58 | 0 | 0 | -58 |
| Acquisition cost, 31 Dec 2008 | 60 | 5,075 | 24,852 | 544 | 110 | 30,641 |
| | | | | | | |
| Accumulated depreciation and impairment losses, 1 Jan 2008 | 0 | -2,047 | -23,273 | -459 | 0 | -25,779 |
| Depreciation during the year | 0 | -259 | -537 | -43 | 0 | -840 |
| Accumulated depreciation, 31 Dec 2008 | 0 | -2,306 | -23,810 | -502 | 0 | -26,619 |
| | | | | | | |
| Carrying amount, 31 Dec 2008 | 60 | 2,769 | 1,042 | 41 | 110 | 4,022 |
| Carrying amount, 31 Dec 2007 | 60 | 2,638 | 1,143 | 57 | 0 | 3,898 |

## 12. Investments

| | Holdings in Group companies | Other shares | Total |
|---|---|---|---|
| Acquisition cost, 1 Jan 2008 | 6,945 | 11 | 6,956 |
| Increase | 1,000 | 0 | 1,000 |
| Transfers between items | -868 | 0 | -868 |
| Acquisition cost, 31 Dec 2008 | 7,077 | 11 | 7,088 |
| | | | |
| Carrying amount, 31 Dec 2008 | 7,077 | 11 | 7,088 |
| Carrying amount, 31 Dec 2007 | 6,945 | 11 | 6,956 |

### Group companies

Incap Electronics Estonia OÜ, Kuressaare, Estonia
Ultraprint Oy, Kempele, Finland until 15.7.2008
Incap Contract Manufacturing Services Pvt. Ltd., Bangalore, India
Euro-ketju Oy, Kajaani, Finland

Incap Corporation owns 100% of the group companies. All companies are combined in the parent company consolidated financial statements.

## 13. Inventories

| | 2008 | 2007 |
|---|---|---|
| Raw materials and consumables | 7,035 | 7,992 |
| Work in progress | 1,286 | 935 |
| Finished goods | 2,323 | 1,987 |
| | **10,644** | **10,914** |

## 14. Assets

| | 2008 | 2007 |
|---|---|---|
| Non-current | | |
| Amount owed by Group companies | | |
| Loan receivables | 0 | 83 |
| | | |
| Deferred tax asset | 3,717 | 3,717 |
| | | |
| Current | | |
| Trade receivables | 9,540 | 12,292 |
| | | |
| Amount owed by Group companies | | |
| Trade receivables | 3,394 | 1,647 |
| Interest receivables | 0 | 28 |
| Loan receivables | 0 | 299 |
| | **3,394** | **1,974** |
| | | |
| Prepaid expenses and accrued income | 851 | 2,729 |
| **Total receivables** | **17,502** | **20,795** |

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

## 15. Equity

| | 2008 | 2007 |
|---|---|---|
| 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** |
| | | |
| Retained earnings, 1 Jan | -212 | 634 |
| Recording of previous years' depreciation differences | 0 | -128 |
| Retained earnings, 31 Dec | -212 | 506 |
| Profit for the financial year | -3,908 | -718 |
| | | |
| **Total non-restricted equity** | **-4,120** | **-212** |
| | | |
| **Total equity** | 16,411 | 20,319 |
| | | |
| **Distributable funds** | | |
| | | |
| Retained earnings | -212 | 506 |
| Profit for the financial year | -3,908 | -718 |
| | **-4,120** | **-212** |

## 16. Accumulated appropriations

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

## 17. Non-current liabilities

| | 2008 | 2007 |
|---|---|---|
| Loans from credit institutions | 0 | 233 |
| Pension loans | 0 | 0 |
| Convertible promissory notes | 6,750 | 6,750 |
| Other liabilities | 855 | 1,166 |
| | **7,605** | **8,150** |

All liabilities are falling due after five years.

## 18. Current liabilities

| | 2008 | 2007 |
|---|---|---|
| Loans from credit institutions | 2,890 | 2,539 |
| Pension loans | 0 | 0 |
| Trade payables | 6,055 | 6,265 |
| | | |
| Amount owed to Group companies | 0 | 0 |
| Trade payables | 973 | 1,622 |
| | | |
| Advances received | 23 | 0 |
| Other liabilities | 1,965 | 1,667 |
| Accruals and deferred income | 4,025 | 2,858 |
| | **15,932** | **14,951** |
| | | |
| Total interest-bearing liabilities | 3,232 | 2,978 |
| | | |
| **Material items in accruals and deferred income** | | |
| Wages and salaries, incl. social costs | 2,436 | 2,318 |
| Lease payment liabilities | 55 | 83 |
| Interest | 311 | 30 |
| Restructuring provision | 1,113 | 0 |
| Other | 110 | 149 |
| | **4,025** | **2,858** |

## 19. Other notes to the accounts

| Collateral | 2008 | 2007 |
|---|---|---|
| Loans for which real-estate has been mortgaged as collateral | | |
| Loans from credit institutions | 0 | 0 |
| Mortgages | 0 | 0 |
| | | |
| Loans for which business mortgages have been given as collateral | | |
| Loans from credit institutions | 2,850 | 2,616 |
| Mortgages | 12,028 | 12,113 |
| | | |
| Collateral given on behalf of the Group companies | | |
| Business mortgages | 12,028 | 12,028 |
| | | |
| Guarantees on behalf of Group companies | 0 | 172 |
| | | |
| **Contingent and other liabilities** | | |
| Lease liabilities, net of VAT | | |
| Liabilities falling due next year | 1,291 | 1,750 |
| Liabilities falling due after one year | 2,158 | 2,483 |

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 | 4,950 | 2,092 |
| | | |
| Lease liabilities for the Group's premises | 2,227 | 3,045 |

# Board of Directors' Proposal for the Disposal of Profits

The parent company's net loss for the financial year amounts to EUR 3,908,068.33. The Board of Directors is proposing to the Annual General Meeting to be held on 3 April 2009 that no dividend be distributed and that the result for the financial year be transferred to retained earnings.

Helsinki, 24 February 2009

| | | | | |
|---|---|---|---|---|
| Kalevi Laurila | Jukka Harju | Kari Häyrinen | Susanna Miekk-oja | Sami Mykkänen |
| *Chairman of the Board* | | | | *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 on 31 December, 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity 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.

## The responsibility of the Board of Directors and the President

The Board of Directors and the President are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with 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 President 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 perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 and the President have complied with the Limited Liability Companies Act.

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 of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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.

The audit was performed in accordance with good auditing practice in Finland. 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, together with the consolidated financial statements included therein, and the report of the Board of Directors give a true and fair view of the financial performance and financial position of the company 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.

We recommend that the Members of the Board of Directors and the President should be discharged from liability for the financial period audited by us.

In Oulu, February 24, 2009

Ernst & Young Oy
Authorized Public Accountant Firm

Jari Karppinen
Authorized Public Accountant

# Five-Year Key Figures

| | | IFRS 2008 | IFRS 2007 | IFRS 2006 | IFRS 2005 | IFRS 2004 |
|---|---|---|---|---|---|---|
| Revenue | EUR million | 93.9 | 83.0 | 89.3 | 76.7 | 70.8 |
| Growth | % | 13 | -7 | 17 | 8 | 9 |
| Export | EUR million | 24.4 | 16.9 | 13.1 | 8.2 | 10.0 |
| Share of revenue | % | 26 | 20 | 15 | 11 | 14 |
| Operating profit | EUR million | -3.6 | 0.3 | 2.8 | 3.8 | 3.8 |
| Share of revenue | % | -4 | 0 | 3 | 5 | 5 |
| Profit before taxes | EUR million | -5.4 | -1.1 | 2.3 | 3.2 | 3.1 |
| Share of revenue | % | -6 | -1 | 3 | 4 | 4 |
| Return on equity (ROE) | % 2) | -33.4 | -5.6 | 17.3 | 36.0 | 32.9 |
| Return on investment (ROI) | % 2) | -8.6 | 1.3 | 10.5 | 14.7 | 12.8 |
| Total assets | EUR million | 48.9 | 54.2 | 45.5 | 39.2 | 40.1 |
| Equity ratio | % 2) | 27.0 | 35.3 | 44.7 | 43.4 | 28.5 |
| Gearing | % 2) | 146.1 | 103.2 | 43.9 | 31.2 | 133.0 |
| Net debt | EUR million | 20.7 | 15.8 | 10.7 | 7.1 | 15.1 |
| Liability payback period | years | -8 | 2 | 1 | 3 | |
| Quick ratio | | 0.7 | 0.8 | 0.8 | 0.9 | 0.7 |
| Current ratio | | 1.4 | 1.4 | 1.6 | 1.7 | 1.4 |
| Investments | EUR million | 1.8 | 1.5 | 7.1 | 0.8 | 0.4 |
| Share of revenue | % | 2 | 2 | 8 | 1 | 1 |
| R&D expenditure | EUR million | 0.5 | 0.3 | 0.5 | 0.6 | 1.9 |
| Share of revenue | % | 1 | 0 | 1 | 1 | 3 |
| Average number of employees | | 735 | 678 | 521 | 468 | 552 |
| Dividends | EUR million 1) | 0 | 0 | 0 | 0 | 0 |
| Per-share data | | | | | | |
| Earnings per share | EUR | -0.44 | -0.09 | 0.26 | 0.42 | 0.34 |
| Equity per share | EUR | 1.08 | 1.57 | 1.67 | 1.39 | 0.94 |
| Dividend per share | EUR 1) | 0 | 0 | 0 | 0 | 0 |
| Dividend out of profit | % 1) | 0 | 0 | 0 | 0 | 0 |
| Cash flow per share | EUR | -0.21 | 0.14 | 0.38 | 0.47 | 0.50 |
| Effective dividend yield | % 1) | 0 | 0 | 0 | 0 | 0 |
| P/E ratio | | -1.2 | -14.9 | 9.7 | 4.5 | 5.6 |
| Trade in share price | | | | | | |
| Minimum price during year | EUR | 0.49 | 1.25 | 1.82 | 1.65 | 1.65 |
| Maximum price during year | EUR | 1.60 | 2.67 | 2.90 | 2.07 | 2.59 |
| Mean price during year | EUR | 1.02 | 2.10 | 2.32 | 1.82 | 2.09 |
| Closing price at end of year | EUR | 0.55 | 1.34 | 2.51 | 1.87 | 1.90 |
| Total market capitalisation at 31 Dec. | EUR million | 6.7 | 16.3 | 30.6 | 22.8 | 23.1 |
| Trade volume no. of shares | pcs | 1,651,176 | 6,535,047 | 11,010,588 | 3,276,966 | 3,438,988 |
| Trade volume | % | 14 | 54 | 90 | 27 | 28 |
| **Share issue-adjusted number of shares** | | | | | | |
| Mean number during year | | 12,180,880 | 12,180,880 | 12,180,880 | 12,180,880 | 12,180,880 |
| Number at end of year | | 12,180,880 | 12,180,880 | 12,180,880 | 12,180,880 | 12,180,880 |

1) The Board of Directors proposes to the Annual General Meeting that no dividend be paid out.

2) Key figures for 2008 have been calculated in accordance with the standard 5.1 of Financial Supervision Authority.

The balance sheets used in calculating the key ratios for 2004 and 2005 include the carrying amounts of discontinued operations.

# Definitions of Key Figures

| | |
|---|---|
| Return on equity, % | $\frac{\text{100 x (profit/loss)}}{\text{equity (mean for financial year)}}$ |
| Return on investment, % | $\frac{\text{100 x (profit/loss + financial expenses)}}{\text{equity + interest-bearing loans (mean for financial year)}}$ |
| Equity ratio, % | $\frac{\text{100 x equity}}{\text{total assets less advance payments received}}$ |
| Gearing, % | $\frac{\text{100 x (interest-bearing liabilities less cash and cash equivalents)}}{\text{equity}}$ |
| Net debt | liabilities less financial assets |
| Liability payback period, years | $\frac{\text{interest-bearing liabilities}}{\text{calculated cash flow [1]}}$ |
| Quick ratio | $\frac{\text{financial assets}}{\text{short-term liabilities – current advance payments received}}$ |
| Current ratio | $\frac{\text{financial assets + inventories}}{\text{current liabilities}}$ |
| Investoinnit | purchases of property, plant and equipment net of VAT and including investment subsidies |
| Average personnel | 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, % | $\frac{\text{100 x dividend per share}}{\text{earnings per share}}$ |
| Cash flow per share | $\frac{\text{calculated cash flow [1]}}{\text{share issue-adjusted number of shares at end of financial year}}$ |
| 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 |

[1] Calculated cash flow is profit before taxes less income taxes in the income statement + depreciation.

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