

# Cencorp Corporation Interim Report for 1 January–30 September 2006

## January-September 2006

- Net sales amounted to EUR 15.8 (27.2) million
- Operating profit (EBIT) totalled EUR -2.1 (2.3) million
- Profit before taxes was EUR -3.0 (1.8) million
- Equity ratio stood at 17% (23%).

(The figures given for comparison are those for the corresponding period in the previous year unless otherwise stated.)

## Group's key figures

(unaudited) EUR 1,000	7-9/2006	7-9/2005	1-9/2006	1-9/2005	1-12/2005
Net sales	3 001	8 078	15 761	27 170	35 308
Operating profit/loss (EBIT)	-969	158	-2 070	2 272	760
% of net sales	-32 %	2 %	-13 %	8 %	2 %
Profit/loss before taxes (EBT)	-1 340	15	-2 970	1 846	289
% of net sales	-45 %	0 %	-19 %	7 %	1 %
Research and development costs	175	352	429	1 504	2 201
% of net sales	6 %	4 %	3 %	6 %	6 %
Equity ratio, %	17 %	23 %	17 %	23 %	28 %
Personnel on average	176	212	191	210	214
Personnel at the end of period	169	219	169	219	205
Profit/share (diluted), EUR	-0.04	0.00	-0.09	0.06	0.06

## **Net sales and earnings performance**

### **January-September 2006**

Net sales in January-September 2006 totalled EUR 15.8 million (EUR 27.1 million) while operating profit amounted to EUR -2.1 million (EUR 2.3 million). The weak level of net sales was due to the tightened competition situation. Measures launched in the review period decreased the group's fixed costs with 15 percent compared with the previous year. The Group's net financial items were EUR -0.9 (-0.4) million. Profit before taxes totalled EUR -3.0 (1.8) million. The net profit for the period was EUR -3.0 (1.8) million. Diluted earnings per share were EUR -0.09 (0.06).

### **July-September 2006**

Cencorp's net sales amounted to EUR 3.0 (8.1) million. Operating profit (EBIT) was EUR -1.0 (0.2) million. The Group's net financial items were EUR -0.4 (-0.1) million. Profit before taxes totalled EUR -1.3 (0.0) million. The net profit for the period was EUR -1.3 (0.0) million. Diluted earnings per share were EUR -0.04 (0.00).

## **Balance sheet and financing**

The balance sheet figures at 30 September 2006 are compared to those at 31 December 2005.

At the end of the review period, the balance sheet total was EUR 20.7 (25.1) million. The company's cash flow after investments was EUR 0.4 million, while interest-bearing net debts at the end of the review period amounted to EUR 10.8 (11.7) million. Trade receivables decreased to EUR 5.0 (8.1) million, and inventories were EUR 5.6 (5.6) million.

Non-interest-bearing liabilities amounted to EUR 6.2 (5.9) million and interest bearing liabilities to EUR 11.0 (12.1) million. The equity ratio was 17.1% (27.7%). Gross investments in July-September totalled EUR 0.05 (0.1) million, or 1.6% (1.4%) of the period's net sales, and mainly came from product development.

## **Events in the review period**

Decisions of the extraordinary general meeting

The Extraordinary General Meeting, held on 8.9.2006 decided to authorize the Board of Directors to decide on the issue of stock options or other special rights entitling to shares in one or several lots. The maximum total number of shares that can be issued by virtue of stock options or other special rights is 10,000,000. Authorization is valid

until further notice, however not more than five years from the decision by the extraordinary General Meeting. Using of authorization requires unanimous Board decision.

The Extraordinary General Meeting decided to issue stock options to the key personnel of the Cencorp Group, as well as to a wholly-owned subsidiary of Cencorp Corporation. The stock options are intended to form part of the incentive and commitment program for the key personnel. The stock options entitle their owners to subscribe for new shares in the Company.

The Board withdrew its proposal concerning amount of Board members and proposal concerning two new members. Mr. Jorma Kielenniva, Mr. Markku Jokela and Mr. Sauli Kiuru continue as Board members. Mr. Petri Väinölä's membership ended on September 30, 2006

Events after the review period

Statutory negotiations completed in Cencorp

Negotiation result was reached on 3.10.2006 in the statutory negotiations which started on August 25, 2006 in Cencorp Corporation. Amount of employees in Finland decreases in all by 21 people. Reductions were realized mainly by dismissals.

In accordance with the plan, production operations and administration will be centralized in Virkkala, Finland. Salo site will concentrate on the product development of testing equipment and manufacturing of customized test fixtures. Production operations in the United States will be discontinued and sales and maintenance operations will be transferred from Colorado to McAllen, Texas. The amount of personnel in the United States decreases by 18 people.

Efficiency improvement measures carried out during year 2006 reach saving targets of EUR 3.5 million in fixed costs. These measures will begin to have a positive impact on results in the second half of year 2006 and be fully realized in the first half of 2007.

The Board decided on issue of convertible capital notes

The Board of Directors of Cencorp Corporation decided to issue convertible capital notes, on the basis of an authorization received at the Extraordinary General Meeting of Shareholders held on 8 September 2006. The convertible capital notes is offered for subscription by a limited group of professional investors. The maximum amount of the convertible capital notes is EUR 7,000,000. The annual fixed interest to be paid on the principal of the convertible capital notes is 6.75 per cent and the maturity is five years. The capital notes subscriptions can also be paid for with Eur 3,000,000 receivables relating to the Cencorp Subordinated Loan 2003.

The convertible capital notes entitles the holders to convert the notes into a maximum of 10,000,000 Cencorp Corporation shares. The conversion rate is EUR 0.70 and it

will be entered as an increase to the share capital within the limits of the maximum share capital in the Articles of Association.

The objective of the transaction is to strengthen the capital structure and growth opportunities and to broaden the ownership structure of the Company.

The Board of Directors of Cencorp Corporation has 13.10.2006 approved subscriptions of the maximum EUR 7,000,000,000 Convertible Capital Notes 2006, resolved on 11.10.2006, for a nominal value of EUR 5,739,007.40 in total. The convertible capital notes are attached with rights to convert note units into 8.198.582 new shares in the Company.

A total of EUR 3,134,250.00 of the subscribed convertible capital notes was paid for with receivables relating to previous debt and converted into the new convertible capital notes.

In accordance with the terms and conditions of the capital notes the Board of Directors has decided to offer the remaining capital notes for subscription to a selected group of professional investors by 31.10.2006.

Notices pursuant to the securities Markets Act, chapter 2, section 10 concerning change of ownership

Cencorp Corporation has received notices from subscribers related to convertible capital notes as well as notice of Sampo Pankki Oyj related to share subscription based on 2003 option rights agreement. In all notices of Cencorp Corporation the following interpretation has been noted: According to the interpretation of the Finnish Financial Supervision of the disclosure of major holdings in the Securities Markets Act when assessing a disclosure obligation due to convertible bonds, the proportion of holdings must always be calculated in relation to the share capital entered in the trade register. The effects on the share capital and voting rights of any later conversions or subscriptions shall not be taken into account. Due to the above mentioned interpretation the ownership percentage is not accurate. The total number of registered Cencorp Corporation shares and voting rights is 31,250,591 and the share capital is EUR 3,125,059.10.

Sampo Pankki Oyj has subscribed convertible capital notes by EUR 2,689,008 which entitles Sampo Pankki Oyj to subscribe 3,841,440 shares of Cencorp Corporation. Furthermore, Sampo Pankki Oyj has used its option rights according to the Option Rights Agreement 2003 and subscribed 3,000,000 shares of Cencorp Corporation. Based on the option subscription and convertible capital notes subscription, on the presumption that Sampo Pankki Oyj subscribes shares according to terms of convertible capital notes, the ownership of Sampo Pankki Oyj will increase from 0.00% to 21.89 % of the share amount and voting rights of Cencorp Corporation registered in Trade Register.

Keskinäinen työeläkevakuutusyhtiö Varma has subscribed convertible capital notes by EUR 2,000,000.10 which entitles Keskinäinen työeläkevakuutusyhtiö Varma to

subscribe 2,857,143 shares of Cencorp Corporation. Based on the convertible capital notes subscription, on the presumption that Keskinäinen työeläkevakuutusyhtiö Varma subscribes shares according to terms of convertible capital notes, the ownership of Keskinäinen työeläkevakuutusyhtiö Varma will increase from 0.00% to 9,10 % of the share amount and voting rights of Cencorp Corporation registered in Trade Register.

Etra Invest Oy has subscribed convertible capital notes by EUR 400,000.30 which entitles Etra Invest Oy to subscribe 571,429 shares of Cencorp Corporation. Based on the convertible capital notes subscription, on the presumption that Etra Invest Oy subscribes shares according to terms of convertible capital notes, the ownership of Etra Invest Oy will increase from 8,90 % to approx. 11,00 % of the share amount and voting rights of Cencorp Corporation registered in Trade Register.

Mr. Markku Jokela has subscribed convertible capital notes by EUR 149,999.50 which entitles Mr. Markku Jokela to subscribe 214,285 shares of Cencorp Corporation. Furthermore, FT Capital Oy has subscribed convertible capital notes by EUR 499,999. 50 which entitles FT Capital Oy to subscribe 714,285 shares of Cencorp Corporation. FT Capital Oy is the investment company of Mr. Markku Jokela and Mr. Markku Jokela has powers to make decisions on behalf of FT Capital Oy. Based on the convertible capital notes subscription, on the presumption that Mr. Markku Jokela and FT Capital Oy subscribe shares according to terms of convertible capital notes, the ownership of Mr. Markku Jokela will increase from 27,50 % to approx. 30,50 % of the share amount and voting rights of Cencorp Corporation registered in Trade Register. In case ownership of Mr. Joni Jokela who is Mr Markku Jokela's underage son will be counted to be under authority of Mr. Markku Jokela increases added ownership percentage of Mr. Markku Jokela, Mr. Joni Jokela and FT Capital Oy to 31,50% of the share amount and voting rights of Cencorp Corporation registered in Trade Register.

## **Business environment and customers**

Cencorp operates in the global market for production automation for the electronics and semiconductor industries, supplying production automation systems and testing equipment to the telecommunications, consumer electronics, industrial electronics, automotive electronics and semiconductor industries.

## **Research and development**

The R&D expenses for July–September totalled 5.8% of net sales, or EUR 0.2 (0.4) million.

## **Board, management and personnel**

Cencorp's Board of Directors consists during review period of Chairman Jorma Kielesseniva, Master of Laws with court training, Markku Jokela, BSc (Eng.), Sauli Kiuru, MSc (econ.), and Petri Väinölä, President and CEO. Petri Väinölä's board

membership and duties as CEO ended on 30.9.2006 when he was employed by a EMS company in Hong Kong. The company's management team consists during the review period of Petri Väinölä (President and CEO, until 30.9.2006), Jarmo Kanervo (Chief Financial Officer), Ville Parpola (Executive Vice President, Legal Affairs, HR and Corporate Communications), Marko Liimatainen (Vice President, Sales, Marketing and After Sales), Juha Kantola (Vice President, Operations) and Kimmo Paananen (Vice President, Research and Development). CFO Mr. Jarmo Kanervo was appointed to deputy CEO and executive vice president on October 1<sup>st</sup>, 2006. Mr. Kanervo will be in this position until the search process for the new CEO, started by the board, has been completed.

Cencorp employed an average of 176 (192) people from July to September. The payroll at the end of the period totalled 169 (187) employees: 126 (146), or 75% (78%), in Finland and 43 (41), or 25% (22%), abroad.

## **Share performance and changes in ownership**

The price of the company's share ranged from EUR 0.54 (7-9/2005: EUR 0.91) to EUR 0.75 (7-9/2005: EUR 1.82) over the review period, the average share price being EUR 0.63 (7-9/2005: EUR 1.36). A total of 6,358,354 (7-9/2005: 15,909,868) shares, or 20.4% (7-9/2005: 50.9%) of the company's entire share capital, were traded during the period.

The company's market capitalisation at the end of the review period was EUR 17 million (7-9/2005: EUR 52 million).

At the end of the review period, the company had 6,690 registered shareholders (7-9/2005: 7,149). A total of 341,233 shares were nominee registered (7-9/2005: 259,441), i.e., 1.09% (7-9/2005: 0.8%). Cencorp had a total of 31,250,591 shares outstanding at the end of the review period (7-9/2005: 31,250,591), and one share series.

## **Outlook for the future**

### **Guidance**

Because of the tightened competition situation, Cencorp Corporation will revise its net sales and profit guidance for the whole financial year. Net sales for the whole financial year are expected to be under previously disclosed approximately EUR 30 million and operating profit is expected to be negative. However, operating profit of the last quarter of the fiscal year is expected to be positive, because of the increased order backlog and reorganization actions carried out previously during the financial year 2006.

During the long term the importance of the automation and testing equipment in telecommunication business and automotive business will increase, because they will

make production more effective and improve quality. It will also have a positive effect to market development and it will give Cencorp Corporation possibility to increase net sales and improve profitability.

Jokela and Suutarinen nominated as management team members

Founder and principal shareholder of Cencorp Corporation, Engineer, Mr. Markku Jokela has been nominated as Vice President, Sales and Marketing and the member of the group management team of Cencorp Corporation. Mr. Jokela continues also as board member of Cencorp Corporation. M.Sc. (Eng.) Mr. Jouni Suutarinen has been nominated as Vice President, Research and Development and the member of the group management team of Cencorp Corporation. Mr. Suutarinen continues also as CEO of Singulase Corporation. Mr. Jokela and Mr. Suutarinen report to Executive Vice President of Cencorp Corporation Mr. Jarmo Kanervo. Nominations are valid immediately.

Members of the group management team of Cencorp Corporation per 19.10.2006 are: Mr. Jarmo Kanervo (Executive Vice President and CFO), Mr. Markku Jokela (Vice President, Sales and Marketing), Mr. Ville Parpola (Vice President, Legal Affairs), Mr. Juha Kantola (Vice President, Operations) and Mr. Jouni Suutarinen (Vice President, Research & Development and CEO of Singulase Corporation)

Virkkala October 19, 2006

Cencorp Corporation

Board of Directors

Tables can be found on the following page.

## CONSOLIDATED INCOME STATEMENT

(unaudited figures)

EUR 1 000	7-9/2006	7-9/2005	1-9/2006	1-9/2005	1-12/2005
<b>Net sales</b>	3 001	8 078	15 761	27 170	35 308
Other operating income	54	37	181	1 077	1 215
Expenses, total	-3 734	-7 708	-17 127	-25 236	-34 582
Depreciations and write-downs	-290	-249	-885	-739	-1 181
<b>Operating result</b>	<b>-969</b>	<b>158</b>	<b>-2 070</b>	<b>2 272</b>	<b>760</b>
Financial income and expenses	-371	-143	-900	-426	-471
<b>Result before taxes</b>	<b>-1 340</b>	<b>15</b>	<b>-2 970</b>	<b>1 846</b>	<b>289</b>
Income taxes	-7	8	-20	-22	1 602
<b>Consolidated net result</b>	<b>-1 347</b>	<b>23</b>	<b>-2 990</b>	<b>1 824</b>	<b>1 891</b>

## CONSOLIDATED BALANCE SHEET

(unaudited figures)

EUR 1 000	30.9.2006	30.9.2005	31.12.2005
<b>ASSETS</b>			
<b>Long-term assets</b>			
Tangible assets	2 062	2 858	2 251
Investment property	968		992
Goodwill	1 902	1 902	1 902
Other intangible assets	1 190	1 333	1 569
Incomplete product development projects	1 277	1 624	1 334
Deferred tax asset	1 803		1 895
Available-for-sale investments	20	75	21
	<u>9 222</u>	<u>7 792</u>	<u>9 964</u>
<b>Short-term assets</b>			
Inventories	5 569	6 474	5 661
Accounts receivable	4 974	7 368	8 051
Other short-term assets	734	1 352	1 119
Cash and bank receivables	181	738	319
	<u>11 458</u>	<u>15 932</u>	<u>15 150</u>
<b>Total assets</b>	<b>20 680</b>	<b>23 724</b>	<b>25 114</b>
EUR 1 000	30.9.2006	30.9.2005	31.12.2005

## LIABILITIES AND SHAREHOLDERS' EQUITY

### Shareholders' equity

Share capital	3 125	3 125	3 125
Other restricted equity	4 599	4 159	4 158
Fair value fund			441
Non-restricted equity	-4 226	-1 781	-861
<b>Total shareholders' equity</b>	<b>3 498</b>	<b>5 503</b>	<b>6 863</b>

### Long-term liabilities

Long-term loans	5 499	8 098	6 038
Deferred tax liability	314	41	40
Long-term reserves	111	51	46
<b>Total long-term liabilities</b>	<b>5 924</b>	<b>8 190</b>	<b>6 124</b>

### Short-term liabilities

Accounts payable and other liabilities	5 114	4 889	5 774
Short-term loans	5 221	4 437	4 482
Long-term loans shortening	789	415	1 535
Tax liabilities	20	49	40
Short-term reserves	114	241	296
<b>Total short-term reserves</b>	<b>11 258</b>	<b>10 031</b>	<b>12 127</b>

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 1.1. - 30.9.2005

(unaudited figures)

EUR 1 000	Share capital	Other restricted equity	Translation difference	Retained earnings	Total
<b>Shareholders' equity 31.12.2004</b>	<b>3 125</b>	<b>6 658</b>	<b>-3 767</b>	<b>-1 890</b>	<b>4 126</b>
Transfer of the reserve fund		-2 500		2 500	
Translation difference			-447		-447
Net result				1 824	1 824
<b>Shareholders' equity 30.09.2005</b>	<b>3 125</b>	<b>4 158</b>	<b>-4 214</b>	<b>2 434</b>	<b>5 503</b>

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY 1.1. - 30.9.2006

(unaudited figures)

EUR 1 000	Share capital	Other restricted equity	Translation difference	Retained earnings	Total
<b>Shareholders' equity 31.12.2005</b>	<b>3 125</b>	<b>4 158</b>	<b>-3 621</b>	<b>3 201</b>	<b>6 863</b>
IAS12				-249	-249
IAS39				-163	-163
IAS40		441		-441	
Translation difference			37		37
Net result				-2 990	-2 990
<b>Shareholders' equity 30.09.2006</b>	<b>3 125</b>	<b>4 599</b>	<b>-3 584</b>	<b>-642</b>	<b>3 498</b>

## CONSOLIDATED CASH FLOW STATEMENT

(unaudited figures)

EUR 1 000	1-9/2006	1-9/2005	1-12/2005
Cash flow from operations	641	869	1 634
Cash flow into and from investments	-233	-1 057	-1 168
Financial cash flow	-516	-1 387	-2 301
Increase(+)/ decrease(-) in financial assets	-108	-1 575	-1 835

## GROUP KEY FIGURES

(unaudited figures)

EUR 1 000	7-9/2006	7-9/2005	1-9/2006	1-9/2005	1-12/2005
Net sales	<b>3 001</b>	8 078	<b>15 761</b>	27 170	35 308
Operating result	<b>-969</b>	158	<b>-2 070</b>	2 272	760
% of net sales	<b>-32.3 %</b>	2.0 %	<b>-13.1 %</b>	8.4 %	2.2 %
Result before taxes	<b>-1 340</b>	15	<b>-2 970</b>	1 846	289
% of net sales	<b>-44.7 %</b>	0.2 %	<b>-18.8 %</b>	6.8 %	0.8 %
Total assets	<b>20 680</b>	23 724	<b>20 680</b>	23 724	25 114
Equity ratio, %	<b>17.1 %</b>	23.2 %	<b>17.1 %</b>	23.2 %	27.7 %
Gearing ratio, %	<b>308.9 %</b>	223.3 %	<b>308.9 %</b>	223.3 %	171.0 %
Gross investments	<b>47</b>	116	<b>233</b>	1 431	1 767
% of net sales	<b>1.6 %</b>	1.4 %	<b>1.5 %</b>	5.3 %	5.0 %
R&D expenditure	<b>175</b>	352	<b>429</b>	1 504	2 201
% of net sales	<b>5.8 %</b>	4.4 %	<b>2.7 %</b>	5.5 %	6.2 %
Personnel, average	<b>176</b>	212	<b>191</b>	210	214
Personnel, at end of period	<b>169</b>	219	<b>169</b>	219	205
Non-interest bearing liabilities	<b>6 210</b>	4 933	<b>6 210</b>	4 933	5 855
Interest bearing liabilities	<b>10 972</b>	12 996	<b>10 972</b>	12 996	12 055
Per-share key figures					
Equity per share, EUR	<b>0.11</b>	0.19	<b>0.11</b>	0.19	0.22
Earnings per share, EUR/share (diluted)	<b>-0.04</b>	0.00	<b>-0.09</b>	0.06	0.06
Earnings per share, EUR/share (undiluted)	<b>-0.04</b>	0.00	<b>-0.09</b>	0.06	0.06
Share price trend					
High, euros	<b>0.75</b>	1.82	<b>1.29</b>	1.82	1.92
Low, euros	<b>0.54</b>	0.91	<b>0.54</b>	0.6	0.60
Average, euros	<b>0.63</b>	1.36	<b>0.93</b>	0.95	1.32
Price at end of period, euros	<b>0.54</b>	1.67	<b>0.54</b>	1.67	1.23
Market capitalization at end of period, EUR millions	<b>17</b>	52	<b>17</b>	52	38

## CONTINGENT LIABILITIES

(unaudited figures)

EUR 1 000	30.09.2006	30.09.2005	31.12.2005
<b>Pension loans</b>	0	0	0
Corporate mortgages granted	0	0	0
Real-estate mortgages granted	0	0	0
<b>Loans from financial institutions</b>	6 865	7 604	7 539
Corporate mortgages granted	12 687	12 687	12 452
Real-estate mortgages granted	168	168	168
<b>Other loans</b>	1 738	1 874	1 815
Real-estate mortgages granted	0	0	0
<b>Used bank guarantee facility</b>	151	360	330
Real-estate mortgages granted	0	0	0
<b>Given as collateral</b>			
Corporate mortgages granted, total	12 687	12 687	12 452
Real-estate mortgages granted, total	168	168	168
<b>Leasing commitments</b>			
falling due during the next 12 months	120	141	168
falling due later	119	116	186
<b>Rental liabilities</b>			
falling due during the next 12 months	141	53	150
falling due later	157	173	117
<b>Liabilities due to derivative contracts</b>			
Forward exchange contracts	0	0	0
of which taken out to hedge the parent company's accounts receivable	0	0	0
of which taken out to hedge the parent company's other receivables	0	0	0

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