FINANCIAL STATEMENTS 2012

CONTENTS

Report of the Board of Directors for 2012 1
Consolidated Income Statement 10
Consolidated Balance Sheet 12
Consolidated Cash Flow Statement 13
Consolidated Statement of Changes in Equity 14
Notes to the Consolidated Financial Statements 15
Parent Company Income Statement 38
Parent Company Balance Sheet 39
Parent Company's Cash Flow Statement 40
Notes to the Parent Company
Financial Statements 41
Board of Director's Proposal on Measures
Related to the Operating Result 49
Auditor's Report 50
Five-year Key Figures 51
Definitions of Key Figures 53

REPORT OF THE BOARD OF DIRECTORS FOR 2012

OPERATING ENVIRONMENT

Incap Group's operating environment continued to be challenging 2012. Due to uncertain outlook in global economy, many customers postponed bringing new products to the market and shortened the forecast scope for current products.

The fact that Incap's business operations are spread over several customer sectors balances the development of the company's revenue. Part of products manufactured for the energy efficiency sector are capital goods that have a delayed reaction to market changes. Although the demand for large motor components weakened during the second half of the year, this decline was short-lived and the demand returned to the normal level at the end of the year. Deliveries of UPS equipment ensuring uninterrupted and undisturbed current input increased clearly on the previous year.

The general increase in the cost levels affects Incap's earnings trend and the company aims to balance the situation by distributing production activities into several countries of operation. For the most part, the company's production activities are located in low-cost regions such as India and Estonia which have, thanks to their moderate wage trends, maintained their price competitiveness in 2012.

INCAP'S GROWTH DRIVERS

Incap builds its growth strategy on the basis of the market trends and its own strengths. Incap is a technology company that focuses on energy efficiency and has industrial operations in India, Estonia and Finland. In addition to manufacturing of products, the company's services cover design and other product life-cycle services.

Factors that drive the demand for new equipment solutions include varied use of renewable energy resources and efforts to improve energy efficiency in energy production, transfer and use. Increasing environmental awareness also increases interest in equipment that involves advanced automation and control engineering. These global trends boost the growth of Incap's business operations, because the design and manufacturing of electrotechnical equipment are among the company's core competencies.

Equipment manufacturers wish to concentrate on their own core expertise and outsource an increasing proportion of manufacturing of products to partners. In order to improve the efficiency of their operations, equipment manufacturers try to decrease the number of their partners and prefer contract manufacturers whose service covers an extensive part of the product life-cycle and who are also capable of providing local service near their main markets.

Economic growth continues in Asia and Incap is here in a good position thanks to its Indian operations. In order to ensure the company's competitive edge, equipment manufacturing and product design are centralised in low-cost regions.

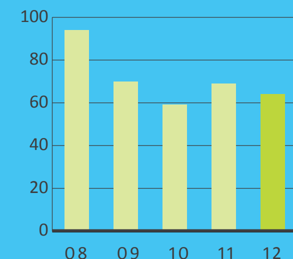
REVENUE AND EARNINGS IN 2012

Incap Group's revenue in 2012 was EUR 64.1 million, or about 7% less than in 2011. Deliveries to energy efficiency customers remained at a good level, and the demand for rotor components as well as for inverter and UPS products grew clearly. Revenue generated by the manufacturing of equipment for well-being technology decreased by approximately 33%. Underlying reasons include the decline in the general market situation and the elimination of slot machines and certain volume products from the production programme after the closure of the Helsinki plant. Increasing demand in the energy efficiency sector partly compensated for the decline in the revenue from well-being technology customers. Business developed particularly well in India where revenue grew by 37%.

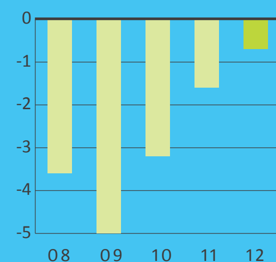
Incap's profitability improved further, but the full-year operating result (EBIT) remained negative, EUR -0.7 million. Operating result was nearly a EUR 1 million higher than in the previous year.

The earnings trend was good especially in the third quarter when the operating result (EBIT) was satisfactory, or 1.8% of revenue. The profitability trend in India was strong during the full year.

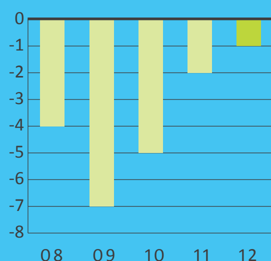
REVENUE, EUR MILLION



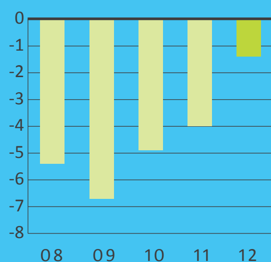
OPERATING PROFIT, EUR MILLION



OPERATING PROFIT, % OF REVENUE



PROFIT/LOSS BEFORE TAX, EUR MILLION



Material costs and other production costs decreased compared to the previous year, and fixed costs went down as well. On the other hand, the result was weighed down by costs that were related to the closure of the Helsinki plant and arose from partly overlapping resources and the transfer of production and machines.

Measures aimed at improving the cost structure included the reorganisation of Group Services and the centralisation of tasks to Incap's Tallinn office.

Net financial expenses were EUR 0.8 million (EUR 2.4 million). Financial expenses decreased from the previous year and amounted to EUR 2.2 million (EUR 2.6). Financial income was EUR 1.4 million, of which 1.0 million arose in connection with the decrease in the redemption value of the convertible loan. Depreciation stood at EUR 1.5 million (EUR 2.0 million).

Net profit/loss for the period was EUR -4.9 million (EUR -4.0 million). This was affected by the non-recurring write-down on deferred tax assets. Earnings per share amounted to EUR -0.25 (EUR -0.21).

WRITE-DOWN ON DEFERRED TAX ASSETS AND EQUITY

Incap Corporation has approved tax losses, which can be utilised in the years 2013–2022. Parent company's deferred tax assets of EUR 3.3 million have been recorded as an expense in the financial statements for 2012, because there are no longer IFRS-based prerequisites for keeping deferred tax assets in the balance sheet based on IAS 12.

Despite the write-down the company's management trusts that the deferred tax assets can be utilised against the parent company's taxable income in the future. The demand for energy efficiency technology products manufactured at the Vaasa plant is estimated to develop favourably in the future, too, and ongoing restructuring will also improve the parent company's profitability.

As the operations of the Indian subsidiary have been profitable, approximately EUR 0.2 million of its tax assets has been utilised in 2012. After this, the consolidated balance sheet contains EUR 0.6 million of deferred tax assets relating to the Indian subsidiary. According to the impairment testing, their value has not been impaired, and on the basis of calculations, it is probable that the Indian subsidiary will accumulate sufficient taxable income to utilise its deferred tax assets.

As a result of the write-down recorded in the parent company's and the Group's balance sheet, the Group's equity becomes negative and the Group's equity ratio is -10.3%. The parent company's equity capital is EUR 8.1 million, or 39% of the share capital. The capital loan according to the Companies Act, Chapter 12 of EUR 0.6 million strengthens the parent company's shareholders' equity, and taking this into account, the parent company's equity capital is EUR 1.6 million less than the minimum capital required by the Companies Act.

Due to the equity of Incap Group's parent company decreasing to less than half of the share capital, the Board of Directors of Incap Corporation has taken steps to convene the Annual General Meeting to decide on measures to consolidate the company's operations. The Board of Directors of Incap together with the management is preparing an action plan to ensure the company's profitability in 2013. To improve the capital structure the Board of Directors will also propose to the Annual General Meeting to decide on a rights issue in spring 2013.

RESTRUCTURING PROCESS

The company has continued the strategic restructuring process launched in 2006. In 2012 the company's plant network was reduced by one company, after which the company will have one production plant in each of its countries of operation. The Kuressaare plant in Estonia was developed, and the extension project nearly doubled the area of its facilities. The new facilities make it possible to increase the efficiency of operations and improve profitability. Another significant structural change carried out during the financial period was the shift in focus of Group Services to Estonia and personnel reductions in Group Services.

As the negotiations on the sale of the sheet-metal operations of the Helsinki plant did not lead to a satisfactory result and no sustainable solutions were found for improving profitability through other measures, Incap decided in January 2012 to close down the Helsinki plant and transfer the production to the company's other plants in Vaasa and Kuressaare.

The production operations at the Helsinki plant ended in August, at which point the sheet-metal mechanics manufacturing had been transferred partly to Incap's plant in Vaasa and partly to subcontractors. Manufacturing of some products was discontinued entirely in connection with the closure of the plant due

to a tendering carried out by a customer among other things.

The centralisation of production increases the capacity utilisation rate and lowers fixed costs. Incap estimates that the closure of the plant and the centralisation of production will bring savings of about EUR 1.0 million in 2013, mainly in personnel expenses. Decrease in production costs enhances also the competitive edge of our customers' products. The aim of centralisation is to create better prerequisites for developing the company's operations, too.

The result of 2011 included a non-recurring provision of approximately EUR 0.6 million for the closure of the Helsinki plant. By the end of the year 2012, EUR 0.6 million of this provision was used.

Some of the production equipment of the Helsinki plant were transferred to Vaasa and some were sold. Net income from the sales of equipment – EUR 0.4 million in total – has been recorded in other operating income

CAPITAL EXPENDITURE

Capital expenditure totalled EUR 0.1 million in 2012 (EUR 0.3 million), consisting mainly of replacement investments that aimed to develop of production at the Vaasa and Tumkur plants in particular. According to the company's estimate, it is possible to grow business operations significantly with current production capacity, without major investments.

QUALITY ASSURANCE AND ENVIRONMENTAL ISSUES

All of Incap Group's plants have environmental management and quality assurance systems certified by Det Norske Veritas. Incap's environmental management system complies with ISO 14001:2004, and its quality assurance system complies with ISO 9001:2008. In addition, the Kuressaare plant has ISO 13485:2003 quality certification for the manufacture of medical devices.

The systems are used as tools for continuous improvement. The quality assurance system of the Tumkur plant was included in Incap Group's "multisite" certification in 2012.

BALANCE SHEET, FINANCING AND CASH FLOW

The balance sheet total was EUR 29.3 million (EUR 39.3 million). The Group's equity at the close of the report period was negative, EUR -3.0 million (EUR 1.3 million). The parent company's equity capital is EUR 8.1 million, or 39% of the share capital (EUR 12.8, 63%).

The Group's equity ratio was negative, -10.3% (3.3%).

Liabilities totalled EUR 32.3 million (EUR 38.0 million), of which EUR 20.5 million (EUR 24.9 million) were interest-bearing liabilities.

Interest-bearing net liabilities decreased from the comparison period and were EUR 19.8 million (EUR 24.5 million), and the gearing ratio was -659% (1,868%).

The company has long-term debt of EUR 2.5 million, of which EUR 1.9 million of the 2012 convertible loans and EUR 0.6 million of the capital loan.

On 31 December 2012, Incap Group's current interest-bearing loans and borrowings stood at EUR 18.0 million. Of this amount, EUR 14.5 million is a loan from credit institutions, of which EUR 4.1 million is directed towards the Indian subsidiary. In Finland and Estonia, the parent company uses factoring financing which is part of current liabilities.

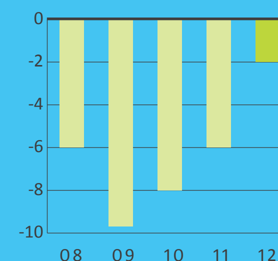
Of the company's loans, a part of finance leases and a part of the 2012 convertible loan and the capital loan are classified as non-current. Other bank loans are included in current financial liabilities on the basis of the loan period or due to the breach of covenants.

On 31 December 2012, Incap's loans from credit institutions and other loans totalled EUR 20.5 million. Of this, EUR 14.5 million was loans from credit institutions (31 December 2011: EUR 17.0 million) and EUR 6.0 million other loans (31 December 2011: EUR 7.8 million).

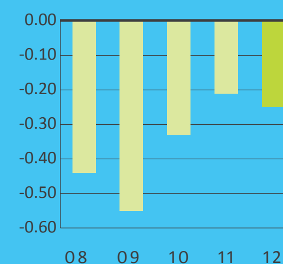
From the loans from financial institutions, EUR 10.3 million was granted by the Finnish bank to bank loans and lines of credit in use. Of the Finnish bank's credit line and factoring credit line, EUR 5.3 million was in use and EUR 4.2 million was unused on 31 December 2012. For operations in India and Estonia, the balances of bank loans and credit line totalled EUR 4.1 million. Finnfund's EUR 1.9 million investment in Incap's operations in India is included in the loans from credit institutions.

Other loans (EUR 6.0 million) include convertible loans, capital loan as well as finance lease liabilities in Finland and Estonia. The amount of the convertible loan of 2007 at the end of the financial year was EUR 2.4 million, of which a part was reorganised after the end of the financial year and the remainder of EUR 1.0

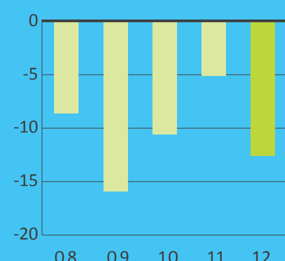
PROFIT/LOSS BEFORE TAX, % OF REVENUE



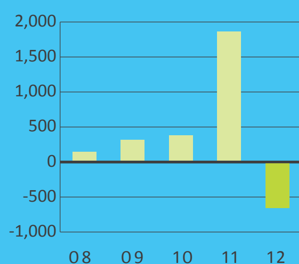
EARNINGS PER SHARE (EPS), EUR



RETURN ON INVESTMENTS (ROI), %



GEARING, %



million is due 30 June 2013. The convertible loan 2012 amounts to EUR 2.9 million and will mature on 25 May 2017. Other loans are the Finnish and Estonian finance leases, totalling EUR 0.1 million, and the EUR 0.6 million instalment of the Finnish capital loan, drawn in December 2012. The last instalment of the loan from the municipality of Sotkamo, approximately EUR 43,000, was repaid in 2012.

At the end of financial period, EUR 12.6 million of the loans were guaranteed, and the rest were unguaranteed. The securities for these loans are the EUR 12.1 million mortgages on company assets, a EUR 1.5 million mortgage on the production facilities in Vuokatti, Finland and a EUR 0.7 million mortgage on the production facilities in India.

Incap's liabilities for debts reduced in May 2012 when the value of the 2007 convertible loan decreased by approximately EUR 1.0 million in connection with the financing arrangement. The decrease in the value resulted from the fact that the company committed itself to redeeming some of the loan units of the convertible loan at a price that is on average 27% lower than the nominal value of the loan units.

During 2012, approximately EUR 0.2 million of deferred tax assets have been utilised from the consolidated balance sheet on the basis of the taxable income accumulated by the Indian subsidiary. On 31 December 2012, confirmed tax losses for which no deferred tax asset was recognised amounted to EUR 11.2 million.

The Group's quick ratio was 0.5 (0.4), and the current ratio was 0.8 (0.7).

The company was able to reduce stock value and free capital from inventories. During the financial period, the value of inventories decreased from EUR 11.4 million at the beginning of 2012 to EUR 9.4 million. The increase in the demand in the energy efficiency sector increased inventories especially at the Indian plant. On the other hand, the closure of the Helsinki plant decreased the entire Group's inventories by approximately 1.6 million when compared to the end of 2011.

Cash flow from operations was positive: EUR 2.4 million (EUR -3.1 million). On 31 December 2012, the Group's cash and cash equivalents totalled EUR 0.6 million (EUR 0.4 million). The change in cash and cash equivalents showed an increase of EUR 0.2 million (a decrease of EUR 0.4 million).

Aspects related to the Group's cash flow, financing and liquidity are also described in the section "Short-term risks and factors of uncertainty concerning operations".

PRIVATE PLACEMENT IN APRIL 2012

On 11 April 2012, the company's Board of Directors used the authorisation issued by the Annual General Meeting held in 2011 and offered a total of 2,168,100 new shares to the major shareholders of the company. The private placement was a part of the financing arrangement prepared by the company, aiming to improve the company's equity ratio and solvency and to ensure the continued development of the company.

The share issue was subscribed in full at the price of EUR 0.35 per share. In addition to four major shareholders, shares were subscribed by all members of the Board of Directors and the President and CEO of the Group.

The received subscription amount, approximately EUR 759,000 in total, has been recognised in the reserve for invested unrestricted equity. The new shares were registered in the Trade Register on 18 July 2012, increasing the total number of the company's shares to 20,848,980. In order to enter the new shares for public trading, Incap drew up a prospectus, and the new shares were admitted to public trading at the Helsinki Stock Exchange on 18 September 2012 after the prospectus was approved.

CONVERTIBLE LOAN 2007

The convertible loan of EUR 6.75 million, issued by Incap in 2007, matured on 25 May 2012. In May 2012, the company agreed upon re-financing for the convertible loan so that the company redeems the loan units of some of the convertible loan's holders while a portion of the holders convert their loan units to a new convertible loan. Some of the redemptions were carried out in May–June 2012, and the amount to be redeemed by 31 December 2012 was EUR 2,405,950.27.

In January 2013, after the end of the financial period, Incap negotiated the final redemption of the convertible loan. In January 2013, the company redeemed out of the remaining loan units a total of EUR 1.0 million. Furthermore, a part of the loan with respective interest, i.e. a total of EUR 0.4 million, was converted to Incap's shares by means of a private placement to one holder of the convertible loan. The final redemption of the 2007 convertible loan, EUR 1.0

million including interest, will be settled by the end of June 2013.

CONVERTIBLE LOAN 2012

In the redemption arrangements of the convertible loan issued in 2007, a portion of the holders converted their loan units to a new convertible loan. The Board of Directors approved subscriptions for this new loan on 25 May 2012. The issue rate of the convertible loan is 100% and an annual fixed interest of 7% will be paid on the loan after each 12-month period. The subscription price of the new loan was formed in the following way: one loan unit in the 2007 convertible loan can be converted into one loan unit in the 2012 convertible loan. The loan amount is EUR 2,916,000 and a total of 540 loan units with the nominal value of EUR 5,400 were granted out of the loan. The convertible loan will expire on 25 May 2017.

PERSONNEL

At the end of 2012, the Incap Group had a payroll of 614 employees (735). Some 55% (51%) of the personnel worked in India, 28% (27%) in Estonia and 17% (22%) in Finland. The main personnel reductions took place in Finland due to the closure of the Helsinki plant and the streamlining of Group Services.

At the end of the year, 170 of Incap's employees were women and 444 were men. Permanently employed staff totalled 414, and the number of fixed-term employees was 200. The company had two part-time employment contracts at the end of the year. The average age of the personnel was 33.5 years.

COMPANY MANAGEMENT AND ORGANISATION

The company's President and CEO during the financial period was Sami Mykkänen. In addition to the CEO, the Group's Management Team included Kimmo Akiander (Business Unit Well-being, until 29 February 2012), Kirsi Hellsten (Human Resources, until 31 October 2012), Mikko Hirvinen (Special Projects), Jari Koppelo (Business Unit Energy efficiency and, from 1 March 2012, Business Unit Well-being), Sami Kyllönen (Production, Europe), Kirsti Parvi (Finance and administration) and Hannele Pöllä (Communications).

In addition to the members of the actual Management Team, the Extended Management Team included Siret Kegel (Quality), Murthy Munipalli (Energy efficiency Asia), Pekka Laitila (Materials management), Päivi Luotola (IT) and Marko Tapaninaho (Engineering).

ANNUAL GENERAL MEETING 2012

Incap Corporation's Annual General Meeting (AGM) was held in Helsinki on 11 April 2012. The AGM adopted the financial statements for the financial period that ended on 31 December 2011. In accordance with the proposal of the Board of Directors, the AGM decided that no dividend be distributed for the financial period and that the loss for the financial period (EUR 2,372,981.70) be recognised in equity.

AUTHORISATION OF THE BOARD OF DIRECTORS

On 11 April 2012, the Annual General Meeting authorised the Board of Directors to decide during one year after the Annual General Meeting to issue a maximum of 9,300,000 new shares either against payment or without payment. Of the new shares, a maximum of 300,000 shares can be used for the option rights of the company's remuneration and compensation system.

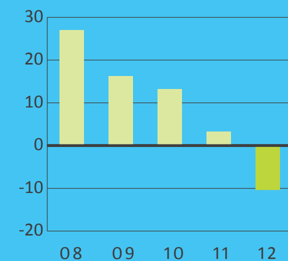
The Board of Directors exercised the authorisation in connection with the company's financing arrangement on 25 May 2012 when a portion of the holders of the convertible loan issued in 2007 converted their loan units to a new convertible loan. The new convertible loan includes a right to convert loan units to a maximum total of 7,112,195 new shares in the company.

At the end of the financial period 2012, the Board of Directors had a total of 2,187,805 unused shares from the authorisation granted by the Annual General Meeting. The Board of Directors exercised the authorisation on 30 January 2013 and directed one holder of the convertible loan 2007 the company's new shares against the redemption of the convertible loan. After this the Board of Directors have an unused authorisation for a total of 490,519 shares.

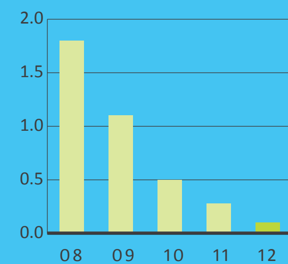
BOARD OF DIRECTORS AND AUDITOR

The Annual General Meeting held on 11 April 2012 re-elected Raimo Helasmäki, Kalevi Laurila, Susanna Miekk-oja and Lassi Noponen as members of the Board of Directors and elected Matti Jaakola as a new member. From among its members, the Board elected Kalevi Laurila as Chair and Lassi Noponen as Deputy Chair. The secretary of the Board was Anu Kaskinen, LL.M. The Board convened 49 times in 2012, and the average attendance rate was 88%.

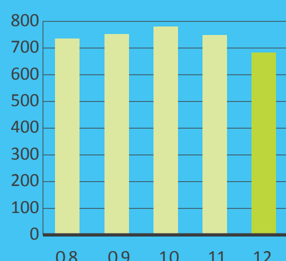
EQUITY RATIO, %



INVESTMENTS, EUR MILLION



AVERAGE NUMBER OF EMPLOYEES



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

REPORT ON CORPORATE GOVERNANCE

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

SHARES AND SHAREHOLDERS

Incap Corporation has one series of shares, and the number of shares at the end of the period is 20,848,980. During the financial period, the share price varied between EUR 0.15 and 0.65 (EUR 0.37 and 0.64). The closing price for the year was EUR 0.19 (EUR 0.42). During the report period, the trading volume was 2,952,411 shares, or 14.2% of outstanding shares (746,382, or 4.0%).

At the end of the financial period, Incap had 1,159 shareholders (1,053). Nominee-registered or foreign owners held 0.5% (0.5%) of all shares. The company's market capitalisation on 31 December 2012 was EUR 4.0 million (7.8 million). The company does not hold any of its own shares.

At the end of the financial period, the members of Incap Corporation's Board of Directors and the President and CEO and their interest parties owned a total of 4,512,174 shares, or approximately 21.6% of the company's shares outstanding.

SHARE-BASED INCENTIVE SYSTEM 2009

The option scheme implemented in 2009 includes a total of 600,000 stock options entitling their holders to subscribe for an equal number of Incap shares. The stock options are broken into three categories: 2009A, 2009B and 2009C. The subscription price for all stock options is EUR 1. The subscription period is from 1 April 2010 to 31 January 2014 for 2009A stock options and from 1 April 2011 to 31 January 2014 for 2009B and 2009C stock options. The President and CEO has received 100,000 A stock options and 100,000 B stock options. The members of the Management Team have received a total of 129,000 C stock options.

The proportion of shares to be subscribed on the basis of stock options is up to 1.6% of the company's shares and votes after a possible increase in share capital. Undistributed and returned stock options will be given to Euro-ketju Oy, a subsidiary fully owned by Incap, and the Board of Directors will make a separate decision on distributing these.

ANNOUNCEMENTS IN ACCORDANCE WITH SECTION 10 OF CHAPTER 9 OF THE SECURITIES MARKET ACT ON A CHANGE IN HOLDINGS

On 16 April 2012, Incap announced that after the registration of the new shares issued in the private placement of Incap Corporation, the holdings of Kalevi Laurila of Incap Corporation's shares and votes will exceed 5%. Furthermore, on 21 September 2012, the company announced that the holdings of Oy Ingman Finance Ab of Incap Corporation's shares and votes decreased below 10% after several consecutive trades.

INFORMATION RELATED TO THE LIQUIDITY RISK AND CONTINUITY OF OPERATIONS IN THE INTERIM REPORT FOR JANUARY–JUNE

On 22 May 2012, Incap published a stock exchange release with regard to financing arrangements that were related to the extension of the financing agreements, the granting of a new bank loan and a rearrangement of the company's convertible loan. In its interim report for January–June published on 31 July 2012, the company provided information on the final result of the negotiations and financial risks and referred to information in the financial statements for 2011. However, the information about financing agreements provided in the financial statements was no longer up-to-date, as the financing agreements had been partially renegotiated. The interim report did not contain liquidity risk details as required by the IFRS 7 standard and did not comment, in a manner required by recommendations, on the continuity of operations in the company's prevailing financial position. Due to these inadequacies information in the interim report did not meet the requirements of the IAS 34 standard.

Information missing from the interim report was presented in the stock exchange release published on 14 September 2012 and in the prospectus. The release provided more information about the company's loans and related covenants, risks related to liquidity, the sufficiency of the working capital for the next 12 months and aspects related to continuity of operations. The most significant risks in respect of continuity of the company's operations were related to the success of the share issue to be arranged, the fulfilment

of the conditions set by the bank in order to draw the second instalment of additional financing, the fulfilment of the covenant levels set for the continuation of loans from credit institutions, sufficiency of the actions to improve profitability and inventories, as well as development of the company's customers' market situation and demand.

RISK MANAGEMENT

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

SHORT-TERM RISKS AND FACTORS OF UNCERTAINTY CONCERNING OPERATIONS

General risks related to Incap's business operations and sector include the development of customer demand, price competition in contract manufacturing, successful acquisition of new customers, availability and price development of raw material and components, sufficiency of funding, liquidity and exchange rate fluctuations.

The most significant short-term risks are associated with the continuity of operations and sufficiency of funding.

Continuity of operations

The most significant risks related to the continuity of operations are:

- the arrangement of financing for the redemption of the convertible loan maturing on 30 June 2013, either through a share issue or another arrangement
- the fulfilment of the conditions set by the bank for additional financing
- the fulfilment of the covenant levels set for the continuation of loans from credit institutions
- the sufficiency of the working capital
- the execution of the actions to improve profitability and inventories
- global economic development and its impact on the company's customers' market situation and demand.

Financing needed for the redemption of the 2007 convertible loan

The convertible loan of EUR 6.75 million, issued by Incap in 2007, matured on 25 May 2012. In May 2012, the company agreed upon re-financing for the convertible loan so that the company redeems the loan units of some of the convertible loan's holders while a portion of the holders convert their loan units to a new convertible loan. Some of the redemptions were carried out in May–June 2012, and the amount to be redeemed by 31 December 2012 was EUR 2,405,950.27.

In January 2013, after the end of the financial period, Incap concluded its negotiations concerning the final redemption of the convertible loan. In January 2013, the company redeemed out of the remaining loan units a total of EUR 1.0 million. Furthermore, a part of the loan with respective interest, i.e. a total of EUR 0.4 million, was converted to Incap's shares by means of a private placement to one holder of the convertible loan. The final redemption of the 2007 convertible loan, EUR 1.0 million including interest, will be settled by the end of June 2013.

According to the provisions of the agreement, one subscriber of the 2012 convertible loan, whose loan unit in the convertible loan is EUR 999,000, has the right to terminate the financing agreement in case the redemption of the 2007 convertible loan has not taken place by the end of June 2013. This loan unit of the 2012 convertible loan has been recognised in short-term loans.

Withdrawal of the second instalment of additional financing granted

In the spring 2012, Incap negotiated a financing arrangement in which the company's Finnish financing banks renewed the maturing loans and granted altogether EUR 2.5 million in a new loan. Of this new loan, EUR 1 million was drawn down in July 2012 and EUR 0.75 million after the end of the financial period in January 2013. The remaining part of the loan can be drawn by 29 July 2013 after a separate confirmation of the bank.

Loan financing and covenants

At the end of the financial period, Incap's loans amounted to EUR 20.5 million.

Loans, credit line and factoring credit line granted by a Finnish bank totalled EUR 10.3 million on 31 December 2012. These loans involve the following covenants:

	Equity ratio	Net IBD/ EBITDA
31 December 2012	at least 10%	up to 7
30 June 2013 onwards	at least 15%	up to 5

The covenants were not met on 31 December 2012. On this date, the company's equity ratio was -10.3% and net IBD/EBITDA was 18.7. The bank has the right to terminate the agreements to expire after 60 days if any covenant is not met on the testing date. On 28 January 2013, the company received a written confirmation from the bank that the bank will not exercise its right to terminate the loans, even though the covenants were not met on 31 December 2012. The covenants will be tested next on 30 June 2013 and after that every six months.

In addition to the covenants mentioned above, the EUR 1 million additional loan withdrawn by Incap in July 2012 incorporates the bank's right to terminate the loan in case the redemption of the 2007 convertible loan has not taken place by the end of June 2013 as agreed. The bank has approved the financing arrangement made after the end of the financial period and announced that it will not exercise its right to terminate the additional loan agreement.

On the basis of the forecast prepared by Incap on 25 February 2013, the covenants mentioned above will not be met on the next testing date, 30 June 2013. The company is continuing the negotiations with the bank in order to mitigate the covenants and to rearrange the financing.

Payment arrangement for tax liabilities

Incap has reached an agreement with the Finnish Tax Administration on the payment arrangement related to overdue value-added taxes, withholding taxes and social security contributions. The total amount of the tax liabilities within the scope of this arrangement is approximately EUR 1.2 million, and according to the agreement, the last payment will take place in August 2014. According to the provisions of the agreement, if an instalment is late, the Finnish Tax Administration has the right to terminate the agreement with immediate effect.

The sufficiency of the working capital

To assess its liquidity, Incap has prepared a 12-month cash flow projection for the Group, based on its performance forecast for 2013 and the actual turnover of its sales receivables, accounts payable and inventories. Since the profit levels used in calculations do not reflect the actual past development, there is an element of remarkable uncertainty associated with them. On the basis of this cash flow projection, Incap's working capital will not cover the requirement for the next 12 months at the time of the publication of this financial statements. According to the company's estimate, approximately EUR 4–6 million of additional working capital is needed.

However, the company's working capital will be sufficient for the next 12 months if the following criteria are met:

- the company's potential share issue and financing arrangements succeed as planned, so that the company obtains funds for working capital funding and the final redemption of the 2007 convertible loan in June 2013; and
- the bank accepts the terms and conditions for the drawing down of the additional loan; and
- the goals for the company's result and inventory turnover rate are achieved; and
- the covenants for the company's loans from credit institutions are met, or, should the covenants not be met, the bank decides not to exercise its right to terminate the loan agreements.

Incap's management is confident that the share issue planned by the company will succeed and the company will be able to redeem the convertible loan as agreed. The strategic restructuring has been carried out as planned; the company closed down the Helsinki plant in the summer 2012 and transferred its production to other units. In addition, in January 2013 the company started co-operative negotiations with the Group Services personnel, with the aim of reorganising the company's administration and improving the efficiency of operations significantly. These measures and other development projects are expected to improve profitability. In addition, the company will continue to take measures to ensure that the goals for the company's result and inventory turnover are achieved.

Thus, the company estimates that it will be able to cover any possible working capital deficit and ensure that the covenants related to the financing agreements are met. Should the covenants not be met and the financiers inform the company that they will make use of the covenants to terminate the agreements, the company would need to initiate negotiations on the rearrangement of funding and on gaining new equity or debt financing.

Assets held for sale

The company owns a plant property in Vuokatti, Finland, built in 1978–2001 and with an approximate area of 8,700 m². The property and the related loans have been recognised as available for sale since the financial statements for 2010. In August 2012, Incap signed a 5-year lease contract for the property and continues measures aimed at selling the property.

Development of customers' market situation and demand

Demand for Incap's services as well as the company's financial position are affected by international economic trends and economic trends among Incap's customer industries. In 2013, the business environment is estimated to develop steadily in the sectors where Incap and its customers operate, and the general economic uncertainty has not had – at least not yet – a particularly negative effect on demand from or the solvency of the company's customers.

The company's sales are spread over several customer sectors, which balances out the impact of the economic trends in different industrial sectors. In 2012, the biggest single customer's share of the Group revenue was 17%. The company's sector, contract manufacturing, is highly competitive, and there are major pressures on cost level management. The cost structure has been made more flexible by distributing production activities into several countries: Finland, Estonia and India. The focus of production activities is in countries where wage and general cost levels are competitive.

EVENTS AFTER THE END OF THE FINANCIAL PERIOD

Adjustment of operations and co-operative negotiations

In January 2013, Incap started co-operative negotiations, in accordance with the Act on Co-operation within Undertakings, with both the personnel of its Vaasa plant and the personnel working in its Group Services in Finland. The outcome of the negotiations in Vaasa is that, if necessary, the personnel of the Vaasa plant will be laid off temporarily for a maximum of 90 days. This will take place by the end of June. Instead of immediate temporary lay-offs, the plant's operations were adjusted to demand by continuing training and increasing multi-skills of the personnel. Need for temporary lay-offs will be evaluated weekly based on the order book. The negotiations with the Group Services are still ongoing, and their outcome is estimated to affect the employment of a maximum of 14 employees.

Rearrangement of the convertible bond 2007

On 17 January 2013, Incap published a release about a financing arrangement that was related to the redemption of the convertible loan issued in 2007. Incap redeemed out of the remaining loan units a total of EUR 1.0 million in cash payment in January 2013. Furthermore, a part of the loan with respective interest, i.e. a total of EUR 0.4 million, was converted to Incap's shares by means of a private placement to one holder of the convertible loan. The final redemption of the 2007 convertible loan, EUR 1.0 million, will be settled by the end of June 2013.

Capital loan

In connection with the negotiations concerning the redemption of the convertible loan, three of Incap Corporation's major shareholders granted the company a capital loan of EUR 1.05 million, with a loan period of three years and at an interest rate of 10%. Of this capital loan, EUR 0.6 million was recorded in the financial statements for 2012. The loan conditions include the right to set off eventual subscription price of shares in a share issue arranged by the company. Kalevi Laurila, who is closely related to the company, is one of the shareholders who granted the capital loan.

Of the capital loan, EUR 0.6 million was drawn on 28 December 2012 and recorded in the financial statements for 2012. According to the loan conditions, upon the liquidation or the bankruptcy of the parent company, the capital and the interest may only be paid at a lower privilege in comparison to all other debts. Otherwise the capital or the interest may be returned only for the part that the unrestricted equity and capital loans of the parent company at the time of the payment exceed balance sheet losses confirmed for the parent company's latest financial period or

included in more recent financial statements. No security has been provided for interest on the capital or for the loan. The loan interest is recognised as an expense on a time apportionment basis. Unless the prerequisites set in the Finnish Limited Liability Companies Act for payment of interest are fulfilled, the interest may not encumber the result for the financial period. The interest is presented as interest liability in the notes for the parent company. In the consolidated IFRS financial statements, the accumulated interest of the capital loan is recognised as an expense for the financial period. The loan is due for repayment at the latest on 31 December 2015.

Private placement

On 30 January, the Board of Directors of Incap Corporation arranged a private placement with which the company redeemed a part of the convertible loan issued in 2007. One holder of the convertible loan was given, as compensation for the holder's loan units, altogether 1,697,286 new shares in the company. The imputed subscription price of the shares was EUR 0.22 per share. The new shares equal approximately 8.1% of the total number of shares of the company before the share issue. After the registration of the new shares, the total number of Incap Corporation's shares was 22,546,266.

Withdrawal of additional bank loan

On 30 January 2013, Incap finalised the financing negotiations with a Finnish bank and drew down one half of the loan of EUR 1.5 million granted to the company. The remaining loan instalment can be drawn down by 29 July 2013 after a separate confirmation given by the bank. In addition, the company has further agreed on other financing arrangements that strengthen the working capital. As a result of these measures, Incap's cash in hand was increased by EUR 1.2 million.

STRATEGY AND OBJECTIVES OF THE COMPANY

In 2013, Incap's principal objectives are to improve profitability of business operations by enhancing operational efficiency and to improve the company's financial situation through a share issue.

Demand in the company's strategic customer segments is expected to develop evenly, although the market outlook is typically very short-term. Incap's goal is to expand deliveries to existing customers to cover more comprehensive solutions and a broader range of end products. Customer acquisition will focus especially on design and manufacture of equipment that improve energy efficiency, the demand of which is expected to increase strongly.

Long-term growth prospects are good especially in the field of energy efficiency but also in well-being technology where new, innovative and promising products are constantly being introduced to the market. Many new growing companies have adopted the strategy of focusing on core functions and outsourcing all production activities. For these companies, Incap is able to offer the entire production process or comprehensive product integration.

The company will strengthen the role of product design and the cooperation networks launched with design companies will be continued. The company develops preparedness for comprehensive design cooperation with selected customers. In its own product design, the company will focus on equipment related to energy production, storage and supply – an area in which the company already has a great deal of expertise. A long-term aim is to introduce own products on the market and into volume production and to sell them under the customer's own brand.

The company will continue to enhance the efficiency of its operations and aims to make use of global opportunities. Materials management is a particular development area in the future, too, as procurement function and management of material flows are very significant for the company's profitability. By reorganising Group Services, the efficiency of group functions will be improved while the role of the Tallinn office in corporate control will be strengthened.

With the previously initiated actions for improved efficiency, Incap intends to cut costs by a total of approximately EUR 3.3 million in 2012–2013, compared to 2011, by enhancing the efficiency of material sourcing, closing down the Helsinki plant, and centralising Group Services in Estonia.

There is no need for major investments as the company estimates that, with its present production structure, it will be able to achieve an annual revenue of up to EUR 100 million by 2015. With the company's target customer base and product range, it is realistic to expect an operating margin of approximately 5 to 8% (EBIT).

In order to ensure future growth of its business operations, the company will also look into opportunities for business restructuring.

OUTLOOK FOR 2013

According to the new Securities Market Act, a company is obliged to present its future outlook in its annual report of operations. Incap Corporation's Board of Directors will continue the company's existing practice and present its estimate on future outlook both in the report of the Board of Directors and in interim reports.

Incap's estimates for future business development are based both on its customers' forecasts and on the company's own assessments. In the energy efficiency sector, demand is expected to grow from the 2012 level both in Europe and in India. Revenue from well-being technology products is estimated to decrease from last year due to the discontinuation of manufacturing of certain volume products.

The closure of the Helsinki plant in 2012 was the last phase of the company's strategic change to production structure, creating the prerequisites for profitable growth. Reduction of the number of plants and other efficiency improvements in production, together with the streamlining of the Group services, will improve the company's profitability in 2013.

Incap estimates that the Group's revenue in 2013 will be the same or somewhat lower than the EUR 64.1 million achieved in 2012. The company estimates that its full-year operating result (EBIT) will be clearly positive. In 2012 the operating result was negative EUR -0.7 million.

BOARD OF DIRECTORS' PROPOSAL ON MEASURES RELATED TO THE OPERATING RESULT

The parent company's loss for the financial period totalled EUR 5,505,693.92. The Board will propose to the Annual General Meeting on 10 April 2013 that no dividend be paid and the result for the financial period be recognised in equity.

ANNUAL GENERAL MEETING 2013

Incap Corporation's Annual General Meeting will take place on Wednesday, 10 April 2013 at 3:00 p.m. at Hotel Kämp, Pohjoisesplanadi 29, 00100 Helsinki. Notice to the Annual General Meeting will be given on 18 March 2013 at the latest.

Helsinki, 25 February 2013

INCAP CORPORATION
Board of Directors

Consolidated Income Statement

1,000 euros	Note	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Revenue	3	64,141	68,890
Other operating income	4	404	145
Changes in inventories of finished goods and work in progress	5	-643	-363
Work performed by the enterprise and capitalised		0	0
Raw materials and consumables used	5	44,315	48,631
Personnel expenses	8	11,087	12,016
Depreciation and amortisation	7	1,460	2,047
Other operating expenses	6	7,721	7,597
Operating profit/loss		**-681**	**-1,619**
Financing income and expenses	10	-751	-2,378
Profit/loss before tax		**-1,432**	**-3,997**
Income tax expense	11	-3,498	0
Profit/loss for the year		**-4,930**	**-3,997**
Attributable to			
Equity holders of the parent company		-4,930	-3,997
Non-controlling interests		0	0
		-4,930	-3,997
Earnings per share from profit for the year attributable to equity holders of the parent			
Basic earnings per share	12	-0.25	-0.21
Diluted earnings per share	12	-0.25	-0.21
Average number of shares:			
basic		20,067,042	18,680,880
diluted		20,067,042	18,680,880

1,000 euros	Note	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME			
Profit/loss for the year		**-4,930**	**-3,997**
Other comprehensive income:			
Translation differences from foreign units		-118	-316
Other comprehensive income, net		-118	-316
Total comprehensive income		**-5,048**	**-4,313**
Total comprehensive income attributable to:			
Equity holders of the parent company		-5,048	-4,313
Non-controlling interests		0	0
		-5,048	**-4,313**

Consolidated Balance Sheet

1,000 euros	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Non-current assets			
Property, plant and equipment	13	2,578	4,007
Goodwill	14	940	964
Other intangible assets	14	178	341
Other financial assets	15	311	314
Deferred tax assets	16	560	4,085
Total Non-current Assets		**4,568**	**9,710**
Current assets			
Inventories	17	9,352	11,423
Trade and other receivables	18	12,815	15,834
Cash and cash equivalents	19	613	369
Total Current Assets		**22,780**	**27,625**
Non-current assets held-for-sale	1	1,936	1,936
Total Assets		**29,283**	**39,271**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent	20		
Share capital		20,487	20,487
Share premium account		44	44
Exchange differences		-917	-799
Reserve for invested unrestricted equity		4,818	4,084
Retained earnings		-27,440	-22,506
Total equity		**-3,008**	**1,311**
Non-current liabilities			
Deferred tax liabilities	16	0	0
Interest-bearing loans and borrowings	24	2,492	259
Current liabilities			
Trade and other payables	25	11,841	13,109
Interest-bearing loans and borrowings	24	17,959	24,336
Liabilities relating to non-current assets held-fore-sale	1	0	256
Total liabilities		**32,291**	**37,960**
Total equity and liabilities		**29,283**	**39,271**

Consolidated Cash Flow Statement

1,000 euros	Note	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Cash flow from operating activities			
Operating profit/loss		-681	-1,619
Adjustments to operating profit	28	728	2,157
Change in working capital		4,188	-1,920
Interest paid		-1,814	-1,793
Interest received		27	38
Cash flow from operating activities		**2,448**	**-3,137**
Cash flow from investing activities			
Capital expenditure on tangible and intangible assets		-124	-280
Proceeds from sales of tangible and intangible assets		139	148
Other investments		-61	-80
Loans granted		0	-6
Sold shares of subsidiaries		0	0
Repayments of loan assets		3	0
Cash flow from investing activities		**-43**	**-218**
Cash flow from financing activities			
Proceeds from share issue		734	0
Drawdown of loans		1,819	4,946
Repayments of borrowings		-4,201	-1,118
Repayments of obligations under finance leases		-594	-843
Cash flow from financing activities		**-2,242**	**2,985**
Change in cash and cash equivalents		163	-371
Cash and cash equivalents at beginning of period		369	476
Effects of changes in exchange rates		99	288
Changes in fair value (cash and cash equivalents)		-18	-24
Cash and cash equivalents at end of period		**613**	**369**

Consolidated Statement of Changes in Equity

1,000 euros	Share capital	Share premium account	Reserve for invested unrestricted equity	Translation differences	Retained earnings	Total equity
Equity at 1 January 2012	20,487	44	4,084	-799	-22,506	1,311
Total comprehensive income					-4,930	-4,930
Currency translation differences				-118		-118
Share issue			759			759
Transaction costs for equity			-25			-25
Options and share-based compensation					-5	-5
Equity at 31 December 2012	**20,487**	**44**	**4,818**	**-917**	**-27,440**	**-3,008**

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

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 7, 00700 Helsinki. The company is an internationally operating contract manufacturer whose comprehensive services cover the entire life-cycle of electromechanical products, from design and manufacture to repair and maintenance services.

The Group comprises the parent company, Incap Corporation, and the parent company's wholly-owned subsidiaries: Incap Electronics Estonia OÜ, Kuressaare, Estonia; Euro-ketju Oy, Helsinki, Finland; Incap Hong Kong Ltd., Hong Kong and Incap Contract Manufacturing Services Pvt. Ltd., Bangalore, India, which is owned by the parent company by 77.5%. Incap CMS Pvt. Ltd. is however combined by 100% in the consolidated financial statements, because the control of the subsidiary stays in the parent company.

ACCOUNTING POLICIES APPLIED IN THE CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PREPARATION

These Incap Group financial statements have been prepared in accordance with International Financial Reporting Standards in conformity with the IAS and IFRS standards and SIC and IFRIC interpretations in force at the balance sheet date, 31 December 2012. The notes to the consolidated financial statements also comply with Finnish accounting and company legislation.

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

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

SUBSIDIARIES

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

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

TRANSLATION OF ITEMS DENOMINATED IN FOREIGN CURRENCY

Separate companies

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

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

GROUP

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

for Sale and Discontinued Operations. Non-current assets held for sale are measured at the lower by carrying amount or by the fair value less the selling expenses.

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

BORROWING COSTS

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

The loan interest of the capital loan is recognised as an expense on a time apportionment basis. In the consolidated IFRS financial statements, the accumulated interest of the capital loan is recognised as an expense for the financial period.

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

GOVERNMENT GRANTS

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

INTANGIBLE ASSETS

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

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

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

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

INVENTORIES

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

LEASES

The Group as lessee

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

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

IMPAIRMENT OF ASSETS

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

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

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

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

EMPLOYEE BENEFITS

Pension obligations

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

SHARE-BASED PAYMENT

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

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

PROVISIONS

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

INCOME TAXES

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

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

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

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

REVENUE RECOGNITION

Goods sold and services rendered

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

ACCOUNTING POLICIES REQUIRING MANAGEMENT'S JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The Group continuously assesses and monitors the amount of financing required for business operations so that the Group would have sufficient liquid assets to finance its operations and repay loans that mature. The aim is to

guarantee the availability and flexibility of financing through overdraft facilities and other forms of financing.

In order to evaluate liquidity, Incap has prepared a monthly cash flow estimate that extends over the 2013 financial statements. The cash flow projection is based on the Group's performance forecast for 2013 drawn up in connection with the financial statements and on the actual turnover of sales receivables, accounts payable and inventories. The cash flow estimate is based on a calculation where accounts payable that have matured are paid and Incap's need for working capital increases. At the date of the financial statements, Incap's working capital will not cover the requirement for the next 12 months. According to the company's estimate approximately EUR 4�6 million of additional working capital is needed. However, the company's working capital will be sufficient for the next 12 months if the company's potential share issue and financing arrangements succeed as planned so that the company obtains funds for working capital funding and the final redemption of the 2007 convertible loan in June 2013, and if the bank accepts the terms and conditions for the drawing down of the additional loan, and if the goals for the company's result and inventory turnover rate are achieved, and if the covenants for the company's loans from credit institutions are met, or, should the covenants not be met, the bank decides not to exercise its right to terminate the loan agreements. Because the forecasts that form the basis of the cash flow calculation have previously deviated from the forecasts, there is an element of remarkable uncertainty associated with them.

Impairment testing

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

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

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

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

Deferred tax asset

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

The deferred tax asset is based on the Board of Directors' estimate of the company's future development during the next five years and the resulting imputed taxable profit.

Segment information

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

APPLICATION OF NEW OR AMENDED IFRS STANDARDS

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

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

- Amendment: IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets
- Amendment: IAS 1 Presentation of Financial Statements
- Annual improvements to IFRSs (amendments to several different standards)
- Amendment: IAS 12 Income Taxes: Recovery of Underlying Assets

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

- Amendment: IFRS 1 First-time Adoption of IFRSs – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- Amendment: IFRS 1 Government loan
- Amendment: IFRS 7 Financial Instruments: Disclosures and IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
- IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements (revised)
- IFRS 11 Joint Arrangements and IAS 28 Associates and Joint Ventures (revised)
- IFRS 12 Disclosures of Interests in Other Entities
- IFRS 13 Fair Value Measurement

- Revised: IAS 19 Employee Benefits
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

Proposals for annual improvements to IFRSs

- IFRS 1 First-time Adoption of IFRSs
- IAS 1 Presentation of Financial Statements
- IAS 16 Property, Plant and Equipment
- IAS 32 Financial Instruments: Presentation
- IAS 34 Interim Financial Reporting

Standards that will take effect on 1 January 2014 or later:

- Amendments: IFRS 10, IFRS 12, IAS 27 and IAS 28 regarding consolidation of Investment entities

Standards that will take effect on 1 January 2015 or later:

- IFRS 9 Financial Instruments: classification and measurement (the amendment cannot be applied prior to EU approval)

1. NON-CURRENT ASSETS HELD FOR SALE

	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Assets of disposal group classified as held for sale		
Incap Corporation's Vuokatti plant property	1,936	1,936
Liabilities of disposals group classified as held for sale		
Other non-current liabilities to others, interest-bearing	0	0
Other current liabilities, interest-bearing	0	256
	0	**256**

Incap signed in August 2012 a 5-year lease contract for the property and continues measures aimed at selling the property. The fair price estimate given by Catella Property Oy on 23 January 2012 clearly exceeds the book value of the property on 31 December 2012. Further information is given in the report of the Board of Directors in Short-term risks and factors of uncertainty concerning operations. There were no sales of business operations in the Group in 2011 and 2012.

2. ACQUIRED OPERATIONS

No business acquisitions were made during financial years 2012 and 2011. Of the decrease of goodwill in 2012, the exchange difference amounts to EUR 23,533.25.

3. REVENUE

	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Revenue from the sale of goods	64,135	68,868
Revenue from the services	5	22
	64,141	**68,890**

Geographic division of customers external of revenue	1.1.–31.12.2012	1.1.–31.12.2011
Europe	58,910	59,546
North America	377	3,473
Asia	4,854	5,871
	64,141	**68,890**

Group has three customers, whose revenue exceeds 10% of the entire Group's revenue. Combined share of revenue of these customers is approximately 41%.

4. OTHER OPERATING INCOME

	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Net gains on the disposal of property, plant and equipment	364	75
Lease income	22	0
Other income	18	70
	404	**145**

5. RAW MATERIALS AND SERVICES

Raw materials and consumables	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Purchases during the financial year	42,205	46,249
Change in inventories	1,869	1,330
	44,074	**47,579**
External services	884	1,414
	44,958	**48,993**

6. OTHER OPERATING EXPENSES

	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Lease expenses	1,820	1,811
Operating and maintenance expenses for property and machinery	1,868	1,682
Other expenses	4,033	4,105
	7,721	7,597

Auditors' fees	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Auditing fees	56	49
Certificates and statements	0	0
Tax advice	1	4
Other services	54	15
	111	**67**

7. DEPRECIATION AND AMORTISATION

	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Depreciation and amortisation by assets class		
Intangible assets		
Other capitalised expenditure	162	323
	1	0
Tangible assets	163	323
Buildings		
Machinery and equipment	58	59
Other tangible assets	1,174	1,583
	65	81
	1,297	**1,724**
Total depreciation, amortisation and impairment losses	**1,460**	**2,047**

8. EMPLOYEE BENEFITS EXPENSE

	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Wages and salaries	9,048	9,769
Pension costs – defined contribution plans	962	1,218
Pension costs – defined-benefit plans	46	22
Expense of share-based payments	5	2
Other statutory employer expenses	1,026	1,005
	11,087	**12,016**
Average number of Group's personnel during the period	**697**	**749**

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

9. RESEARCH AND DEVELOPMENT COSTS

A total of EUR 0.1 million of research and development costs has been recorded as an annual expense in the income statement in 2012 (EUR 0.1 million in 2011).

10. FINANCIAL INCOME AND EXPENSES

Financial income	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Dividend income from available-for-sale financial assets	1	2
Interest income from investments held until due date	0	0
Interest income from other deposits	5	6
Interest income from trade receivables	20	29
Interest income from loan receivables	0	0
Foreign exchange gains on liabilities	370	201
Other financing income	1,031	0
	1,429	**238**

Financial expenses	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Interest expenses from financial liabilities measured at amortised cost	-418	-292
Interest expenses from convertible promissory notes	-266	-473
Other interest expenses	-401	-363
Exchange rate losses	-552	-899
Other financial expenses	-542	-591
	-2,180	**-2,616**
Total financial income and expenses	**-751**	**-2,378**

Interest expenses include variable lease payments of EUR 0.02 million (EUR 0.04 million in 2011) recorded as lease expenses from finance lease agreements. The reduction in the redemption value of the convertible loan by EUR 1 million is recorded in financing income in 2012.

11. INCOME TAX

Income tax in the income statement	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Current tax on profits for the year	0	0
Tax for previous accounting periods	0	0
Total current tax based on income	**0**	**0**
Change in deferred tax assets on previous years	-3,498	0
Change in deferred tax liabilities on previous years	0	0
Total deferred tax	**-3,498**	**0**
Income tax expense	-3,498	0

Reconciliation of tax expenses in the income statement and taxes calculated on the basis of the 24.5% tax rate applicable in the Group's home country	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Profit before taxes	-1,432	-3,997
Tax at the applicable rate in the home country	351	1,039
Divergent tax rates of foreign subsidiaries	-442	117
Tax-free income	122	87
Expenses that are not deductible	-128	-191
Other temporary differences	88	30
Non-recorded deferred tax	9	-1,082
Tax charge	**0**	**0**
Deferred taxes in the balance sheet		
Deferred tax assets	560	4,085
Deferred tax liabilities	0	0
	560	**4,085**

Deferred tax assets and liabilities are presented in Note 16.

12. EARNINGS PER SHARE

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

	2012	2011
Profit for the year attributable to equity holders of the parent	-4,930	-3,997
Weighted average number of shares during the period	20,067,042	18,680,880
Undiluted earnings per share, EUR/share,	-0.25	-0.21

When calculating diluted earnings per share, share options and convertible promissory notes are taken into account in the weighted average number of shares. Share options have a dilutive effect when their subscription price is lower than the fair value of the share. The fair value of the share is based on the average price of the shares during the period. The convertible loan issued in 2012 includes a right to subscribe a maximum total of 7,112,195 new shares of the company. The subscription price for each new share is EUR 0.41. The subscription period commences when the option rights attached to the convertible loan have been entered into the trade register, and ends on 30 April 2017. Options for the subscription of new shares related to the convertible promissory notes do not have a dilutive effect, because the shares' trading price is higher than the fair value of the share. Convertible promissory notes are presented in Note 24 Interest-bearing liabilities.

	2012	2011
Profit for the year attributable to equity holders of the parent, continuing operations	-4,930	-3,997
Weighted average number of shares during the period	20,067,042	18,680,880
Dilution effect of issued share options	0	0
Share-weighted diluted average price used in calculating adjusted earnings per share	20,067,042	18,680,880
Diluted earnings per share, EUR/share	-0.25	-0.21

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and advances	Machinery and equipment	Other tangible assets	Total
Acquisition cost, 1 Jan 2012	**435**	**1,159**	**44,282**	**907**	**46,782**
Increase	0	78	35	0	113
Consolidation of operations	0	0	0	0	0
Disposals	0	-1	-270	-5	-276
Reclassifications between items	0	-40	-108	13	-136
Sale of assets in Group companies	0	0	0	0	0
Exchange differences	-20	-54	-97	-17	-188
Reclassification to non-current AFS assets	0	0	0	0	0
Acquisition cost, 31 Dec 2012	**415**	**1,142**	**43,841**	**899**	**46,296**
Accumulated depreciation and impairment losses, 1 Jan 2012	**0**	**-168**	**-41,834**	**-773**	**-42,775**
Depreciation	0	-58	-1,174	-65	-1,297
Increase	0	0	0	0	0
Decrease	0	0	0	0	0
Reclassifications between items	0	0	0	0	0
Cumulative depreciation on reclassifications and disposals	0	0	254	4	258
Exchange differences	0	11	72	14	96
Reclassification to non-current AFS assets cum. amortisation	0	0	0	0	0
Accumulated depreciation and impairment losses, 31 Dec 2012	**0**	**-216**	**-42,681**	**-820**	**-43,717**
Carrying amount, 1 Jan 2012	435	990	2,448	134	4,007
Carrying amount, 31 Dec 2012	415	926	1,160	78	2,578

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

Finance leases

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

	Machinery and equipment
31 Dec 2012	
Acquisition cost	16,015
Accumulated depreciation	-15,829
Carrying amount	186
31 Dec 2011	
Acquisition cost	16,151
Accumulated depreciation	-15,129
Carrying amount	1,022

Increases on the acquisition cost of property, plant and equipment include assets leased on finances leases totalling EUR 0 in 2012 (EUR 0 in 2011).

14. INTANGIBLE ASSETS

	Goodwill	Other intangible assets	Total
Acquisition cost, 1 Jan 2012	**2,452**	**4,408**	**6,861**
Increase	0	0	0
Decrease	0	0	0
Reclassifications between items	0	0	0
Exchange difference	-24	-47	-71
Acquisition cost, 31 Dec 2012	**2,429**	**4,361**	**6,790**
Accumulated amortisation and impairment losses, 1 Jan 2012	**-1,489**	**-4,067**	**-5,556**
Amortisation	0	-163	-163
Cumulative depreciation on sales of assets in Group companies	0	0	0
Exchange difference	0	47	47
Accumulated amortisation and impairment losses, 31 Dec 2012	**-1,489**	**-4,183**	**-5,672**
Carrying amount, 1 Jan 2012	964	341	1,304
Carrying amount, 31 Dec 2012	940	178	1,118
Acquisition cost, 1 Jan 2011	**2,529**	**4,607**	**7,136**
Increase	0	17	17
Decrease	0	-25	-25
Reclassifications between items	0	0	0
Exchange difference	-77	-190	-267
Acquisition cost, 31 Dec 2011	**2,452**	**4,408**	**6,861**
Accumulated amortisation and impairment losses, 1 Jan 2011	**-1,489**	**-3,902**	**-5,391**
Amortisation	0	-324	-324
Cumulative depreciation on sales of assets in Group companies	0	22	22
Exchange difference	0	136	136
Accumulated amortisation and impairment losses, 31 Dec 2011	**-1,489**	**-4,067**	**-5,556**
Carrying amount, 1 Jan 2011	1,040	705	1,745
Carrying amount, 31 Dec 2011	964	341	1,304

Testing for impairment is based on a cash flow estimate prepared based on the budget and four-year business plan ratified by the management. According to the company's estimate there are no external or internal indications of the impairment of goodwill and other intangible assets with an indefinite useful life. This has been verified in calculations concerning recoverable amount. In the cash flow estimate the growth of revenue in India varies between 8 and 9% and the operating profit before depreciation between 9 and 12% during 2013–2016. In the calculations of the financial year 2012, a discount rate of 16.0% has been used in India (2011: 17.4%). The goodwill of approx. EUR 0.9 million in the consolidated balance sheet refers to the Indian subsidiary. According to the sensitivity analysis of goodwill calculations, the revenue in India can decrease by max. 18% and the average cost of capital can increase by max. 10% without any need for the impairment of goodwill.

In impairment testing of goodwill, the residual value of future cash flows is 54% of the cash flows in calculations for value in use. Recoverable amounts from cash generating units have been defined in calculations based on the value in use, and they involve use of estimates. Since the levels of revenue and operating profit before depreciation used in calculations do not reflect actual development during preceding years, there is an element of significant uncertainty associated with them. Testing of impairment is described also in the Notes to the Consolidated Financial Statements under Impairment of assets and Impairment testing.

15. OTHER FINANCIAL ASSETS

	2012	2011
Publicly quoted shares	4	4
Unquoted shares	7	10
Capital investment fund	300	300
Total available-for-sale investments at the end of the year	**311**	**314**

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

16. DEFERRED TAX ASSETS AND LIABILITIES

	1 Jan 2012	Recorded in income statement	Exchange differences	31 Dec 2012
Deferred tax assets				
Tax losses carried forward	4,085	-3,498	-27	560
Deferred tax liabilities				
Accumulated depreciation difference	0	0	0	0

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

Parent company's deferred tax assets of EUR 3.3 million has been recorded as an expense in the financial statements for 2012. There are no longer prerequisites based on IAS 12 standard to keep deferred tax assets in the balance sheet, because the company has in the near past made losses and it has, besides the estimates for the future, no other convincing proof for the fact that the company will produce enough taxable income, against of which the tax losses could be utilised

A deferred tax asset has been recognised in the Indian company to the extent that is considered to be possible to utilise against future taxable income. Of the deferred tax assets recorded in the financial statement, EUR 0.6 million refers to the Indian subsidiary. The deferred tax asset is based on the Board of Directors' estimate of the company's future development during the next five years and the resulting imputed taxable profit.

The impairment testing of deferred tax assets has been made based on the situation at the end of financial year 2012. The estimated growth of revenue varies in the Indian subsidiary for an average of 8–9% in the years 2013–2016.

The level of operating profit before depreciation varies in the Indian subsidiary between 9 and 12%. Because the profitability of the Indian subsidiary has improved during 2012 and EUR 0.2 million of tax losses have been utilised, there will be no uncertainty as to the utilisation of the tax losses in the future. In 2013 the Indian subsidiary can fall short of the revenue objectives by a maximum of 7% without any need for write-down.

Loss from the taxation year 2002, i.e. EUR 1.0 million, expired in 2012. The non-recorded cumulative tax assets on tax losses carried forward totalled EUR 11.2 million on 31 December 2012. Tax losses expire in years 2013–2022.

17. INVENTORIES

	2012	2011
Raw materials and supplies	6,602	8,372
Work in progress	1,140	792
Finished goods	1,426	2,038
Advance payments	184	220
	9,352	**11,423**

EUR 0.5 million was recorded as an expense for the financial year, and the carrying amount of inventories was lowered by this amount to align it with the net realisable value (EUR 0.2 million in 2011).

18. TRADE AND OTHER RECEIVABLES

	2012	2011
Trade receivables	10,853	14,197
Loan receivables	31	33
Prepaid expenses and accrued income	1,438	1,190
Other receivables	492	414
	12,815	**15,834**

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

Aging structure of trade receivables and items recorded as credit losses	2012	2011
Not past due	9,108	11,576
Past due		
Less than 30 days	1,119	1,831
30–60 days	217	471
61–90 days	32	148
More than 90 days	376	171
	10,853	**14,197**
Items recorded as credit losses	6	0

Distribution of current receivables by currency, EUR	2012	2011
USD	1,669	1,903
HKD	10	7
GBP	0	0
EEK	0	0
INR	2,511	1,774
EUR	8,624	12,150
	12,815	**15,834**

19. CASH AND CASH EQUIVALENTS

	2012	2011
Cash and bank accounts	570	325
Short-term investments	43	44
	613	**369**

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

20. NOTES TO THE STATEMENT OF CHANGES IN EQUITY

	Number of shares	Share capital	Share premium account	Total
31 December 2012	20,848,980	20,487	44	20,531
31 December 2011	18,680,880	20,487	44	20,531

The maximum amount of the Incap Group's shares at the balance sheet date is 40 million shares, the same as in 2011. The share's accounting countervalue is EUR 1.68 and the Group's maximum share capital is EUR 67.2 million (EUR 67.2 million in 2011). The shares are fully paid in.

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

21. SHARE-BASED PAYMENT

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

The option scheme implemented in February 2009 includes a total of 600,000 stock options entitling their holders to subscribe for an equal number of Incap shares. The stock options are broken into three categories: 2009A, 2009B and 2009C. There are 100,000 A options, 100,000 B options and 400,000 C options. The subscription price for all stock options is EUR 1. The subscription period is from 1 April 2010 to 31 January 2014 for 2009A stock options and from 1 April 2011 to 31 January 2014 for 2009B and 2009C stock options. The CEO has received 100,000 A stock options and 100,000 B stock options. The company's key employees have received a total of 129,000 C stock options. The proportion of shares to be subscribed on the basis of stock options is up to 1.6% of the company's shares and votes after a possible increase in share capital. Undistributed and returned stock options will be given to Euro-ketju Oy, a subsidiary fully owned by Incap, and the Board of Directors will make a separate decision on distributing these.

The main terms governing the determination of the fair value of equity instruments that were granted and accepted earlier	**2012**	**2011**	**2010**	**All share options**
Number of instruments granted, pcs	201,000	125,000	100,000	426,000
Average (weighted) subscription price, euros	1.00	1.00	1.00	1.00
Average (weighted) maturity, years	4.0	4.4	5.1	4.4
Expected average (weighted) volatility, %	48.0	48.0	48.0	48.0
Average (weighted) risk-free interest rate, %	2.4	2.4	2.4	2.4
Expected personnel reductions (at grant date), %	23.0	23.0	23.0	23.0
Total fair value, euros	34,307	20,375	16,344	71,026
Valuation model	Black-Scholes			
Actual	In shares			

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

	2012		**2011**	
Changes during the share option period and weighted average strike prices	**Average weighted strike price, euros/share**	**Number of options**	**Average weighted strike price, euros/share**	**Number of options**
Beginning of year	1.00	369,000	1.11	251,100
New options granted	0	0	1.00	201,000
Share options forfeited	1.00	-40,000	1	-57,000
Expired options	0	0	2.05	-26,100
Share options outstanding at end of year	**1.00**	**329,000**	**1.00**	**369,000**

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

Year of expiry	**Strike price, euros**	**Number of shares 2012**	**Number of shares 2011**	**Number of shares 2010**	**Number of shares 2009**
2014	1.00	329,000	369,000	225,000	100,000

22. PENSION OBLIGATIONS

The Group has both defined-contribution and defined-benefit pension plans. Defined-benefit pension plans are only employed in the subsidiary in India. In defined-benefit pension plans, the amount of the pension benefit at the time of retirement is determined on the basis of certain factors, such as salary and years of employment.

Defined-benefit pension liability in the balance sheet are determined as follows:	**2012**	**2011**
Present value of unfunded obligations	0	0
Present value of funded obligations	213	194
Fair value of plan assets	-94	-99
Underfunding/overfunding	119	95
Unrecognised acturial gains (+) and losses (–)	0	0
Unrecognised past service expenses	0	0
Net liability	**119**	**95**
Amounts in the balance sheet:		
Liability	119	95
Receivable	0	0
Net liability	**119**	**95**

Defined-benefit pension expenses recognised in the income statement	**2012**	**2011**
Pension costs based on current period's service	13	14
Benefit-related interest expense	16	17
Expected return on plan assets	-6	-9
Actuarial gains (+) and losses (–)	24	1
Pension costs based on prior periods' service	0	0
Gains/losses on plan curtailment	0	0
Total	**46**	**22**

Actual return on plan assets was EUR 9,271 in 2012 (EUR 8,120 in 2011)

Changes in the present value of the defined benefit obligation	**2012**	**2011**
Defined benefit obligation at 1 January	185	184
Current service cost	12	13
Interest cost	15	16
Actuarial losses/(gains) on obligation	25	0
Gains (+) and losses (–) based on curtailment	0	0
Business combination	0	0
Exchange difference	0	0
Benefits paid	-24	-19
Defined benefit obligation at 31 December	**213**	**194**

Changes in the fair value of plan assets	**2012**	**2011**
Fair value of plan assets at 1 January	94	110
Expected return on plan assets	6	9
Actuarial gains (+) and losses (–)	3	-1
Contributions by employer	15	0
Contributions by plan participants	0	0
Business combination	0	0
Exchange difference	0	0
Benefits paid	-24	-19
Fair value of plan assets at 31 December	**94**	**99**

Plan assets are comprised as follows:	**2012**	**2011**
Funds managed by insurer	94	99

The principal actuarial assumptions used on 31 December	**2012**	**2011**
Asia		
Discount rate	8.15%	8.50%
Expected return on plan assets	7.50%	7.50%
Future salary increases	7.00%	7.00%

Amounts for the current and previous two periods	2012	2011	2010
Present value of defined benefit obligation	213	194	211
Fair value of plan assets	94	99	126
Surplus (+) / deficit (–)	119	95	85
Experience adjustments on plan liabilities	18	7	43
Experience adjustments on plan assets	3	-1	1

The Group expects to contribute EUR 0.01 million to its defined benefit pension plans in year 2013.

23. RESTRUCTURING PROVISION AND OTHER PROVISIONS

Expense reserve	
31 December 2011	677
Increase in restructuring provision	0
Used provisions	-574
31 December 2012	**103**

31 December 2010	285
Increase in restructuring provision	622
Used provisions	-230
31 December 2011	**677**

As a part of its structural change Incap centralised its production, closing down the factory in Vuokatti, Finland in 2010 and the factory in Helsink, Finland in 2012. A provision of EUR 2.6 million of non-recurring expenses was recognised for the financial year 2009 for the closing down of the Vuokatti factory. The provision was used mainly during the year 2010, and at the end of the financial period, the remaining provision amounted to EUR 55 thousands. For the closure of the Helsinki factory, a provision of a total of EUR 0.6 million was recognised for the financial year 2011. At the end of the financial period, the remaining provision amounted to EUR 48 thousands.

24. INTEREST-BEARING LIABILITIES

Non-current financial liabilities measured at amortised cost

	2012	2011
Capital loan	600	0
Convertible bond	1,886	0
Pension loans	0	0
Other loans, held-for-sale	0	0
Finance lease liabilities	6	259
	2,492	**259**

Current financial liabilities measured at amortised cost

	2012	2011
Bank loans	12,558	15,129
Other loans	1,899	1,899
Convertible bond	3,405	6,735
Pension loans	0	0
Other loans, held-for-sale	0	256
Finance lease liabilities	97	574
	17,959	**24,592**

The fair values of liabilities are presented in Note 27.

The non-current bank loans amounting to EUR 3.5 million have been transferred to current financial liabilities due to the breach of covenants (EUR 3.9 million in 2011). Further information is given in the report of the Board of Directors in chapter Short-term risks and factors of uncertainty concerning operations as well as in Note 26 Management of financial risks, liquidity risk.

Of non-current financial liabilities, EUR 0 million are due to be paid off in more than five years (EUR 0 million in 2011). The Group's bank loans have both variable and fixed interest rates. The Group's average interest rate is 6.34% (5.22% in 2011).

Forthcoming payable interest and instalments of loans

	2012	2011
Less than 6 months	18,430	18,533
6–12 months	54	3,173
1–5 years	3,263	4,546
More than 5 years	0	0
	21,747	**26,252**

The forthcoming instalments and interests have been calculated based on the present effective loan agreements. Because of the covenants, the non-current bank loan has in the balance sheet been described under current loans. The presentation of the instalments and the interest of the loans has been changed in line with the IFRS 7 standard in order to give a more relevant conception, and accordingly the interest and the instalments cover also the finance lease liabilities, factoring limits and credit lines. The data from previous year has been adjusted accordingly.

Distribution of interest-bearing liabilities by currency, EUR

Non-current liabilities	2012	2011
USD	0	0
EEK	0	0
INR	0	0
EUR	2,492	259
	2,492	**259**

Current liabilities	2012	2011
USD	1,555	1,604
EEK	0	0
INR	668	727
EUR	15,736	22,261
	17,959	**24,592**

Convertible bond 2007

The convertible loan of EUR 6.75 million, issued by Incap in 2007, matured on 25 May 2012. The company agreed in May 2012 upon re-financing for the convertible loan so that the company redeems the loan units to some of the convertible loan's holders while a portion of the holders convert their loan units to a new convertible loan. Some of the redemptions were carried out in May-June 2012, and the amount to be redeemed by 31 December 2012 was EUR 2,405,950.27.

After the end of the financial period in January 2013 Incap negotiated the final redemption of the convertible loan. In January 2013, the company redeemed out of the remaining loan units a total of EUR 1.0 million. Furthermore, a part of the loan with respective interest, i.e. a total of EUR 0.4 million, was converted to Incap's shares by means of a private placement to one holder of the convertible loan. The final redemption of the 2007 convertible loan, EUR 1.0 million including interest, will be settled by the end of June 2013.

Convertible loan 2012

A part of the holders of the convertible loan 2007 converted their loan units to a new convertible loan. The Board of Directors approved subscriptions for this new loan on 25 May 2012. The issue rate of the convertible loan is 100% and an annual fixed interest of 7% will be paid on the loan after each 12-month period. The subscription price of the new loan was formed in the following way: one loan unit in the 2007 convertible loan can be converted into one loan unit in the 2012 convertible loan. The loan amount is EUR 2,916,000 and a total of 540 loan units with the nominal value of EUR 5,400 were granted out of the loan. The convertible loan will expire on 25 May 2017. The convertible loan includes a right to subscribe a maximum total of 7,112,195 new shares of the company. The subscription price for each new share is EUR 0.41. The subscription period commences when the option rights attached to the convertible loan have been entered into the trade register, and ends on 30 April 2017.

Capital loan

In connection with the negotiations concerning the redemption of the convertible loan 2007, three of Incap Corporation's major shareholders granted the company a capital loan of EUR 1.05 million, with a loan period of three years and at an interest rate of 10%. Of the capital loan, EUR 0.6 million was drawn on 28 December 2012 and recorded in the financial statements for 2012. According to the loan conditions, upon the liquidation or the bankruptcy of the parent company, the capital and the interest may only be paid at a lower priviledge in comparison to all other debts. Otherwise the capital or the interest may be returned only for the part that the unrestricted equity and capital loans of the parent company at the time of the payment exceed balance sheet losses confirmed for the parent company's latest financial period or included in more recent financial statements. No security has been provided for interest on the capital or for the loan. The loan interest is recognised as an expense on a time apportionment basis. In the consolidated IFRS financial statements, the accumulated interest of the capital loan is recognised as an expense for the financial period. The loan is due for repayment at the latest on 31 December 2015.

Due dates of finance lease liabilities	**2012**	**2011**
Finance lease liabilities – Minimum lease payments		
Less than 1 year	100	598
1–5 years	6	266
Later than 5 years	0	0
	105	**864**
Finance lease liabilities – Present value of minimum lease payments		
Less than 1 year	97	574
1–5 years	6	259
Later than 5 years	0	0
	103	**833**
Future finance charges	2	31
Total finance lease liabilities	**105**	**864**

25. TRADE AND OTHER PAYABLES

Current	**2012**	**2011**
Trade payables	8,006	8,693
Cash proceeds	0	0
Accrued liabilities	1,529	2,106
Other liabilities	2,305	2,310
	11,841	**13,109**

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

Distribution of non-interest-bearing liabilities by currency, EUR	**2012**	**2011**
USD	850	1,110
SEK	16	5
CHF	133	117
GBP	1	32
SGD	5	0
NOK	1	5
JPY	4	8
HKD	149	2
EEK	0	0
INR	1,847	2,298
EUR	8,834	9,533
	11,841	**13,109**

Incap has reached an agreement with the Finnish Tax Administration on the payment arrangement related to overdue value-added taxes, withholding taxes and social security contributions. The total amount of the tax liabilities within the scope of this arrangement is approximately EUR 1.2 million. Each instalment amounts to EUR 57,700.00 and is paid monthly. The last payment will take place on 22 August 2014. Eventual sanction for delay (penalty interest and additional tax) is a reference rate for the preceding 6 months in accordance with the Tax Law 12 § plus seven (7) percentage unit. In 2013 the interest percentage is 8. According to the provisions of the agreement, if an instalment is late, the Finnish Tax Administration has the right to terminate the agreement with immediate effect.

26. MANAGEMENT OF FINANCIAL RISKS

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

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

CURRENCY RISKS

Because the Incap Group operates in the euro zone and Asia, the company's business involves currency risk. In accordance with its risk management policy, the company aims to hedge itself from currency risks with currency options and currency forward contracts. In the Finnish and Estonian companies, a part of material purchases is made in USD. The respective transaction position is taken into consideration when calculating the company-specific position and is hedged in accordance with the currency risk policy. The company does not apply hedge accounting in accordance with IAS 39.

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

Incap uses the subsidiary's home currency (INR) in invoicing between the parent company and the subsidiary. Therefore, exposure to transaction risk concerns almost completely the Group's parent company and the foreign subsidiary is not exposed to substantial transaction risk. The risk exposure of the parent company's balance sheet is hedged with forward exchange agreements and options.

In line with the Group's currency risk policy the euro-denominated investment made in the subsidiary in India was not hedged during the financial year. The currency exchange differences arising from the investment are presented under exchange differences in the Group's non-restricted equity. A change of +15%/-15% in the EUR/INR exchange rate results in a decrease of EUR 115,141.95 or an increase of EUR 155,780.29 compared with the exchange difference at 31 December 2012.

INTEREST RATE RISK

At the balance sheet date, interest-bearing liabilities in the consolidated balance sheet totalled EUR 20.5 million. Less than half of the interest-bearing liabilities have a fixed rate. The weighted average duration of the interest-bearing loan at the balance sheet date is 2.8 years. The calculation includes all loans, for which it is possible to define the payback period. 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 calculations of the defined interest rate change on the company's result, when needed. 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 +/- 119,161.37 at 31 December 2012.

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. 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.

A total of EUR 5,526.80 of credit losses were recorded during the financial year 2012. During 2012 the Group renegotiated payment terms for receivables that would otherwise have been due or that would have decreased in value. No credit insurance has been used to hedge trade receivables.

The aging structure of trade receivables is presented in Note 18.

LIQUIDITY RISK

The Group continuously evaluates and monitors the amount of financing required by business operations, so that it has sufficient liquid funds to finance operations and repay due loans. The company strives to ensure the availability and flexibility of financing by using credit facilities and other forms of financing.

Incap's main sources of financing are cash flow from operations, loans raised from financial institutions and share issues. Cash flow from operations has not been sufficient to loan repayments and investments. In order to secure the financing, the company has during 2010–2012 organised three private placements, in which equity financing of EUR 4.9 million has been collected from investors and major shareholders.

On 31 December 2012, Incap Group's current interest-bearing loans and borrowings stood at EUR 18.0 million. Of this amount, EUR 14.5 million is a loan from credit institutions, of which EUR 4.1 million is directed towards the Indian subsidiary. In Finland and Estonia, the parent company uses factoring financing which is part of current liabilities.Unused credit facilities and cash equivalents were EUR 4.8 million on 31 December 2012.

Of the Group's bank loans both the account with credit facility and the factoring limit were maturing on 31 May 2012. The company negotiated in spring 2012 over a financing arrangement with the target to renew the maturing bank loans and the convertible loan, and to ensure the additional funding needed for operations. The negotiations were concluded successfully on 22 May 2012 when the company's Finnish financing banks renewed the maturing loans and granted altogether EUR 2.5 million in a new loan. Of this new loan, EUR 1 million was drawn down in July 2012 and EUR 0.75 million after the end of the financial period in January 2013. The remaining part of the loan can be drawn by 29 July 2013 after a separate confirmation of the bank.

Loans from credit institutions	Balance on 31 Dec 2012 (EUR)	Review of covenants	Expiry date
1. Bank loan in Finland	180,000	30 Jun 2013	29 Oct 2013
2. Bank loan in Finland	2,196,364	30 Jun 2013	29 Oct 2013
3. Account with credit facility (< EUR 1 million)	24,883	30 Jun 2013	for the present
4. Factoring limit (< EUR 8.5 million)	5,265,009	30 Jun 2013	for the present
5. Bank loan in Finland	1,666,667	30 Jun 2013	3 May 2016
6. Bank loan in Finland	1,000,000	30 Jun 2013	12 Jul 2017
7. Account with credit facility in India	668,261		13 Apr 2013
8. Bank loan in India	1,554,675		31 May 2013
9. Finnfund's investment in Indian operations	1,898,615		1 Apr 2014
10. Bank loan in Estonia	1,975		20 Jan 2013
Total	14,456,448		
Other loans			
Convertible loan 2007	2,405,950		30 Jun 2013
Convertible loan 2012	2,885,002		25 May 2017
Capital loan	600,000		31 Dec 2015
Finance lease in Finland	39,183		28 Sep 2013
Finance lease in Finland	16,135		1 Jan 2014
Finance lease in Finland	5,567		1 Mar 2013
Finance lease in Finland	9,401		1 Mar 2013
Finance lease in Finland	5,535		1 Mar 2013
Finance lease in Finland	10,000		1 Jan 2014
Finance lease in Estonia	3,029		31 Dec 2013
Finance lease in Estonia	14,168		15 Oct 2013
Total	5,993,970		
Total	**20,450,418**		

Of the company's loans, a part of finance leases and a part of the 2012 convertible loan and the capital loan are classified as non-current. Other bank loans are included in current financial liabilities on the basis of the loan period or due to the breach of covenants.

Loans, credit line and factoring credit line granted by a Finnish bank totalled EUR 10.3 million on 31 December 2012. These loans (Nos. 1–6 in the above table) involve the following covenants:

	Equity ratio	net IBD/EBITDA
31 December 2012	at least 10%	up to 7
30 June 2013 and onwards	at least 15%	up to 5

Net IBD equals interest-bearing liabilities without factoring lease according to IFRS principles less cash and cash equivalents. EBITDA is calculated for rolling 12 months.

The covenants were not met on 31 December 2012. On this date, the company's equity ratio was -10.3% and net IBD/EBITDA was 18.7. The bank has the right to terminate the agreements to expire after 60 days if any covenant is not met on the testing date. On 28 January 2013, the company received a written confirmation from the bank that the bank will not exercise its right to terminate the loans, even though the covenants were not met on 31 December 2013. The covenants will be tested next on 30 June 2013 and after that every six months.

The first instalment of EUR 1 million of the additional loan which was negotiated in connection with the financing arrangement in May 2012 was drawn down in July 2012. This loan of EUR 1 million includes the same covenants as

mentioned above. In addition, the bank has the right to terminate the loan if the redemption of the convertible loan issues in 2007 does not take place by the end of June 2013 as agreed.

On the basis of the forecast prepared by Incap on 25 February 2013, the covenants mentioned above will not be met on the next testing date, 30 June 2013. The company is continuing the negotiations with the bank in order to mitigate the covenants and to rearrange the financing.

Finnfund's investment made in 2009 or any other foreign loans do not include any covenants. However, a standby letter of credit which serves as a security of a foreign bank's loan is including covenants.

The convertible loan of EUR 6.75 million, issued by Incap in 2007, matured on 25 May 2012. In May 2012, the company agreed upon re-financing for the convertible loan so that the company redeems the loan units of some of the convertible loan's holders while a portion of the holders convert their loan units to a new convertible loan. The new convertible loan was issued on 25 May 2012. The company was committed to redeem or purchases a portion of the loan shares to a total amount of EUR 2,805,550, which is in average 27% lower than the nominal value of the loan. The loan shares to be redeemed represented a total of EUR 3,834,000 of the capital of the convertible loan issued in 2007.

The redemption of the loan shares was due to take place during the year 2012 according to an individual schedule agreed with the loan holders. Some of the redemptions were carried out in May-June 2012, and the amount to be redeemed by 31 December 2012 was EUR 2,405,950.27.

According to the provisions of the agreement, one subscriber of the 2012 convertible loan has the right to terminate the financing agreement in case the redemption of the 2007 convertible loan is not taken place by the end of the year 2012. This subscriber, whose loan units in the convertible loan amount to EUR 999,000, has confirmed after the end of the financial period 2012 that it will not use the right to terminate the agreement now but has prolonged its termination right until 30 June 2013.

In January 2013, after the end of the financial period, Incap concluded its negotiations concerning the final redemption of the convertible loan. The company redeemed out of the remaining loan units a total of EUR 1.0 million in January 2013. Furthermore, a part of the loan with respective interest, i.e. a total of EUR 0.4 million, was converted to Incap's shares by means of a private placement issued on 30 January 2013 to one holder of the convertible loan. The final redemption of the 2007 convertible loan, EUR 1.0 million including interest, was agreed to be settled by the end of June 2013.

The arrangement of the convertible loan 2007 has been described in the Note 24, as are the forthcoming instalments and interests.

To assess its liquidity, Incap has prepared a 12-month cash flow projection for the Group covering a period that includes the financial statements for 2013. The cash flow projection is based on the performance forecast than has been prepared in connection with the financial statements and will be updated monthly, as well as on the actual turnover of sales receivables, accounts payable and inventories. Since the profit levels used in calculations do not reflect the actual past development, there is an element of remarkable uncertainty associated with them.

When evaluated on the basis of the present situation, Incap's working capital will not cover the requirement for the next 12 months. However, the company's working capital will be sufficient for the next 12 months if the following criteria are met:

- the company's potential share issue and financing arrangements succeed as planned, so that the company obtains funds for working capital funding and the final redemption of the 2007 convertible loan in June 2013; and
- the bank accepts the terms and conditions for the drawing down of the additional loan; and
- the goals for the company's result and inventory turnover rate are achieved; and
- the covenants for the company's loans from credit institutions are met, or, should the covenants not be met, the bank decides not to exercise its right to terminate the loan agreements.

Incap's management is confident that the share issue planned by the company will succeed and the company will be able to redeem the convertible loan as agreed. The strategic restructuring has been carried out as planned; the company closed down the Helsinki plant in the summer 2012 and transferred its production to other units. In addition, in January 2013 the company started co-operative negotiations with the Group Services personnel, with the aim of reorganising the company's administration and improving the efficiency of operations significantly. These measures and other development projects are expected to improve profitability. In addition, the company will continue to take measures to ensure that the goals for the company's result and inventory turnover are achieved.

Thus, the company estimates that it will be able to cover any possible working capital deficit and ensure that the covenants related to the financing agreements are met. Should the covenants not be met and the financiers inform the company that they will make use of the covenants to terminate the agreements, the company would need to initiate negotiations on the rearrangement of funding and on gaining new equity or debt financing.

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. On 31 December 2012, the Group's interest-bearing net liabilities totalled EUR 19.8 million (EUR 24.5 at 31 Dec 2011) and its gearing was -659% (1,868% at 31 Dec 2011). 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. On 31 December 2012, the equity ratio was -10.3% (3.3% at 31 Dec 2011).

27. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

Financial liabilities	Carrying amount 2012	Fair value 2012	Carrying amount 2011	Fair value 2011
Bank loans	12,558	12,558	15,129	15,131
Pension loans	0	0	0	0
Convertible bond	5,291	5,926	6,735	6,709
Capital loan	600	600	0	0
Other interest-bearing loans	1,899	1,899	2,155	2,155
Finance lease liabilities	103	103	833	833
Trade and other payables	11,841	11,841	13,109	13,109

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

Discount rates applied in determining fair value	2012	2011
Bank and other loans	1.84–10.00%	1.86–10.00%

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

28. ADJUSTMENTS TO CASH FLOWS FROM OPERATIONS

	2012	2011
Non-cash transactions	-574	187
Depreciation and impairment losses	1,460	2,040
Change in finance lease agreements due to IFRS adjustments		0
Lease payments in cash flow from financing activities		0
Employee benefits expense	-5	2
Transfer of capital gains on tangible assets to cash flow from investments		0
Gains (–) and losses (+) of disposals of fixed assets and other non-current assets	-153	-72
	728	**2,157**

29. OPERATING LEASES

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

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

The Group as lessee

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

	2012	2011
Less than 1 year	1,233	1,396
1–5 years	566	445
	1,798	**1,841**

The income statement for 2012 includes EUR 1.8 million of lease expenses paid for operating leases (EUR 1.8 million in 2011).

30. COLLATERAL AND CONTINGENT AND RELATED LIABILITIES

Collateral given on behalf of own commitments	**2012**	**2011**
Mortgages	2,196	2,230
Business mortgages	12,113	10,113
Repurchase liability for trade receivables sold to finance companies	5,265	7,452

31. RELATED-PARTY TRANSACTIONS

Management's employee benefits	**2012**	**2011**
Salaries and other current employee benefits	912	796
Benefits in connection with termination of employment	39	0
Benefits after end of employment	0	0
Other long-term employee benefits	0	0
Share-based payment	0	0
	951	**796**

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	**2012**	**2011**
President and CEO	267	258
Board members		
Kalevi Laurila	48	48
Susanna Miekk-oja	24	36
Kari Häyrinen	0	24
Lassi Noponen	36	24
Raimo Helasmäki	24	24
Matti Jaakola	24	0

The wages and salaries for the Board of Directors cover the full term of office for Board members from 11 April 2012 until 10 April 2013. The members of the company's Board of Directors and the President and CEO and their interest parties and controlled corporations owned a total of 4,512,174 shares, or 21.6% of the company's shares outstanding and voting rights.

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

32. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

In January 2013, Incap started two co-operative negotiations in accordance with the Act on Co-operation with the personnel of its Vaasa plant and with the personnel working in its Corporate services in Finland. The outcome of the negotiations in Vaasa is that, if necessary, the personnel of the Vaasa plant will be laid off temporarily for a maximum of 90 days. Eventual temporary lay-offs will take place by the end of June, and their need will be evaluated weekly based on the order book.

On 17 January 2013, Incap published a release about a financing arrangement that was related to the redemption of the convertible loan issued in 2007. Incap redeemed out of the remaining loan units a total of EUR 1.0 million in cash payment in January 2013. Furthermore, a part of the loan with respective interest, i.e. a total of EUR 0.4 million, was converted to Incap's shares by means of a private placement to one holder of the convertible loan. The final redemption of the 2007 convertible loan including interest, EUR 1.0 million, will be settled by the end of June 2013.

On 30 January, the Board of Directors of Incap Corporation arranged a private placement with which the company redeemed a part of the convertible loan issued in 2007. One holder of the convertible loan was given, as compensation for the holder's loan units, altogether 1,697,286 new shares in the company. The imputed subscription price of the shares was EUR 0.22 per share. The new shares equal approximately 8.1% of the total number of shares of the company before the share issue. After the registration of the new shares, the total number of Incap Corporation's shares is 22,546,266.

In connection with the negotiations concerning the redemption of the convertible loan, three of Incap Corporation's major shareholders granted the company a capital loan of EUR 1.05 million, with a loan period of three years and at an interest rate of 10%. The loan conditions include the right to set off eventual subscription price of shares in a share issue arranged by the company.

On 30 January 2013, Incap finalised the financing negotiations with a Finnish bank and drew down one half of the loan of EUR 1.5 million granted to the company. The remaining loan instalment can be drawn down by 29 July 2013 after a separate confirmation given by the bank.

Parent Company Income Statement

1,000 euros	Note	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Revenue	1	44,746	54,311
Changes in inventories of finished goods and work in progress	3	-359	-166
Other operating income	2	386	246
Raw materials and services	3	35,328	43,321
Personnel expenses	4	6,549	8,068
Depreciaton, amortisation and impairment losses	5	431	549
Other operating expenses	6	4,273	3,842
Operating profit/loss		**-1,808**	**-1,389**
Financial income and expenses	7	-456	-1,108
Profit/loss before extraordinary items		**-2,264**	**-2,497**
Extraordinary items		0	0
Profit/loss before appropriations and taxes		**-2,264**	**-2,497**
Appropriations	8	25	124
Income taxes	9	-3,267	0
Profit/loss for the financial year		**-5,506**	**-2,373**

Parent Company Balance Sheet

1,000 euros	Note	31 Dec 2012	31 Dec 2011
ASSETS			
Non-current assets			
Intangible assets	10	208	263
Tangible assets	10	1,796	2,136
Investments	11		
Holdings in Group companies		13,940	13,940
Other investments		311	311
Total non-current assets		**16,255**	**16,651**
Current assets			
Inventories	12	1,963	3,088
Deferred tax assets	13	0	3,267
Non-current receivables	13	9,846	9,118
Current receivables	13	7,772	11,324
Cash in hand and at bank		47	16
Total current assets		**19,628**	**26,813**
Total assets		**35,884**	**43,464**
LIABILITIES			
Equity	14		
Share capital		20,487	20,487
Share premium account		44	44
Reserve for invested unrestricted equity		4,919	4,160
Retained earnings		-11,880	-9,507
Profit for the financial year		-5,506	-2,373
Total equity		**8,064**	**12,811**
Appropriations		0	25
Liabilities			
Non-current liabilities	15	2,517	0
Current liabilities	16	25,303	30,628
Total liabilities		**27,820**	**30,628**
Total equity and liabilities		**35,884**	**43,464**

Parent Company's Cash Flow Statement

1,000 euros	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
Cash flow from operating activities		
Operating profit/loss	-1,808	-1,389
Adjustments to operating profit/loss	-227	434
Change in working capital	5,315	-1,348
Interest paid	-1,567	-1,309
Interest received	132	226
Cash flow from operating activities	**1,845**	**-3,386**
Cash flows from investing activities		
Investments in tangible and intangible assets	-44	-66
Investment in subsidiary	-58	-30
Capital investment fund	-61	-80
Proceeds from sales of tangible and intangible assets	110	71
Repayments of loan receivables	0	0
Cash flow from investing activities	**-53**	**-105**
Cash flows from financing activities		
Proceeds from share issue	759	0
Drawdown of loans	1,600	4,173
Loan repayments	-4,120	-796
Cash flow from financing activities	**-1,761**	**3,377**
Change in cash and cash equivalents	**31**	**-115**
Cash and cash equivalents at the beginning of the financial year	16	131
Cash and cash equivalents at the end of the financial year	**47**	**16**
Change in working capital		
Increase in current trade receivables	2,795	-3,413
Increase in inventories	1,325	473
Increase in current liabilities	1,195	1,592
	5,315	**-1,348**

Notes to the Parent Company Financial Statements

ACCOUNTING POLICIES

PRINCIPLES OF MEASUREMENT AND PERIODISATION

Non-current assets

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

INTANGIBLE ASSETS

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

TANGIBLE ASSETS

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

Inventories

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

Financial assets and management of financial risks

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

Foreign currency transactions

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

Leases

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

Research and development expenditure

Research and development expenditure in 2012 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 2013–2022. Parent company's deferred tax assets of EUR 3.3 million have been recorded as an expense in the financial statements for 2012. There are no longer prerequisites based on IAS 12 standard to keep deferred tax assets in the balance sheet, because the company has in the near past made losses and it has, besides the estimates for the future, no other convincing proof for the fact that the company will produce enough taxable income, against of which the tax losses could be utilised

Deferred tax assets are described in more detail in Note 16, Deferred tax assets and liabilities, to the consolidated financial statements.

Impairment testing of shares in subsidiaries

The value of shares in subsidiaries in the parent group is the acquisition cost plus subsequent investments to strengthen the equity of the subsidiaries. The value of the shares has a significant impact on the parent company's equity ratio and therefore on, for example, shareholders' equity. The impairment testing of shares in subsidiaries has been carried out on the basis of the situation at the end of December 2012.

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

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

1. REVENUE

Revenue by market area	1.1.–31.12.2012	1.1.–31.12.2011
Finland	36,649	43,784
Europe	7,770	8,402
Other	327	2,125
	44,746	**54,311**

2. OTHER OPERATING INCOME

	2012	2011
Capital gains on the sale of property, plant and equipment	365	227
Other income	22	19
	386	**246**

3. RAW MATERIALS AND SERVICES

	2012	2011
Raw materials and consumables		
Purchases during the financial year	14,287	17,518
Change in inventories	1,127	463
	15,413	**17,980**
External services	20,274	25,507
	35,687	**43,487**

4. PERSONNEL EXPENSES AND NUMBER OF PERSONNEL

	2012	2011
Average number of employees		
White-collar	44	60
Blue-collar	91	111
	135	**171**
Personnel expenses		
Wages and salaries	5,363	6,586
Pension expenses	894	1,150
Other social security expenses	291	331
	6,549	**8,068**
Salaries and bonus of the management		
President and the Board	423	414
	423	**414**

5. DEPRECIATION AND AMORTISATION

Depreciation according to plan in 2012 totalled EUR 0.4 million (EUR 0.5 million in 2011). The specification of depreciation and amortisation for individual balance sheet items is included in the item 10 Property, plant and equipment. The depreciation and amortisation periods are presented in the accounting policies.

6. OTHER OPERATING EXPENSE

	2012	2011
Lease payments	1,227	1,642
Maintenance expenses for machinery and properties	1,200	1,017
Other expenses	1,846	1,183
	4,273	**3,842**
Auditors fees		
KHT-Group Ernst & Young Oy Auditing fees	23	17
Certificates and statements	0	0
Tax advice	0	2
Other services	54	10
	77	**29**

7. FINANCIAL INCOME AND EXPENSES

	2012	2011
Dividend income		
From other companies	1	2
Other interest and financial income		
From Group companies	0	0
From other companies	1,141	241
Interest paid and other financial expenses		
To other companies	-1,599	-1,350
	-456	**-1,108**

Reduction in the redemption value of the convertible loan (accord) by EUR 1 million is recorded in financing income in 2012.

8. APPROPRIATIONS

	2012	2011
Difference between depreciation according to plan and depreciation for taxation purposes.	25	124

9. INCOME TAXES

	2012	2011
Change in deferred tax asset	-3,267	0

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

10. PROPERTY, PLANT AND EQUIPMENT

Intangible assets

	Intangible rights	Goodwill	Other long-term expenditure	Total
Acquisition cost, 1 Jan 2012	1,721	16,337	1,689	19,747
Increase	0	0	35	35
Decrease	0	0	0	0
Acquisition cost, 31 Dec 2012	**1,721**	**16,337**	**1,724**	**19,782**
Accumulated amortisation and impairment losses, 1 Jan 2012	-1,480	-16,337	-1,667	-19,484
Cumulative depreciation of decreases and reclassifications	0	0	0	0
Amortisation during the year	-70	0	-21	-91
Accumulated amortisation, 31 Dec 2012	**-1,550**	**-16,337**	**-1,688**	**-19,575**
Carrying amount, 31 Dec 2012	172	0	36	208
Carrying amount, 31 Dec 2011	242	0	22	263

Part of the issuing expenses resulting from the issue of convertible loan 2012 was recognised as other long-term expenditure. Of this amount, EUR 30,997.80 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 2012	**56**	**4,633**	**24,723**	**544**	**0**	**29,956**
Increase	0	0	16	0	0	16
Decrease	0	0	-270	0	0	-270
Reclassifications between items	0	0	0	0	0	0
Acquisition cost, 31 Dec 2012	**56**	**4,633**	**24,469**	**544**	**0**	**29,702**
Accumulated depreciation and impairment losses, 1 Jan 2012	**0**	**-2,996**	**-24,285**	**-539**	**0**	**-27,820**
Cumulative depreciation on reclassifications and disposals	0	0	254	0	0	254
Depreciation during the year	0	-243	-94	-3	0	-340
Accumulated depreciation, 31 Dec 2012	**0**	**-3,240**	**-24,124**	**-542**	**0**	**-27,905**
Carrying amount, 31 Dec 2012	56	1,393	345	2	0	1,796
Carrying amount, 31 Dec 2011	56	1,636	439	5	0	2,136

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

11. INVESTMENTS

	Holdings in Group companies	Receivables from Group companies	Other shares	Total
Acquisition cost, 1 Jan 2012	**10,164**	**3,776**	**311**	**14,251**
Increase	0	0	0	0
Acquisition cost, 31 Dec 2012	**10,164**	**3,776**	**311**	**14,251**
Carrying amount, 31 Dec 2012	10,164	3,776	311	14,251
Carrying amount, 31 Dec 2011	10,164	3,776	311	14,251

The Group's equity at the close of the financial period was EUR -3.0 million (EUR 1.3 million in 2011) while the parent company's equity was EUR 8.1 million (EUR 12.8 million in 2011). The equity of the Group is weakened by the loss of the parent company.

The value of shares in subsidiaries in the parent group is the acquisition cost plus subsequent investments to strengthen the equity of the subsidiaries. In the financial statements of the parent company, the value of the Indian subsidiary's shares in the balance sheet is approx. EUR 8.8 million and the value of the Estonian subsidiary approx. EUR 5.1 million. The value of the shares in subsidiaries has a significant impact on the parent company's equity and therefore on, for example, equity ratio. The impairment testing of shares in subsidiaries has been carried out based on the situation at the end of December 2012. The recoverable amounts used in the impairment test calculations are determined on the basis of use value.

The cash flow forecasts are based on the budget for the next financial period and the four-year business plan prepared by the management and ratified by the Board of Directors. In cash flow estimates, the growth of revenue during the years 2013–2016 is 8–9% in India and 5–15% in Estonia. In the calculations, the operating profit before depreciation is 9–12% in India and 1–5% in Estonia. The discount rate is comprised of industry risk, interest on liabilities and country-specific risk. The discount rate factors are updated annually in connection with the testing using information received from the market. In the calculations for the financial period 2012, the discount rate of 16.0% has been used in India and 11.5% in Estonia.

Should the revenue used in the testing decrease by 7% in India or by 13% in Estonia, or should the discount rate increase by a maximum of 1,5% in Estonia and a maximum of 3% in India, there would be no need for write-down of shares.

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

GROUP COMPANIES

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

Incap Corporation owns 100% of Incap Electronics Estonia OÜ and Incap Hong Kong Ltd and 77,5% of Incap Contract Manufacturing Services Pvt. Ltd. Share capital investment of Finnfund is 22,5% of the share capital of Incap Contract Manufacturing Services Pvt. Ltd. All companies are combined in the parent company consolidated financial statements.

12. INVENTORIES

	2012	2011
Raw materials and consumables	1,220	1,777
Work in progress	196	275
Finished goods	542	1,033
Advance payments for inventory	5	3
	1,963	**3,088**

13. ASSETS

	2012	2011
Non-current		
Amount owed by Group companies		
Trade receivables	9,846	9,118

Trade receivables from other Group companies, which are not supposed to be realised during the next 12 months after the end of the financial period, have been transferred from current to non-current receivables. The subsidiaries Incap Electronics Estonia OÜ and Incap Hong Kong Ltd have not been able to settle the trade payables to the parent company during the year 2012 due to their weak profitability. The parent company has non-current trade receivables amounting to EUR 7.1 milion from its subsidiary Incap Electronics Estonia OÜ and current trade payables amounting to EUR 5.0 million to Incap Electronics Estonia OÜ.

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

	2012	2011
Deferred tax asset	0	3,267
Current		
Trade receivables	7,107	10,978
Amount owed by Group companies		
Trade receivables	235	59
Interest receivables	0	0
Other receivables	0	0
	235	**59**
Other receivables	5	0
Prepaid expenses and accrued income	425	287
Total receivables	**17,619**	**23,709**
Material items in accrued income		
Personnel expenses	**203**	**0**
Salaries for the Board of Directors	**39**	**33**
Expenses of the share issue in 2013	**45**	**0**
Rents	**37**	**159**
Other	**101**	**95**
Total	**425**	**287**

14. EQUITY

	2012	2011
Subscribed capital, 1 Jan	20,487	20,487
Subscribed capital, 31 Dec	20,487	20,487
Share premium account, 1 Jan	44	44
Share premium account, 31 Dec	44	44
Total restricted equity	**20,531**	**20,531**
Reserve for invested unrestricted equity 1.1.	4,160	4,160
Share issue	759	0
Reserve for invested unrestricted equity 31.12.	4,919	4,160
Retained earnings, 1 Jan	-11,880	-9,507
Recording of previous years' depreciation differences	0	0
Retained earnings, 31 Dec	-11,880	-9,507
Profit for the financial year	-5,506	-2,373
Total non-restricted equity	**-12,467**	**-7,720**
Total equity	**8,064**	**12,811**
Distributable funds		
Reserve for invested unrestricted equity	4,919	4,160
Retained earnings	-11,880	-9,507
Profit for the financial year	-5,506	-2,373
	-12,467	**-7,720**

The parent company's equity is less than half of the share capital.

Equity capital on 31 December 2012	8,064
Capital loan	600
Equity according to the Companies Act, Chapter 20, § 23	8,664
Half of the share capital	10,243
Deficit	-1,579

Due to the equity of Incap Group's parent company decreasing to less than a half of the share capital the Board of Directors of Incap Corporation has taken steps to convene the Annual General Meeting to decide on measures to con-

solidate the company's operations. The Board of Directors together with the management is preparing an action plan to ensure the company's profitability in 2013.

15. NON-CURRENT LIABILITIES

	2012	2011
Capital loan	600	0
Loans from credit institutions	0	0
Pension loans	0	0
Convertible loan	1,917	0
Other liabilities	0	0
	2,517	**0**

All liabilities are falling due after five years. Non-current bank loans amounting to EUR 3.5 million have been transferred to current financing liabilities due to the breach of covenants.

Capital loan

In connection with the negotiations concerning the redemption of the convertible loan 2007, three of Incap Corporation's major shareholders granted the company a capital loan of EUR 1.05 million, with a loan period of three years and at an interest rate of 10%. Of the capital loan, EUR 0.6 million was drawn on 28 December 2012 and recorded in the financial statements for 2012. According to the loan conditions, upon the liquidation or the bankruptcy of the parent company, the capital and the interest may only be paid at a lower privilege in comparison to all other debts. Otherwise the capital or the interest may be returned only for the part that the unrestricted equity and capital loans of the parent company at the time of the payment exceed balance sheet losses confirmed for the parent company's latest financial period or included in more recent financial statements. No security has been provided for interest on the capital or for the loan. The loan interest is recognised as an expense on a time apportionment basis. Unless the prerequisites set in the Finnish Limited Liability Companies Act for payment of interest are fulfilled, the interest may not encumber the result for the financial period. The interest is presented as interest liability in the notes for the parent company.

16. CURRENT LIABILITIES

	2012	2011
Loans from credit institutions	10,333	12,797
Pension loans	0	0
Convertible bond	3,405	6,750
Trade payables	3,272	3,275
Amount owed to Group companies:		
Trade payables	5,051	3,651
Other liabilities	0	66
Advances received	0	0
Other liabilities	1,887	2,118
Accruals and deferred income	1,355	1,972
	25,303	**30,628**
Total interest-bearing liabilities	13,738	19,804
Material items in accruals and deferred income		
Wages and salaries, incl. social costs	800	1,258
Lease payment liabilities	0	51
Interest	403	364
Expense reserve	55	55
Other	97	243
	1,355	**1,972**
Other current liabilities		
Reserves	48	422
Tax account	1,192	1
Others	647	1,695
	1,887	**2,118**

Incap has reached an agreement with the Finnish Tax Administration on the payment arrangement related to overdue value-added taxes, withholding taxes and social security contributions. The total amount of the tax liabilities within the scope of this arrangement is approximately EUR 1.2 million. Each instalment amounts to EUR 57,700.00 and it is paid monthly. The last payment will take place on 22 August 2014. Eventual sanction of a delay (penalty interest and additional tax) is a reference rate for the preceding 6 months in accordance with the tax law 12 § plus seven (7) percentage unit. In 2013 the interest percentage is 8. According to the provisions of the agreement, if an instalment is late, the Finnish Tax Administration has the right to terminate the agreement with immediate effect.

17. OTHER NOTES TO THE ACCOUNTS

Collateral	2012	2011
Loans for which real-estate has been mortgaged as collateral		
Loans from credit institutions:		
Mortgages	1,504	1,504
Loans for which business mortgages have been given as collateral		
Loans from credit institutions		
Mortgages	12,113	10,113
Collateral given on behalf of the Group companies		
Mortgages	13,617	11,617
Guarantees on behalf of Group companies		
Contingent and other liabilities		
Lease liabilities, net of VAT		
Liabilities falling due next year	142	555
Liabilities falling due after one year	102	157

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	5,265	7,452
Lease liabilities for the Group's premises	251	806

18. EXPENSES NOT RECOGNISED AS COSTS

Because the prerequisites for the payment of interest for the capital loan of EUR 0.6 million are not fullfilled as set by the Finnish Limited Liability Companies Act 12:1.2, the cumulative interest has not been recorded in the financial statements of the parent company.

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

The parent company’s loss for the financial period totalled EUR 5,505,693.92. The Board will propose to the Annual General Meeting on 10 April 2013 that no dividend be paid and the loss for the financial period be recognised in equity.

Helsinki, 25 February 2013

Kalevi Laurila
Chairman of the Board

Lassi Noponen
Deputy Chairman of the Board

Raimo Helasmäki

Susanna Miekk-oja

Matti Jaakola

Sami Mykkänen
President and CEO

Auditor's report

TO THE ANNUAL GENERAL MEETING OF INCAP OYJ

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Incap Oyj for the year ended 31 December, 2012. The financial statements comprise the consolidated statement of financial position, income statement, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

RESPONSIBILITY OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

OPINION ON THE COMPANY'S FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS

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

EMPHASIS OF MATTERS

Without qualifying our opinion, we want to draw attention to the issues described in the report of the Board of Directors and in paragraph 26 of the notes to the financial statements about the company's financing and sufficiency of working capital. According to the cash flow forecast, the company's working capital does not correspond with the company's needs for the next 12 months. According to the company's estimate the additional working capital requirement is about EUR 4-6 million. The matters in the report of the Board of Directors and in the notes to the financial statements indicate the existence of significant uncertainty which may cast a significant doubt about the company's ability to continue as a going concern.

In addition, without qualifying our opinion, we want to draw attention to the valuation of the subsidiary shares and related significant uncertainty, which is described in section 11 in notes to the financial statements of the parent company.

AUDITOR'S NOTIFICATION IN ACCORDANCE WITH SECURITIES MARKET ACT 7:8 §

Without qualifying our opinion, we want to draw attention to the section "Information related to the liquidity risk and continuity of operations in the interim report for January-June" in the report of the Board of Directors. The company's Interim Report for January-June has not complied with all the requirements of IAS 34 standard. The company has later provided the missing information in a prospectus and a separate stock exchange release on 14.9.2012.

Helsinki, March 18, 2013

Ernst & Young Oy
Authorized Public Accountant Firm

Jari Karppinen
Authorized Public Accountant

Five-year Key Figures

		2012	2011	2010	2009	2008
		IFRS	IFRS	IFRS	IFRS	IFRS
Revenue	EUR million	64.1	68.9	59.2	69.8	93.9
Growth	%	-7	16	-15	-26	13
Operating profit	EUR million	-0.7	-1.6	-3.2	-5.0	-3.6
Share of revenue	%	-1	-2	-5	-7	-4
Profit before taxes	EUR million	-1.4	-4.0	-4.9	-6.7	-5.4
Share of revenue	%	-2	-6	-8	-10	-6
Return on equity (ROE)	% [1) 3)]	580.8	-115.3	-81.0	-68.5	-33.4
Return on investment (ROI)	% [1)]	-12.6	-5.1	-10.6	-15.9	-8.6
Total assets	EUR million	29.3	39.27	42.6	39.7	48.9
Equity ratio	% [1)]	-10.3	3.3	13.2	16.2	27.0
Gearing	% [1)]	-659.4	1867.7	383.0	319.8	146.1
Net debt	EUR million	18.9	21.8	21.7	21.3	20.7
Quick ratio		0.5	0.4	0.6	0.5	0.6
Current ratio		0.8	0.7	1.0	1.1	1.2
Investments	EUR million	0.1	0.3	0.5	1.1	1.8
Share of revenue	%	0	0	1	2	2
R&D expenditure	EUR million	0.1	0.1	0.05	0.1	0.5
Share of revenue	%	0	0	0	0	1
Average number of employees		697	749	780	751	735
Dividends	EUR million [2)]	0	0	0	0	0

1) Key figures have been calculated in accordance with the standard 5.1 of Financial Supervision Authority.
2) The Board of Directors proposes to the Annual General Meeting that no dividend be paid out.
3) In the calculation of return on equity, the numerator and the denominator are negative.

		2012	2011	2010	2009	2008
		IFRS	IFRS	IFRS	IFRS	IFRS
Per-share data						
Earnings per share	EUR	-0.25	-0.21	-0.33	-0.55	-0.44
Equity per share	EUR	-0.14	0.07	0.30	0.53	1.08
Dividend per share	EUR [1)]	0	0	0	0	0
Dividend out of profit	% [1)]	0	0	0	0	0
Effective dividend yield	% [1)]	0	0	0	0	0
P/E ratio		-0.8	-2.0	-1.7	-1.2	-1.2
Trend in share price						
Minimum price during year	EUR	0.15	0.37	0.49	0.43	0.49
Maximum price during year	EUR	0.65	0.64	0.75	0.99	1.60
Mean price during year	EUR	0.30	0.52	0.63	0.63	1.02
Closing price at end of year	EUR	0.19	0.42	0.57	0.67	0.55
Total market capitalisation at 31 Dec	EUR million	4.0	7.8	10.6	8.2	6.7
Trade volume	no. of shares	2,952,411	746,382	5,211,956	2,986,054	1,651,176
Trade volume	%	14	4	39	25	14
Share issue-adjusted number of shares						
Mean number during year		20,067,042	18,680,880	14,682,250	12,180,880	12,180,880
Number at end of year		20,848,980	18,680,880	18,680,880	12,180,880	12,180,880

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

Definitions of Key Figures

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

Per-share data

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

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