



ANNUAL REPORT 2007

VACON
DRIVEN BY DRIVES

AC DRIVE

AC drives provide stepless control of the rotation speed of an electric motor. Since with an AC drive a motor always rotates at the correct speed, it boosts the performance of the motor and saves energy. In this way an AC drive enables more cost-effective production and plays a part in meeting emission targets and reducing the greenhouse effect. AC drives are also used in renewable energy power plants. In windmills, for example, stepless control gives maximum efficiency in utilizing wind power.



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Vacon was established in 1993 from a passion to develop and produce AC drives globally. It is a matter of honour for Vacon to offer customers efficient, reliable and easy to use means for improving process control and saving energy and costs. Vacon's solutions represent clean

technology. They can be used to control the speed of electric motors used by industry and municipal engineering, and in power generation using renewable energy.

VACON IN BRIEF

Vacon's AC drives are sold in more than 100 countries. The company has sales companies and representative offices around the world and is increasing its local presence systematically. In addition to direct sales, Vacon sells its products to OEM manufacturers, system integrators, brand label customers, distributors and industrial end-users. Revenues in 2007 totalled EUR 232.2 million.

Vacon provides AC drives in the power range 0.2 kW–5 MW. The company invests about seven per cent of its revenues in research and development and its product range is one of the broadest on the market.

Vacon's share is quoted on the main list of the OMX Nordic Exchange, Helsinki.

Key figures

	2007	2006	Change, %
Revenues, M€	232.2	186.4	+24.6
Operating profit (EBIT), M€	29.2	23.1	+26.4
Profit before taxes, M€	28.8	22.7	+26.9
Profit for the period, M€	21.4	16.1	+32.9
Earnings per share, €	1.37	1.04	+31.7
Dividend per share, €	0.75*	0.65	+15.4
Return on equity, %	36.5	33.7	+2.8
Return on investment, %	41.2	45.1	-3.9
Equity ratio, %	52.9	61.7	-8.8
Gearing, %	-17.1	-16.6	-0.5
Personnel on average	772	618	+24.9

* The 2007 dividend is the Board of Directors' proposal to the Annual General Meeting.



For R&D project leader
Veli-Matti Karppinen,
Vacon is the home of
AC drives.

MISSION

Every AC motor deserves a Vacon drive.

Vacon's AC drives boost the performance of electric motors and save energy. They enable more cost-effective production, reduce the greenhouse effect, and play a role in meeting emission targets. That is why every AC motor deserves a Vacon drive.

VALUES

- Customer first
- People in focus
- Entrepreneurship and drive for achievement
- Passion for excellence

Vacon's values can be seen in our every day work in the way we interact with customers, business partners, subcontractors and personnel.

VISION

Vacon is a global, customer-driven and dynamic AC drive supplier with a passionate attitude towards product leadership and customer service.

As the most dedicated AC drives supplier, Vacon is the best choice on the market for its customers all round the world.

Vacon AC drives are cleantech

Cleantech (clean technology) refers to all products, services, processes and systems that are less harmful to the environment than their alternatives. Cleantech gives customers added value and at the same time reduces the harmful environmental impact either directly or through the value chain.

Cleantech is connected to all areas of life and all industrial sectors. A report published by Sitra (The Finnish National Fund for Research and Development) in 2007 mentions the energy-efficient AC drives and the technology for controlling the quality of electricity supplied by Vacon as good examples of cleantech.

During the past few years cleantech has become one of the main focuses in the development of technology and society as a whole, and environmental knowhow has become an important competitive factor. Rising energy and raw material prices, climate change and ever stricter legislation lay the foundations for growth for cleantech and especially for renewable energy technologies.

The global market for the environmental business is worth about EUR 600 billion today. The market is growing at an annual rate of almost ten per cent. Private equity investment in the cleantech sector has also increased rapidly. Megatrends that encourage these investments are developments in technology, changes in market forces, and national and international environmental requirements.

Source: Cleantech Finland – business from the environment: a national action plan for developing the environmental business, Sitra 2007.

Concern over climate warming has increased interest in the efficient use of energy and in AC drives. Electric motors consume about 30 per cent of the electricity used in the world. Almost a third of this could be saved by increasing the use of AC drives and energy-efficient electric motors. In this way it would be possible to achieve a 10 per cent saving in total global

power consumption, which in turn would cut greenhouse gas emissions significantly. Vacon's mission "Every AC motor deserves a Vacon drive" unites all of us at Vacon with action that aims to improve the living environment of the future.

ENERGY EFFICIENCY REQUIREMENTS BOOST DEMAND

The price of energy is the most important factor in boosting the AC drive market. This could be seen once again in 2007, when Vacon grew by more than 20 per cent. In 2007 we more than met the target we set in 2006 of average annual growth in revenues of 15-20 per cent. Despite the significant fall in the value of the US dollar from its 2006 level, the operating profit improved from the year 2006. These achievements were the result of the trust our customers showed in our products.

Firm foothold in America

Strengthening its global market position is a cornerstone of Vacon's strategy. In December 2007 Vacon announced that it was acquiring the AC drive business of US-based company TB Wood's. After the acquisition Vacon has sales on all continents and product development and production on three continents. The transaction comprised factories in the USA and Italy and sales companies in Germany and India. The acquisition gives a significant boost to Vacon's

growth potential and market position, since the products and customer bases of the companies complement each other.

Vacon's goal is to cover the markets both geographically and by customer segment, and it will achieve this by utilizing all possible sales channels. In 2007, Vacon strengthened its position considerably especially in the marine industries and in power plants utilizing renewable energy sources with its excellent partners.

Our business is based on a broad product offering. Our investments in R&D have kept pace with our growth. The first next-generation products have already been supplied to customers. TB Wood's make its own significant extra contribution to Vacon's product offering, for the company is known as a manufacturer of demanding customer-specific products for OEMs and end customers in the USA, Europe and India.

The excellent market prospects and Vacon's strong growth also mean that investments are needed in produc-

tion capacity. During the past year the company expanded its production premises in China and took the decision to expand its manufacturing plant in Finland. With these investments Vacon will be prepared to grow in the next few years at a much higher rate than market growth.

Strong prospects stimulate growth

Annual market growth in the coming years is expected to be on average nine per cent. Growth factors will be the development of the business of existing customers, winning of new customers, and geographical coverage. On the other hand, any weakening of the US dollar may have a negative impact on profitability. Based on these expectations, we believe that Vacon's revenues will increase in 2008 by more than 25 per cent and the earnings per share are forecast to exceed EUR 1.50.

Vacon is a clean-technology company that also meets the criteria for ethical investment. The manufacturing of AC drives is very environmentally friendly and does not



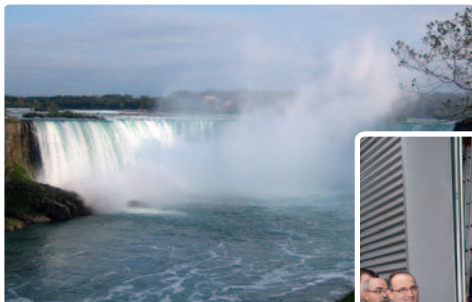
"Vacon is a clean-technology company that also meets the criteria for ethical investment"

consume valuable resources, and during its life cycle a drive saves much energy. We believe that in future investors will place increasing emphasis on these matters.

I would like to thank our customers and partners for their confidence and our shareholders for their interest in our company. Vacon's personnel deserve thanks for their work which has made possible the success achieved by the company during 2007. We at Vacon will continue this year our efforts to grow and become one of the leading manufacturers of AC drives in the world.

February 2008

Vesa Laisi
President and CEO
Vacon Group



THE YEAR 2007

Major contracts during the year

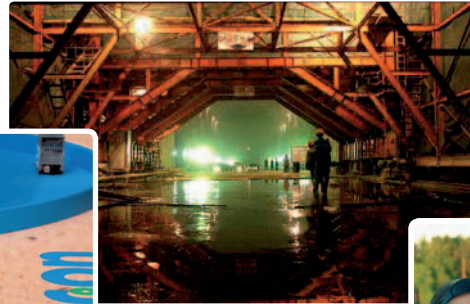
During the year Vacon signed major contracts with its partner Metka to supply AC drives to the mining industry in Greece; with the Arab Potash Company to supply high-power AC drives in Jordan; and with Vorax for deliveries to the Brazilian sugar industry. Vacon also signed a contract to supply more than 300 AC drives to the Talvivaara mine in Sotkamo, Finland. During the year Vacon signed a distributor agreement with Ruselprom, one of the largest motor manufacturers in Russia.

Vacon inaugurated subsidiaries in India and Australia, and office in Brazil

During the spring Vacon strengthened its global presence by inaugurating subsidiaries in Chennai, India and Melbourne, Australia. Through these subsidiaries Vacon is able to improve its services in the Asia and Pacific region. In the autumn, Vacon celebrated the opening of its São Paulo office in Brazil. The office serves Vacon's customers in Brazil and other parts of South America.

Vacon and WWF Finland join forces to combat climate change

Vacon and WWF Finland decided to work together to reduce the impact of climate change. Key goals in their partnership are to promote WWF's environmental protection activities and to increase awareness of Vacon's technology that focuses on energy efficiency.



Vacon 10 – new era for micro drives

In June, Vacon launched the new Vacon 10 micro drives, one of the smallest drive families on the market. The first micro drive is designed especially for OEM customers since it offers great flexibility.

New service center opened in the Netherlands

In September, Vacon opened a service center for high-power AC drives in Gorinchem, the Netherlands. The service center, which will focus on supplying swap units and fast service, will enhance Vacon's customer support in Europe. Vacon has 71 service centers around the world.

Factory expansion in China and Finland

Vacon expanded its production premises in China and published plans to expand its Vaasa factory over the next two years. It plans to build altogether 12,000 square metres of new office and production premises.

R&D unit established in China

Vacon established an R&D unit at its factory in China. The R&D unit in China will play an important role at Vacon in developing more competitive products for the growing AC drive market in Asia.

Frost & Sullivan award for Vacon's new micro drive

Frost & Sullivan, one of the most prestigious growth consulting companies in the world, named the new Vacon 10 micro drive as the 2008 Global Micro Drives Product of the Year for OEMs in the under 5.5 kW series.

Vacon announced acquisition of AC drive business of TB Wood's

In December, Vacon announced the acquisition of the AC drive business of TB Wood's, part of US-based Altra Holdings Inc. After the acquisition Vacon will have sales on all continents and R&D and production on three continents. The transaction includes factories in the USA and Italy and sales companies in Germany and India.

The global AC drive market is in healthy shape. The market had a value of about USD 7.3 billion.

The market grew 14 per cent from the previous year.*

EXPENSIVE ENERGY SUPPORTS GROWTH

Vacon's share of the global AC drive market is almost four per cent. Vacon grew much faster than the market and strengthened its position especially in Europe, where it has a 5.4 per cent market share. Vacon ranked 11th on the global list of biggest manufacturers. Vacon is the only company on the list that focuses entirely on AC drives.

Vacon's main competitors are global conglomerates, for which AC drives are just one product among many. In addition there are more than 100 smaller AC drive manufacturers operating in the market.

Fastest growth in developing markets

The growth in the AC drive market is based on rising energy prices, increasing automation, and falling electronics prices. There is also room for growth in the AC drive market, for at the moment only about ten per cent of the electric motors in the world are controlled by AC drives.

Worldwide, the fastest growing market was the Asia and Pacific region. In particular the rapid development of the economies of China and India was reflected in demand for AC drives. Europe and the Americas maintained their position as regions with steady growth. During the coming year demand in the Asian market is expected to overtake the American market.

The sales channels for AC drives vary from region to region. European manufacturers usually make their products directly for customers, whereas American and Asian companies prefer to purchase their products from dealers. Globally, OEMs are by far the biggest customer group, accounting for more than a third of AC drive sales.

In the food, packaging, rubber and plastics industries, demand for AC drives is expected to remain at a higher than average level. Demand for AC drives in heating and air conditioning equipment should also continue at a strong level, since growth prospects in the building sector worldwide are firm. However, demand in the paper and board, semi-conductor and textile industries is forecast to be below average during the next few years.

Energy efficiency the most important sales argument

The most important factor affecting demand for AC drives is the growing call for improved energy efficiency. AC drives enhance energy usage by electric motors and at the same time reduce electricity consumption. The increased interest in AC drives shown for example by the heating and air conditioning sectors and the food industry is explained by the cooling and pumping systems that they use. The latest

growth area is renewable energy production such as wind generators and solar and wave power plants.

Energy costs have risen significantly for five years. Discussion about energy efficiency, for example in the USA, has increased. Rising energy costs will also create demand for energy-saving AC drives in the future, for at its shortest the payback period for investments in AC drives can be much less than 12 months.

Small and easy to use

Developments in the past few years have made AC drives smaller and easier to install and use. They take less space in control rooms and make it possible to build smaller rooms at lower costs. Smaller AC drives also benefit OEMs, since they can fit them more easily on their products.

As well as reducing their size, manufacturers have also succeeded in improving the cooling of AC drives, which have as a result managed to conquer completely new markets in the food, metal and mining industries. In addition to air-cooled drives, liquid-cooled solutions have been developed, which are suitable in particular for wind power and marine industry applications.

*Source: The Worldwide Market for AC&DC Motor Drives – 2007 Edition, IMS 2007



► In production, there's a real sense of drive and action. Nanette Ratinen and Peter Kenyibe are never short of a word, even though everyone's busy.

Ease of use has become an increasingly important factor in AC drives for end users. It is easier to justify investments in AC drives if the related training and operating costs can be kept low. In future greater emphasis will be placed on usability, and wireless control of AC drives is expected to become more common.

The demand for cost efficiency has also increased the number of AC drive applications tailored for different uses. For example the AC drive developed specifically for cranes can shorten the commissioning period, reduce integration costs and boost productivity.

IMS: growth strongest in Asia

The British market research provider IMS Research monitors global trends in the AC drive market. Market analyst **Alex Chausovsky** from the Motors & Drives research unit commented on market trends in December 2007.

How has the AC drive market developed over the past 12 months?

It looks as if 2007 has been a year of strong growth, although the latest figures are not yet available. In 2006 the market grew worldwide by 14.6 per cent.

Which factors are making the biggest contribution to the strong growth in the AC drive market?

The demand for energy efficiency is the most important growth factor. With energy prices at their current record high levels, the payback period for AC drive investments is on average less than one year. This has made decision-makers in companies more aware of the benefits of AC drives, and at the same time has led to increased demand for AC drives in applications where they are already used. It has also made it possible to make AC drive investments in applications where this previously would not have been financially viable.

What regional differences are there in the AC drive markets?

The fastest growing area is the Asia-Pacific region, which grew by almost 20 per cent in 2006. The EMEA region (Europe, Middle East and Africa) grew by about 15 per cent. This was due in particular to the rapidly expanding engineering industry. The Americas region grew by 11 per cent. Growth in Japan is estimated to have been just five per cent. The rise in the price of energy has not had such

a big impact in Japan, since energy prices have been high there for a long time and AC drives have been more common there than elsewhere in the world.

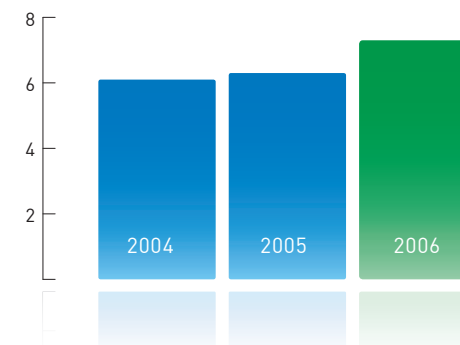
Can you name industrial sectors where demand for AC drives is growing most?

Demand is growing faster than average growth for example in the heating and air conditioning sectors, in the food, packaging and plastics industries, and in the renewable energy sector.

How is the AC drive market expected to develop?

I believe that growth will remain in double figures in the short term. In five years' time, growth is likely to stabilize at about ten per cent, although of course it will follow general economic trends.

Global AC drives market (billion \$)



Vacon aims to grow profitably and considerably faster than average growth in the sector. Growth will mainly come organically.

Factors that will help to achieve the operating profit target are expanding the product range to higher power drives, launching the new product generation, transferring the production of the components used in AC drives to countries with even lower costs, and reducing currency risk.

GLOBAL PRESENCE AND PRODUCT LEADERSHIP REINFORCE VACON

Vacon has a unique position in the market. It is an independent company that can focus entirely on developing AC drives. Vacon benefits from regional and local production, from the mass customization of products, and from a multichannel sales network. International production concepts and product design enable flexible production and improve competitiveness worldwide.

Global product leadership mindset sets direction for product development and production

Vacon's product selection is one of the broadest and easiest to use in the sector. Product leadership is supported by vigorous product development and a broad product range that is available to all Vacon's sales units. Vacon is improving the usability of AC drives by developing automation for control systems and wireless control. Focusing on quality and cost-efficiency are other factors that bolster product leadership. A broad product range also makes it necessary to provide services for AC drive users locally.

A global network combined with local production makes Vacon a more attractive partner. Vacon is paying increasing attention to customer relationship management and

is continuously looking for customized solutions. Mass customization gives customers exactly the right AC drives for their needs.

International expansion continues systematically

The main focuses in Vacon's strategy for 2008 are based on a global presence and product leadership. International expansion will continue to ensure growth. This refers in particular to the international expansion of sales, services and production.

Europe will retain its importance in the next few years. Vacon is also looking for faster growth in the developing markets in Asia. The purchase of the AC drives business of TB Wood's will strengthen Vacon's presence in the North American market, enabling it to provide better service for current and potential customers in the future. An international presence makes it necessary to introduce global, uniform processes and IT systems.

The Vacon brand is being strengthened. Vacon is continuously improving process management in the areas of logistics, customer satisfaction, production and support functions. The company's success is based on outstanding

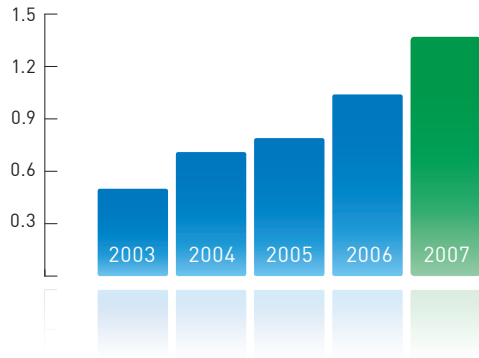
products and services, high quality and cost-efficiency, as well as on logistic speed, a customer-directed way of working, and a passionate attitude.

Greater attention has been paid to customer orientation in developing the new generation product range. Vacon passes on its expertise and knowledge effectively to meet the needs of the global network. In future, it will be possible to adapt AC drives in regional R&D units to better meet local requirements. This will improve competitiveness and cut production costs.

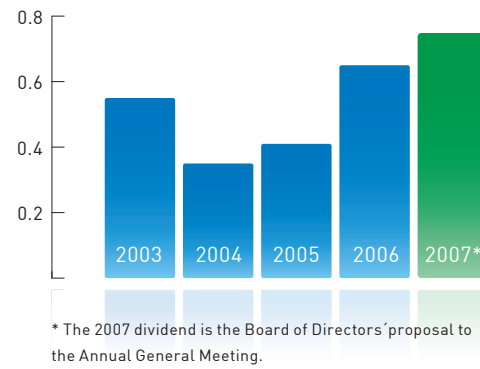
Financial targets by the end of the year 2012

- revenues of EUR 500 million
- operating profit (EBIT) of more than 14 %
- return on equity (ROE) of more than 30 %
- most of this growth will be organic, but Vacon does not exclude the possibility of further acquisitions
- organic growth will be financed by cash flow from operations, and in the case of further acquisitions the gearing target is a maximum of 60 %
- to pay a dividend of about 50 per cent of the profit for the period

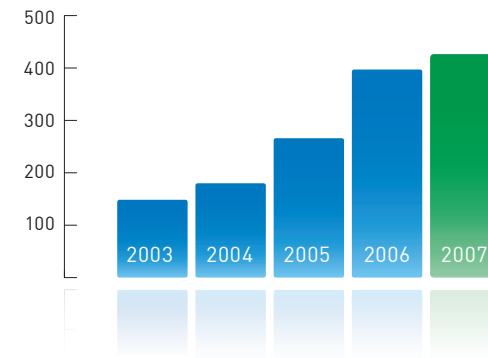
Earnings per share, €



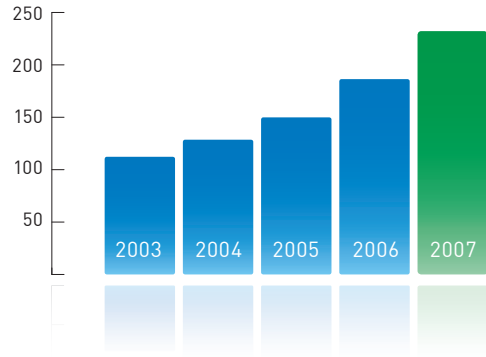
Dividend per share, €



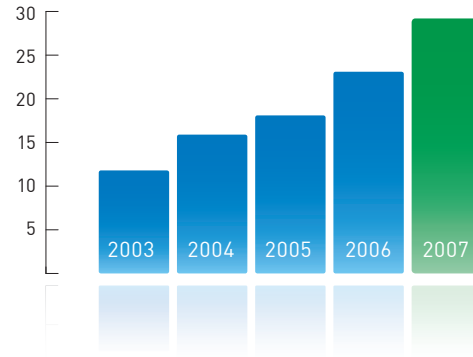
Market capitalization, M€



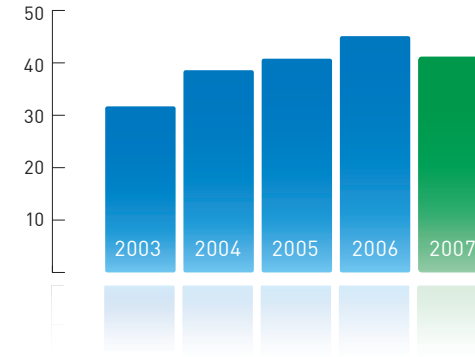
Revenues, M€



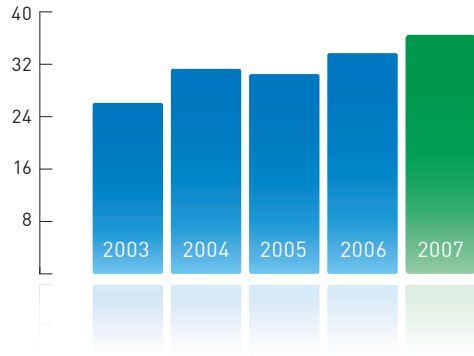
Operating profit, M€



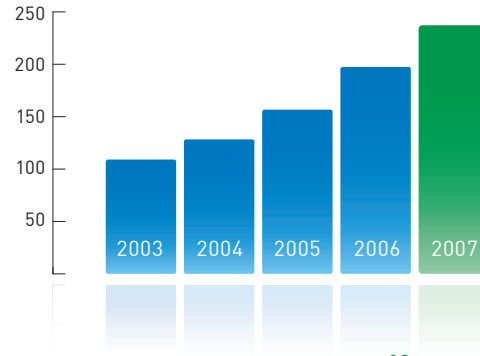
Return on investment, %



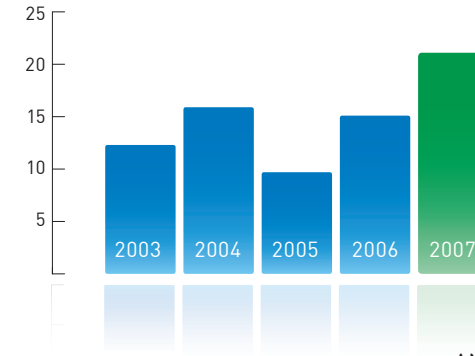
Return on equity, %



Orders received, M€



Cash flow from operations, M€



Vacon's success derives from its research and development. The goal for R&D is product leadership, which improves Vacon's competitive standing and makes possible the best customized solutions in the sector.

NEW GENERATION OF PRODUCTS AIMS AT USER-FRIENDLINESS

The main focus during the year 2007 has been on designing the new generation of products. The first to be launched was the Vacon 10 micro drive. The work on developing the new generation production continues with higher power products, which will be brought on the market in the next few years.

While developing the new generation products, Vacon continued to develop the current Vacon NX generation of products. Features were added for example to allow customized applications.

One goal of Vacon's product development is to create easier to use AC drives. What this means is that customers know exactly which type of drive to buy for the environment in which it is needed. Drives are also being made easier to install and service. Another goal is to make them more reliable.

The innovations are being carried out cost-effectively to ensure the products remain competitive. In addition Vacon aims to develop the new generation product platform in such a way that customized applications can be made and that by utilizing mass customization the best possible solution is found for each customer.

Product leadership cannot be achieved by copying

Vacon is a supplier of AC drives that in all its business concentrates only on developing AC drives. Product leadership requires long-term R&D efforts. Vacon's R&D invest-

ments have for several years been about seven per cent of revenues. The number of R&D personnel has also grown significantly. This past year the number of employees working on R&D rose for the first time to over 100.

Vacon is aiming to make AC drives more suitable for different customer applications, so that more and more customers can enhance their energy usage with AC drives. Vacon is placing increasing emphasis on eco-friendly factors in the choice of raw materials for AC drives and in its production processes. The company is for example committed to observing the EU's Restriction of Hazardous Substances Directive and has stopped using lead in the production of AC drives.

One of the most important investments during the year 2007 was the establishment of the R&D unit in China. The main work and overall responsibility for R&D will remain in Finland, but the unit in China will focus especially on developing and testing lower power drives.

Strengthening global presence

Strategic targets for Vacon are to be present on all continents and to operate close to the customer. R&D also aims to support this trend. During 2008 Vacon will continue to strengthen the operations of the R&D units in Finland, China, the USA and Italy.

Vacon will intensify cooperation with component

manufacturers and design agencies, to improve flexibility and speed in R&D. To help achieve this goal a product data management system (PDM) is being developed, which will improve the conditions for global product development and production.



The customer comes back, the product does not

Vacon examines the quality of operations on the basis of customer needs and expectations. The quality experienced by the customer starts with what the customer wants, what is promised to the customer, and finally ends with what the customer gets. If the promise to the customer is kept, this creates an experience of quality.

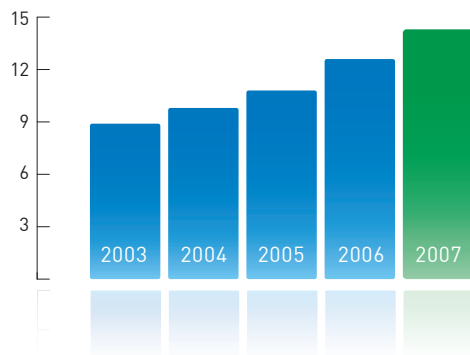
The quality of products is important for Vacon. The company actively monitors product quality and the experiences customer have of products. A set of indicators has been created for monitoring product quality, through which products can be continuously developed. Management of operational quality takes place in development projects, in which all employees participate. Development projects are monitored systematically throughout the project schedule.

Understanding customer needs has played a key role in the design of the new generation products. Elements enhancing operations have been taken into account in the product, and the product has been designed so that it is assembled from different modules. This makes it possible to utilize mass-customization and make different variations even at a later stage. Individual customer product variations are a significant improvement on earlier product generations. Information management has also been developed to ensure that mistakes do not occur.

It is a good indicator of quality if the customer comes back but the product does not. It is important for Vacon that the relationship with the customer continues from one year to the next. The product must also be so good that it meets the customer's expectations in all respects.

Petri Rantala in R&D knows that his work is not finished until the end result is the best AC drive in the world.

R&D costs, M€



Vacon's production is based on two main pillars: we concentrate on our core expertise and we network. Close, long-term cooperation with partners ensures that material and component deliveries arrive regularly and on time. Vacon's factories carry out the final assembly and testing of AC drives. Efficient production logistics keeps products competitive and customers satisfied.

FLEXIBLE, EFFICIENT PRODUCTION LIVES AND BREATHES IN TIME WITH THE CUSTOMER

The cornerstones of Vacon's production are networking, modern production technology, cost-efficiency and quality. The company uses the most appropriate production technology at its production plants, resulting in the best quality in the sector and cost-efficiency.

An effective subcontractor network ensures flexible production. Final assembly takes place as close to the customer as possible. This keeps to a minimum the costs for storing materials and transporting the finished products.

Vacon currently manufactures AC drives in Finland and China. In addition to the main factories, Vacon also has a production line in Italy. This production line makes AC drives for the needs of customers in the vicinity. Some of these are global OEM customers. Adapting products as close as possible to the customer gives flexible production and short delivery times. Delivery times for the Italian production line are from one to two days from receipt of order. Following the

purchase of the AC drive operations of TB Wood's, the number of production units will increase in 2008.

Major expansions to production

During 2007 the factory in China was expanded by about 4,000 square metres, and near the end of the year the decision was taken to expand the Vaasa factory. Several dozen extra people were employed for production operations in China and in Vaasa to raise capacity.

The growth in production will continue in 2008, when the planned 9,000 square metre extension to the production premises at the Vaasa factory will be carried out. This will significantly increase Vacon's production capacity and will enable Vacon to meet market demand in the next few years. In addition, the company will raise the efficiency of its production processes and focus on starting production of the new product generation.



“We all know everyone else at the factory, so sometimes the atmosphere does get a bit unrestrained,” admit Peter Kenyibe, Nanette Ratinen and Jaana Niemelä from Vaasa.



Vacon continued to grow strongly in Europe. In the developing markets in Asia the company invested in establishing subsidiaries and boosting sales. Sales in North America suffered from the weak US dollar.

NEW CUSTOMERS AND BUSINESS SECTORS

Vacon's sales rose in line with its strategy in 2007. Europe remained an important region for Vacon, and Vacon's market share there rose rapidly. Vacon has strong expertise and its own sales representatives in Europe, and is able to provide customers with better, faster and closer service.

During the year Vacon put much effort into developing its partnership with Converteam and its global operations. Converteam provides systems and tailored solutions for converting electrical energy. Another major new area was AC drives for power generation using renewable energy sources. For example, the contract signed in the autumn with The Switch, a specialist in electrical systems for distributed power generation, strengthened Vacon's position in the rapidly growing wind power market.

Vacon already has a strong foothold in water treatment. In the mining industry Vacon achieved particular success in Finland, Sweden and Australia.

Growth in developing markets

The US market did not match Vacon's targets due to the weak dollar. The next step for Vacon is to strengthen its presence and identity in the important North American market through the purchase of the AC drive business of TB Wood's. Awareness of Vacon in South America increased

according to plan. A new office was inaugurated in Brazil and it started operations in a favourable climate. Sales in the Middle East also increased well.

The Russian market offers considerable growth potential for Vacon. The market is growing at an annual rate of more than 20 per cent and is located geographically close to Vacon. Another growth area in Europe is eastern Europe, where the company aims to strengthen its presence in the near future.

Vacon has made substantial investments in the developing markets in Asia in recent years. During the past year Vacon established subsidiaries in India and Australia. In China, Vacon has not only production but also its own comprehensive sales network.

New micro drive a success

During the year Vacon launched its new Vacon 10 micro drive, which was given a warm reception by customers. Frost & Sullivan, one of the most prestigious growth consulting companies in the world, named it the 2008 Global Micro Drives Product of the Year. The award is given to a product that has shown superior performance, is particularly suitable for OEMs, and is competitively priced.

The product will raise Vacon's visibility profile, for the Vacon 10 drive belongs to the product group which is sold most in the world.

Strong performance by multichannel sales

Vacon sells its products to six customer segments. Almost 25 per cent of revenues comes from sales to original equipment manufacturers (OEMs). In addition, Vacon sells AC drives through a distributor network and directly to mainly industrial end users. Vacon can offer brand label customers a broad product offering and a high level of product and application expertise.

During the year Vacon introduced its global customer relationship management program in almost the entire sales network. The program helps improve and speed up customer service. Global customer relationships in particular benefit from having all the information in a single system. Customer service is expected to take on greater importance in the future, which will also result in increased sales of services. Vacon is signing an increasing number of service agreements and the volume of AC drive-related training is also growing.

Market prospects are good and growth is expected to continue. The efforts to boost the visibility of the Vacon brand will continue on all continents, but especially in new growth areas. New generation products will be launched and they are expected to further increase demand.

Vacon strengthened its position

in India, Australia and Brazil

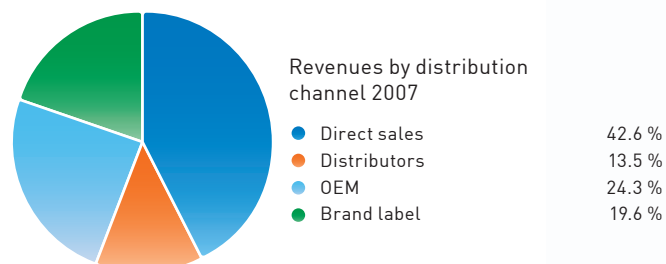
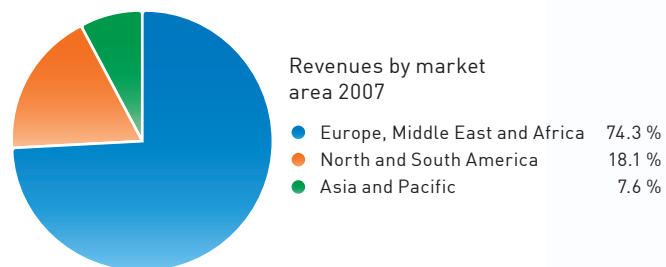
Vacon wishes to bring its products and services closer to the customer. It aims at strong international expansion and increasing its presence in particular in the growth areas in the world.

In January 2007, Vacon celebrated the inauguration of its subsidiary in Chennai, the largest concentration of commerce and industry in India, located on the country's south-eastern coast. Through this subsidiary Vacon is able to improve its service in India's developing, extensive market. Electricity consumption in India is among the highest in the world, which offers Vacon great opportunities, since awareness of the benefits of AC drives has not spread very widely yet in India.

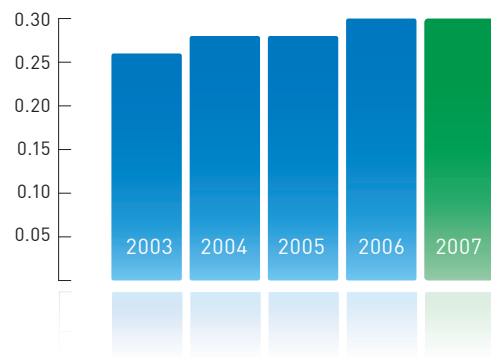
In March, Vacon celebrated the inauguration of its subsidiary in Melbourne and of sales offices in Perth and Brisbane. The relatively high energy consumption per person in Australia and the rapid economic growth in the Asia-Pacific region open up significant opportunities for Vacon's energy saving solutions. The main sectors in Australia are water and waste water treatment, the mining and metal industries, the energy, shipbuilding and marine industries, oil drilling and after sales.

At the end of the autumn, Vacon opened an office in São Paulo. Brazil is the tenth biggest consumer of electricity in the world, and the biggest in South America, which makes the country an attractive market area for Vacon's energy saving AC drives. Brazil is also one of the largest producers of sugar and ethanol in the world. In Brazil, Vacon aims to expand its operations to other sectors, such as the paper, pulp, oil, gas and marine industries.

Vacon currently has operations of its own or through partners in more than 100 countries.



Average sales/personnel, M€



► It's Toni Honkakangas' job to see that liquid-cooled AC drives sell. And they do.



The products made by Vacon represent responsibility and environmental technology at their best, for they save energy and help businesses and society restrict emissions. Saving energy helps the life of present and future generations of people.

THE WORLD NEEDS CLEAN TECHNOLOGY

Vacon's AC drives help to improve significantly the energy usage of electric motors. Energy efficient electric motors controlled by AC drives can give savings of about 30 per cent in energy consumption. This means about ten per cent of the world's consumption of electrical energy.

The importance of the role played by AC drives in saving energy grows as living standards rise and the pace of climatic change increases. Vacon's AC drives give considerable energy savings and improve process control. These are significant benefits in many developing countries, which are developing their infrastructures and have frequent power cuts. Urbanization results in the more and more widespread use of systems and equipment that consume much electricity, such as various air conditioning and heating systems, pumps, lifts and cranes. AC drives help developing countries make better use of many technologies that improve the standard of living.

Rising energy prices and stricter emission targets mean that demand for AC drives is also growing in industry, since AC drives help electric motors function more efficiently. About half of the world's electricity is used by industry, and about 60 per cent of the electricity used by industry is consumed by electric motors.

AC drives are used for example in the building, mining, food, pulp and paper, oil and gas industries, and in ships, waste treatment and energy production.

Corporate responsibility governs all activities

Responsible business operations comprise three interrelated areas: financial, social and environmental responsibility. Vacon's business operations are based on the company's mission, vision, strategy and values, as well as on the changing needs of stakeholders and of society.

Vacon's most important stakeholders are customers, personnel, shareholders and investors, subcontractors and business partners, as well as the authorities and the media. The company works closely with all stakeholder groups and is active and open in its communications.

For Vacon, financial responsibility is based on profitable growth. Only a profitable company can develop and create jobs and wellbeing. Vacon aims to ensure profitability with a long-term growth strategy, by complying with good corporate governance practice in its business activities, and by regularly assessing its risks.

The products made by Vacon represent responsibility and environmental technology at their best, for they save energy and help businesses and society restrict emissions. Saving energy helps the life of present and future generations of people. Vacon participates in the battle against climate change and growing energy consumption by developing more efficient and more environmentally friendly AC drives and by improving its own operations to minimize their environmental load. Vacon also pays attention to environmental management at its subcontractors and partners.

Vacon's goal is good corporate citizenship. Its activities relating to social responsibility are governed by universal employee and children's rights and principles. Vacon promotes the development of safe working conditions and a motivating work environment in every way. Responsibility also shows in the work of each Vacon employee. We comply with laws and regulations in all our operations, we act ethically and honestly, we do our work to a high quality, we take responsibility for the environment and respect human rights principles with our business partners everywhere we operate.

Vacon and WWF Finland cooperate to counter climate change

In June 2007, Vacon signed a partnership agreement with WWF Finland. The goal is to promote WWF's work to protect the environment and to increase awareness of Vacon technology that focuses on energy efficiency.

According to Timo Tanninen, CEO of WWF Finland, improving energy efficiency is a key means in fighting climate change. Installing AC drives is a specific, cost-effective step towards achieving this goal.

Vacon and WWF Finland are cooperating within the framework of WWF's Climate Change programme by distributing information about sustainable energy technology using different channels. WWF Finland will also provide training to increase awareness among Vacon personnel of environmental issues.

Established in 1961, WWF operates in more than 100 countries, working for a future in which humans live in harmony with nature. WWF Finland was founded in 1972.



Shekhar Kubal from Marketing does his work by taking climate change personally.



Vacon's goal is to improve the ecofriendliness of its operations and products throughout their life cycle. Vacon's environmental management system meets the requirements of the ISO 14001 standard. Environmental and quality matters are not treated as separate functions at Vacon but are developed as an integral part of business activities.

ENVIRONMENTAL MATTERS ARE DEVELOPED AS PART OF BUSINESS OPERATIONS

Vacon's operations do not place a burden on the environment. It aims to choose raw materials for the AC drives that cause minimum harm to the environment. AC drives are made from plastic, steel, aluminium, electronic components, cables and circuit boards.

Vacon requires its sub-contractors, suppliers and partners to have responsible operations and comply with environmental regulations. It recommends that subcontractors obtain ISO 14000 environmental certification. Compliance with environmental regulations is monitored regularly in connection with supplier assessments.

Lead-free

Vacon has committed itself to complying with environmental legislation and regulations. During 2007 Vacon undertook to comply with the EU's Restriction of Hazardous Substances Directive. With the new generation AC drives and in the pro-

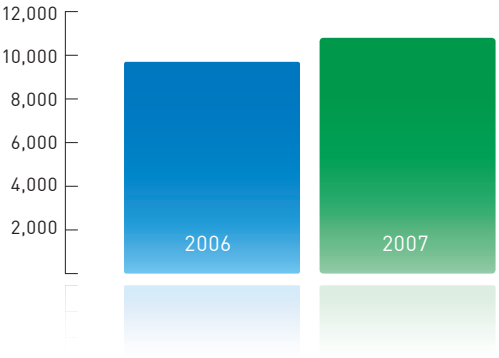
duction of the NX generation drives, Vacon started manufacturing completely lead-free products.

During the year 2007 no accidents were reported, nor were any cases of exceeding permit limits in any phase of production. No emissions were released from production into the air or the water system. In waste management the focus was on sorting and recycling materials. During the year 2007 particular attention was paid in production to the sorting of waste and to increasing the use of recyclable packaging material in production. At present about 95 per cent of waste can be reused.

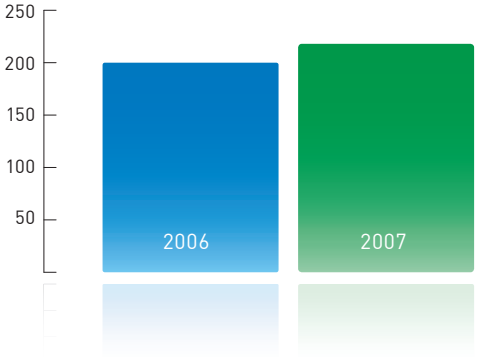
- Vacon's AC drives boost the utilization of renewable energy such as wind power, hydropower and solar energy.



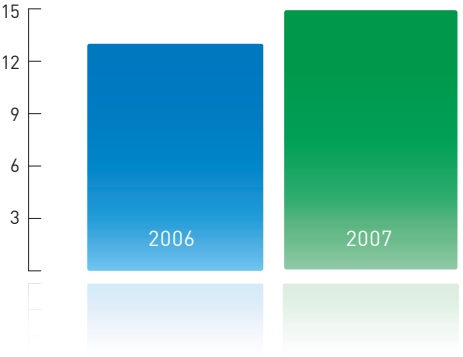
Energy consumption, MWh



Recycling of electronic waste, 1 000 kg



Other recyclable waste, 1 000 kg



Jaana Niemelä, Shekhar Kubal, Jukka Palomäki and Xi Wang decided together that climate change is going to be checked, if necessary one electric motor at a time.



Vacon is growing and expanding internationally. For the sake of continuity it is important that employees wish to commit themselves to the company and develop with the company. Employees who are passionately dedicated to their work form a key element in Vacon's success.

ARE YOU AMBITIOUS ENOUGH TO MAKE THE DIFFERENCE?

Vacon recruited many new employees during 2007. By the end of the year Vacon had recruited in Finland 50 new office personnel and 131 factory workers. A total of 132 people were hired at Vacon's subsidiaries.

The availability of manpower in Finland and around the world has become a factor with a vital impact on the human resources strategy. Attracting the best workers and keeping them at Vacon is also essential for Vacon's growth. Vacon aims to ensure the availability of workers with systematic advance planning and recruitment.

Values form governing principles for human resources policy

Vacon's human resources policy is based on the company's values, which stress taking customer needs into account, focusing on people, entrepreneurship, and a passion for excellence. Vacon is an international company but also stresses the importance of local practices.

To encourage permanence among its work force, Vacon is developing the work of supervisory staff and its incentive schemes. Vacon has created a bonus scheme to which the entire personnel belongs and which entitles employees to up to two months extra salary if given targets are met. The criteria used include both corporate targets and individual or team targets.

As well as recruitment the company also focused on developing skills and the work of supervisory staff. More training was given than ever before.

Enjoyment of work is affected not only by the financial reward and professional development but also by a person's physical and mental wellbeing. Vacon's human resources policy is based on supporting the total wellbeing of employees. The special theme for 2007 at Vacon was mental wellbeing.

Closer monitoring of occupational safety

Vacon aims at proactive prevention of accidents in the workplace. Monthly reports are made of accidents and near miss situations. During the year no serious accidents occurred. The number of less serious accidents increased slightly, but this was mainly due to stricter reporting practice for near miss situations.

Vacon also requires suppliers and subcontractors to observe occupational health and safety regulations. The operations of partners are monitored regularly.

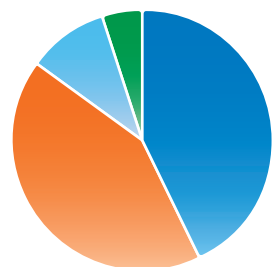
The personnel survey was carried out in September. Altogether 92 per cent of Vacon personnel answered the survey, which can be considered an excellent response. Overall employees considered the company's working environment to be good, and there were no significant changes

in this during the year. The figures for efficiency and flexibility had improved. Personnel considered that promotion opportunities were good and also had confidence in the future success of the company.

The main focus in 2008 will be on successful recruiting to support growth. Recruitment is expected to continue strongly both in Finland and in the subsidiaries. The focus in training will continue to be on developing strategic expertise and in supporting the work of supervisory personnel. The theme for total wellbeing in 2008 is physical fitness.

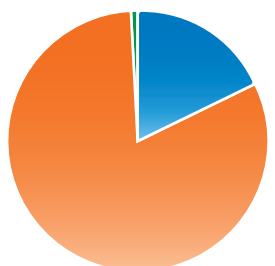
Personnel in figures 2007

	2007
Number of employed on average	772
Average age	35 years
Average length of service	3.7 years
Percentage of women of personnel	28 %
Percentage of men of personnel	72 %



Personnel by function in 2007

● Products and markets	42 %
● Production	41 %
● R&D	12 %
● Administration	5 %



Personnel by region in 2007


● Europe, Middle East and Africa	81 %
● Asia and Pacific	18 %
● North and South America	1 %



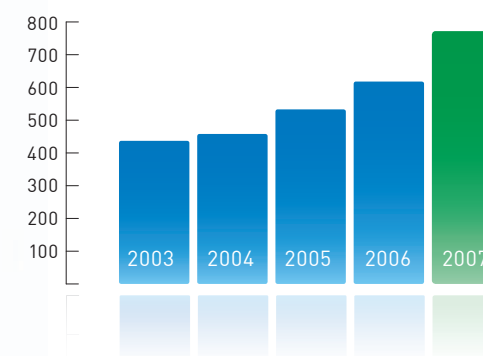
Personnel by education in 2007

● Basic education	28 %
● Vocational degree	20 %
● Bachelor's or polytechnic degree	34 %
● Master's degree	17 %
● Doctoral or licentiate degree	1 %




 Maija Suutarinen knows that each person at Vacon is unique, but everyone has the same attitude.

Number of employed on average



Vacon Group operates in accordance with the principles for good corporate governance. The Group applies best practices and observes current rules and regulations. Vacon Group's administration complies with the Finnish Companies Act and the Articles of Association of Vacon Plc. Vacon's shares are quoted on the OMX Nordic Exchange Helsinki. The Company complies

with the regulations and guidelines issued by the Nordic Exchange and the Financial Supervision Authority for listed companies. In addition Vacon Plc complies with the Corporate Governance Recommendation for Listed Companies issued by Nordic Exchange Helsinki, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers.

CORPORATE GOVERNANCE

General Meeting of Shareholders

The highest authority in Vacon Plc is exercised by the Company's shareholders at General Meetings, which are convened by the company's Board of Directors. The Annual General Meeting is held annually on a date determined by the Board of Directors but no later than the end of June. Extraordinary General Meetings are convened when necessary.

The main matters under the authority of General Meetings are:

- approving the financial statements
- distribution of profits
- discharging from liability the members of the Board of Directors and the President
- deciding on the number of Board members and auditors and their remuneration, and selecting them
- making any changes in the Company's Articles of Association
- increasing and decreasing the share capital

Invitation to General Meetings

Notice of a General Meeting of Shareholders, stating the

matters to be considered at the meeting, is either sent to shareholders by registered mail or is announced in at least one Finnish nationwide newspaper determined by the Board of Directors. The invitation and the proposals made by the Board of Directors to the General Meeting are also published in a stock exchange release and on the Company's Internet website.

The names of persons nominated for the Board of Directors are published in the invitation to the General Meeting or, if the invitation has already been published, in some other way before the General Meeting, provided they have given their written consent to be nominated and are supported by shareholders holding at least 10% of the votes carried by all the shares of the company. The proposal prepared by the Board of Directors concerning the company's auditor is published in a similar way before the meeting.

Attending the General Meetings

Those wishing to attend the General Meeting must inform the Company by the deadline stated in the notice of meeting. Shareholders may attend the meeting themselves or

through an authorised representative. Each shareholder or representative may also have one assistant at the meeting. Minutes are taken at the General Meeting and are made available to shareholders for inspection two weeks after the meeting. The decisions taken by the General Meeting are also published in a stock exchange release immediately after the meeting.

Attendance at General Meetings of Board members and President

It is the Company's aim that all Board members attend the Annual General Meeting. Persons nominated for the first time as Board Members shall attend the General Meeting that elects the Board members, unless they have very pressing grounds for being absent.

Decision-making

Vacon Plc has one class of shares and each share is entitled to one vote. When votes are taken at a General Meeting, proposals supported by more than half of the votes cast are the decisions of the General Meeting or, in the case of a tie,



the chairman has the casting vote. Exceptions to this are certain matters mentioned in the Finnish Companies Act, such as an amendment to the Articles of Association or a decision on a rights offering, for which any decision requires a larger majority specified in the Act in relation to the number of shares and the votes to which they give entitlement.

According to the Articles of Association of Vacon Plc, a shareholder whose holding of all Company shares or of the voting rights conferred by the shares - either individually or jointly with other shareholders as defined hereinafter - reaches or exceeds 33 1/3 per cent or 50 per cent (shareholder subject to redemption obligation), is obliged on demand by other shareholders (shareholders with rights of redemption) to redeem the shares of such shareholders and securities entitling them to shares as defined in the Finnish Companies Act in the manner prescribed in the relevant Article.

The Company is not aware of any shareholder agreements concerning the use of voting rights in the Company, or of any agreements limiting the surrender of Company shares.

Risk management

Vacon Group's risk management is part of the management process for the Company's business operations. Risk management aims to ensure that the risks relating to business operations have been thoroughly surveyed and are effectively controlled. The goal is to minimize any damage arising from the risks and to identify the risks in managing the business. Risk management activities aim to ensure profitable growth for the Company. More details about risk management are given on page 34.

Insider dealing

Vacon Plc observes the guidelines for insiders for listed companies approved by the Nordic Exchange Helsinki. In addition, the Company has approved its own insider guidelines for the Group, which in some parts set stricter requirements for handling insider information than those of the Nordic Exchange Helsinki. The Company keeps its register of insiders in the SIRE system maintained by the Finnish Central Securities Depository Ltd.

Corporate governance

The Company's public permanent insiders, based on their position as stated in the Securities Market Act, comprise the Board of Directors, the President and CEO, and the auditor. In addition to these, under a decision of the Company's Board of Directors, other public permanent insiders are the Management Team, the secretary to the Board of Directors, as well as the spouses of the all above or their registered partners, minors and other family members who have lived in the same household for at least one year.

Vacon's own company insiders include personnel in the treasury and communications departments and the secretaries to senior management. The Company also maintains insider registers for individual projects. Vacon's silent period lasts three weeks. The Company does not comment on market prospects and does not meet financial market or media representatives for three weeks before the publication of interim reports or the annual financial statements.

The silent period also applies to Vacon's permanent insiders, who may not trade in the Company's securities for 21 days before publication of the results for a reporting period. Vacon Plc also does not purchase its own shares during this period.

Shares, share capital, major shareholders, and flagging notifications during the past 12 months

Basic information about the Company's shares, share capital and major shareholders are given in the section Shares and Shareholders in the financial pages of this annual report.

The company has issued no statutory notices of changes during the past 12 months.

Audit

The auditors elected by the Annual General Meeting are the authorized public accountants KPMG Oy Ab and the principal auditor appointed by them is Pekka Pajamo, APA. In addition to the duties in accordance with current regulations, he also reports on his observations during auditing to Group management.

The scope and contents of the audit are defined so that they take into account the fact that the company does not have its own internal audit organization. Vacon Plc paid the auditors fees of EUR 115,000 for the 2007 audit. In ad-

dition, the authorized public accountants were paid fees of EUR 57,000 for services not related to audit.

Composition and term of office of Board of Directors

According to the Articles of Association, Vacon's Board of Directors has at least three and at most seven members chosen by the General Meeting of Shareholders. The members of Vacon's Board are chosen by the Annual General Meeting of Shareholders for a term of one year at a time. The Articles of Association do not stipulate an upper age limit for Board members nor do they limit the number of terms of office. The Board elects from among its members a chairman and deputy chairman for one term of office.

The Annual General Meeting held on 28 March 2007 decided that the Board of Directors should have six members. Pekka Ahlqvist, Jari Eklund, Kalle Heikkinen, Mauri Holma, Jan Inborr and Veijo Karppinen were re-elected as Board members. Jan Inborr was re-elected Chairman and Veijo Karppinen was re-elected Vice Chairman of the Board of Directors at the organization meeting of the Board of Directors.

Duties of the Board of Directors

The tasks and duties of the Board of Directors are defined in the Finnish Companies Act, the Company's Articles of Association and in the Board of Directors' rules of procedure. The Vacon Plc Board of Directors has approved written rules of procedure for the duties of the Board, matters to be considered, and meeting and decision-making procedures. The Board revises its rules of procedure each year so that they conform to good principles of corporate governance at all times. The Company's President participates in the meetings of the Board of Directors and prepares and presents to the Board matters to be considered at the meetings.

According to the rules of procedure, Vacon's Board:

- confirms the Company's long-term goals and strategy
- approves the Group's operations plan, budget and financial plan, and monitors how these are implemented
- decides on individual major and strategically important investments and approves the investment programmes

of Group companies

- monitors the Group's financial performance and how its goals are being met
- appoints the President, Executive Vice President and members of the Management Team, and decides on the composition of the boards of directors of Group companies
- decides on the principles for bonus and incentive schemes
- considers and approves interim reports, consolidated financial statements and the annual report

Evaluation of independence

Vacon's Board of Directors has evaluated the independence of Board members in relation to the company in accordance with recommendation 18 of the Corporate Governance Recommendation. The majority of Board members - Pekka Ahlqvist, Jari Eklund, Kalle Heikkinen, Mauri Holma and Jan Inborr - are independent of the Company. Veijo Karppinen was CEO of Vacon Plc until July 2002 and so is not wholly independent of the Company. Pekka Ahlqvist, Jari Eklund, Kalle Heikkinen, Mauri Holma and Veijo Karppinen are independent of major shareholders. Jan Inborr is not independent of major shareholders since he is CEO of Ahlström Capital Ltd.

Decision-making

The Board of Directors shall always act in the interest of the Company and in such a way that its operations are not liable to result in an unjustified advantage for any shareholder or other party at the expense of the Company or another shareholder. A Board member is disqualified from being present when the Board considers matters involving the Board member and the Company. The chairman of the Board of Directors is responsible for convening the Board meetings and for meeting procedures. When votes are taken, the majority opinion is the Board's decision and, in the case of a tie, the chairman has the casting vote. In an election, a tie is decided by drawing lots.

Meeting practice and self-assessment

The Board of Directors meets about 10 times a year. The Board of Directors has not allocated special areas of focus for its members to monitor business operations. Mat-

ters are presented at meetings by the President of Vacon Plc or, at his request, by another member of the Management Team. According to the Board of Directors' rules of procedure, the President ensures that the Board obtains sufficient information to assess the operations and financial situation of the Group. The President also supervises the implementation of Board decisions and reports to the Board on any deficiencies or problems in implementation. The secretary to the Board of Directors is Stefan Wikman, attorney from Roschier Holmberg, Attorneys Ltd. The Board of Directors regularly assesses its operations and working procedures by carrying out a self-assessment once a year.

The Board has had 14 full meetings during 2007. The average attendance percentage, a figure that illustrates the participation of Board members in the work of the Board, was about 94 per cent in 2007.

Board of Directors' fees and other benefits

The Annual General Meeting decides each year on the fees and principles for reimbursing expenses to the members of the Board of Directors. Fees to the Board members are paid in cash.

The 2007 Annual General Meeting decided that the fees paid to the Board members were as follows:

- monthly fee for the Chairman EUR 2,000
- monthly fee for each Board member EUR 1,000
- bonuses depending on the company's result:
EUR 1,450/month for Board members and EUR 2,900/month for the Chairman.

In addition, Board members are entitled to per diem allowances and travel expenses in accordance with the general travel rules of Vacon Plc.

Committees

Vacon Plc's Board of Directors has set up a combined Remuneration and Nomination committee, made up of three members of the Board. The committee is subordinate to the Board of Directors and makes recommendations for the Board to decide on.

The task of the committee is to create forms of remuneration that are felt to boost motivation and also take into account the special features of Vacon. The committee also prepares for the election of members to the Board of Directors so that the Board can make proposals to the General Meeting, prepares matters concerning compensation for the Board of Directors, and identifies successor candidates for the members of the Board. The committee members in 2007 were Jan Inborr, Veijo Karppinen and Pekka Ahlqvist.

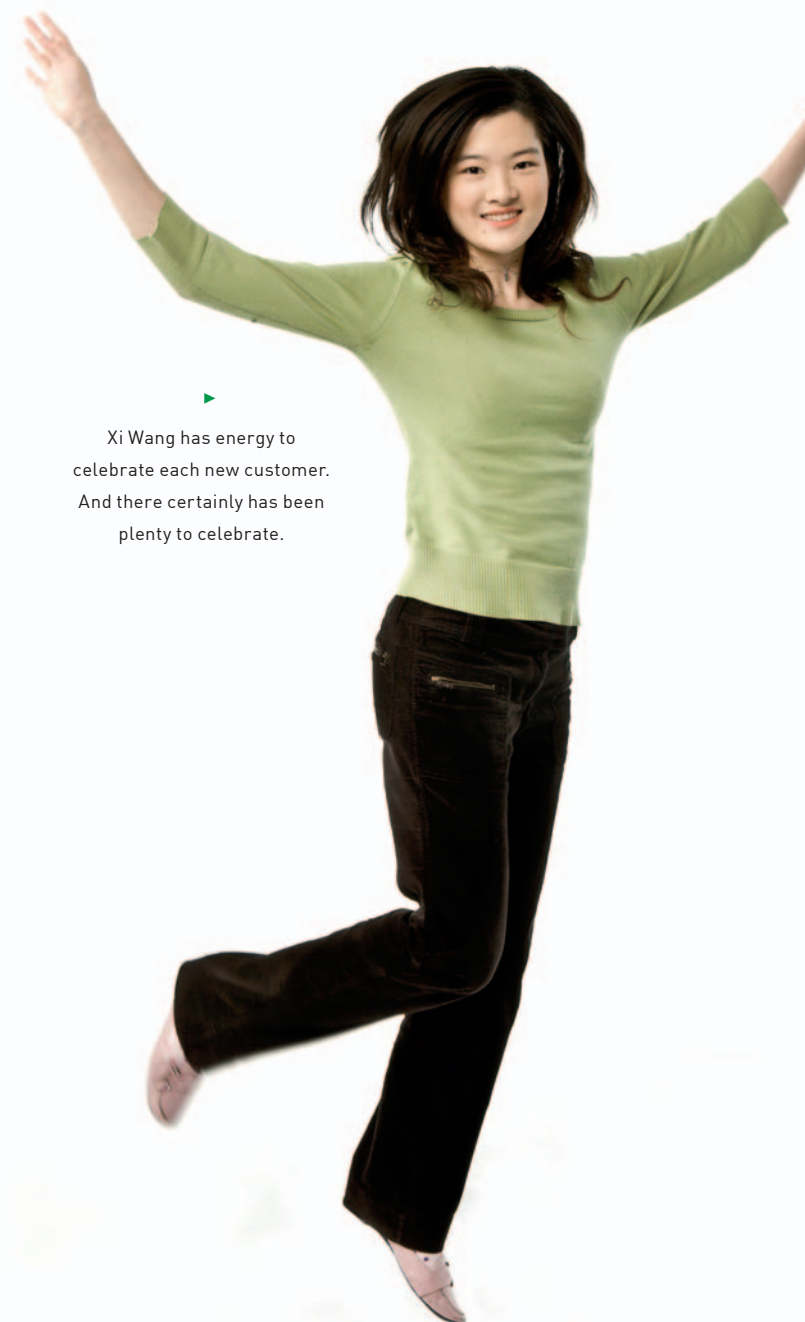
The President and Management Team

The Board of Directors appoints the company's President and defines the terms of employment of the President in writing. The President prepares matters to be decided at the meetings of the Board of Directors and is responsible for seeing that the Board's decisions are carried out. The President is responsible for the Group's administration and is chairman of the Management Team. The retirement age for the President is 60 years. The Company will pay the President compensation equivalent to 18 months' salary if the Company terminates the contract of employment.

The Management Team prepares and guides the development of the Group's processes and business areas and the Group's joint functions. The Management Team consists of the President and representatives chosen from the Group's senior management. The Management Team is not an administrative body as stipulated by the Finnish Companies Act. Subsidiary companies report to the Group's Executive Vice President, Products and Markets.

Salaries and other benefits paid to the President and other senior management

The salaries and other benefits of the President and other senior management are approved by the Board of Directors. The Board of Directors confirms each year any management bonus and any bonus for all personnel. During 2007 personnel earned a productivity bonus totalling EUR 3,095,000 and in addition the share bonuses paid to management totalled EUR 1,281,000. The President & CEO's annual salary, which includes the monthly salary and bonuses, was EUR 612,000 in 2007.



Xi Wang has energy to celebrate each new customer. And there certainly has been plenty to celebrate.

BOARD MEMBERS

Stefan Wikman, secretary of the board

Born 1956, LL.M. (Law)

Partner of Roschier Attorneys Ltd.

Delegation member at:

- Harry Schaumans Stiftelse
- Stiftelsen för Åbo Akademi
- Stiftelsen för Österbottens högskola.

No Vacon Plc shares.

Kalle Heikkinen, board member

Born 1956, MBA, M.Sc. (Social Sciences),

M.A. (Communications)

Managing Partner, Nordic Adviser Group.

Board member since 2004.

Board member at:

- Longhorn Capital Oy (chair)
- Harvard Club ry. (chair).

Delegation member at:

- Finnish Cultural Foundation
- Harvard Fund (director of board).

No Vacon Plc shares.

Pekka Ahlqvist, board member

Born 1946, M.Sc. (Eng.), MBA

Board member since 2004.

No Vacon Plc shares.



Mauri Holma, board member

Born 1950, B.Sc. (Eng.)

President and CEO, Vaasa Engineering Ltd.

Board member since 1993.

Board member at:

- Btb Plaza Oy
- Vaasa Engineering Ltd.
- Vaasa Kojeistot Ltd.
- Vaasa Service Ltd.
- Wapice Ltd.

347,171 Vacon Plc shares.

Jan Inborr, chairman

Born 1948, B.Sc. (Econ.)

President and CEO, Ahlström Capital Oy.

Board member since 2002.

Board member at:

- Enics AG (chair)
- Å&R Carton AB (vice chair)
- Ahlstrom Corporation
- Nordkalk Corporation
- Stiftelsen för Åbo Akademi
- Symbicon Ltd. (chair)

No Vacon Plc shares.

Jari Eklund, board member

Born 1963, M.Sc. (Econ.)

Investment Director,

Tapiola Insurance Group.

Board member since 2001.

Board member at:

- Seligson & Co Oyj
- Ilkka-Yhtymä Oyj (member of supervisory board)
- Mortgage Society of Finland.

No Vacon Plc shares.

Veijo Karppinen, vice chairman

Born 1950, M.Sc. (Eng.)

President, VNT Management Ltd

until November 15, 2007

Board member since 1993.

Board member at:

- VNT Management Ltd (chair)
- EpiCrystals Ltd. (chair)
- Optogan Ltd. (chair)
- The Switch Engineering Corporation (chair)
- Vaasa Engineering Ltd. (chair)
- Wapice Ltd. (chair).

209,349 Vacon Plc shares.



Ownership on December 31, 2007.

MANAGEMENT TEAM

1. Vesa Laisi

President and CEO

Born 1957, M.Sc. (Eng.), M.Sc. (Econ.)

Employed by the company since 2002.

Board member at: Finnfacts (chair) and
Teknologiaoteollisuus ry.

6,656 Vacon Plc shares.

2. Heikki Hiltunen

Executive Vice President, Products
and Markets

Born 1962, B.Sc. (Eng.)

Employed by the company since 2002.

5,120 Vacon Plc shares.

3. Tuula Hautamäki

Vice President, Human Resources,
Information Technology and Process
Development

Born 1964, M. Sc. (Eng.), M.Sc. (Econ.)

Employed by the company since 2000.

7,680 Vacon Plc shares.

4. Dan Isaksson

Vice President, Corporate Development
and Solution Customers

President, Vacon Inc. as of 20 Dec, 2007

Born 1965, M.Sc. (Eng.), MBA

Employed by the company since 1999.

2,156 Vacon Plc shares.

5. Timo Kasi

Vice President, R&D

Born 1966, M.Sc. (Eng.)

Employed by the company since 1999.

5,037 Vacon Plc shares.





6. Jari Koskinen

Vice President, Production
Born 1960, M.Sc. (Econ.), MBA
Employed by the company since 1994.
358,390 Vacon Plc shares.

7. Mika Leppänen

Vice President, Finance and Control and CFO
Born 1959, M.Sc. (Econ.)
Employed by the company since 2003.
2,048 Vacon Plc shares.

Extended Management Team

Jukka Kasi (not in the photo; based in China)
President, Vacon Suzhou Drives Co. Ltd.
Born 1966, M.Sc. (Eng.)
Employed by the company since 1997.
53,383 Vacon Plc shares.

8. Olavi Lehtonen

Director, After Market Service
Born 1957, M. Sc. (Eng.)
Employed by the company since 2004.
1,160 Vacon Plc shares.

9. Jouko Liljeström

Director, Brand Label and OEM Customers
Born 1969, B.Sc. (Eng.)
Employed by the company since 2004.
560 Vacon Plc shares.

Pertti Rajamäki (not in the photo; travelling)
Director, Component Customers
Born 1952, B.Sc. (Eng.), MBA
Employed by the company since 2005.
760 Vacon Plc shares.

Ownership on December 31, 2007.

At Vacon, risk management is treated as part of the management process for the company's business operations. The goal is to identify risks and to minimize them. CFO Mika Leppänen answered questions about risk management.

RISK MANAGEMENT IS AN INTEGRAL PART OF MANAGEMENT

How does Vacon analyse risks?

We carry out a thorough survey each year, in which the company's Management Team and some of the company's experts participate. The goal is to examine risks in the entire business operations. We analyze external and internal risks and define strategic and operative risks. We also classify liability risks and financing risks.

How does Vacon monitor risks?

We have created a risk map, and risks recorded on this are assessed and graded each year. At the same time we also consider how the risks can be controlled. We have updated the risk map systematically since 2003, and during this time it has been possible to remove some of the risks from the map following measures that have been taken. For example we have succeeded in significantly reducing the supplier risk by trying to find at least two suppliers in every case. On the other hand new risks are constantly appearing to replace the old ones. For example rising prices for metal raw materials raised the ranking for raw materials.

How are risks managed and what is done to prepare for them?

Each risk is analyzed separately on the basis of its seriousness and its probability. It is not possible to eliminate

all risks; a risk can be consciously accepted. Sometimes a company has in fact to dare to take risks in order to succeed. It is also possible to try and limit, concentrate or diversify risks. Some risks can be prevented with technical solutions, such as fire protection equipment. And some risks can be passed on with insurance. An extremely important factor in risk management is training the entire personnel and keeping them informed.

Who is responsible for risk management?

The Board of Directors approves the principles for risk management. The Board has to understand and be aware of the key risks for the company. The company's Management Team assesses risk management and reports to the Board on the company's key risks. It is the duty of the company's chief financial officer to develop risk management procedures and introduce measures. Each employee is also responsible for risk management in their own work and they are encouraged to look out for risks and report them.

What is the main goal of Vacon's risk management?

We consider that the most important matter which must not be compromised is ensuring the safety of employees, customers and partners, and we insist on this from all our subcontractors and partners. Ensuring the safety of people is first on our list.

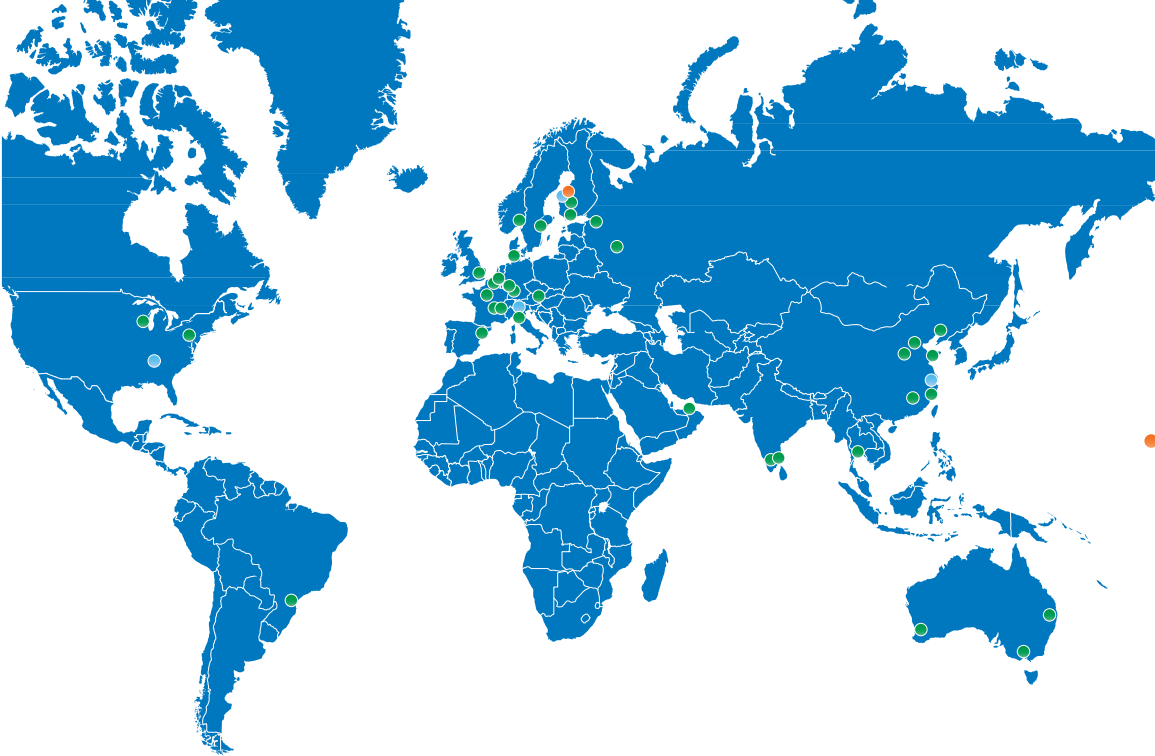


Vice President, Finance and Control
and CFO Mika Leppänen

What risks does Vacon face relating to financing?

The company was free of debts in 2007, so the interest rate risk can be considered to be under control. Currency risk is managed in accordance with the hedging policy approved by the Board. In practice the company succeeded well in 2007 in hedging against currency risks. The creditworthiness of customers may also weaken and cause problems in payment.

Vacon's risk management principles are given in their entirety in the financial statements section on page 32.



● **Vacon Plc**

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under: Contact -> Vacon worldwide.

● **Sales offices**

Australia, Austria, Belgium, Brazil, France,
Germany, Great Britain, India, Italy,
Netherlands, Norway, People's Republic
of China, Russia, Spain, Sweden, Thailand,
United Arab Emirates, United States

● **Production**

Finland, Italy, People's Republic of China,
United States

Includes the companies acquired through the purchase
of the AC drives business operations of TB Wood's.

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