

IT'S ALL ABOUT  
THE ATTITUDE

# 10

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ANNUAL REPORT 2010  
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**VAGON**

DRIVEN BY DRIVES



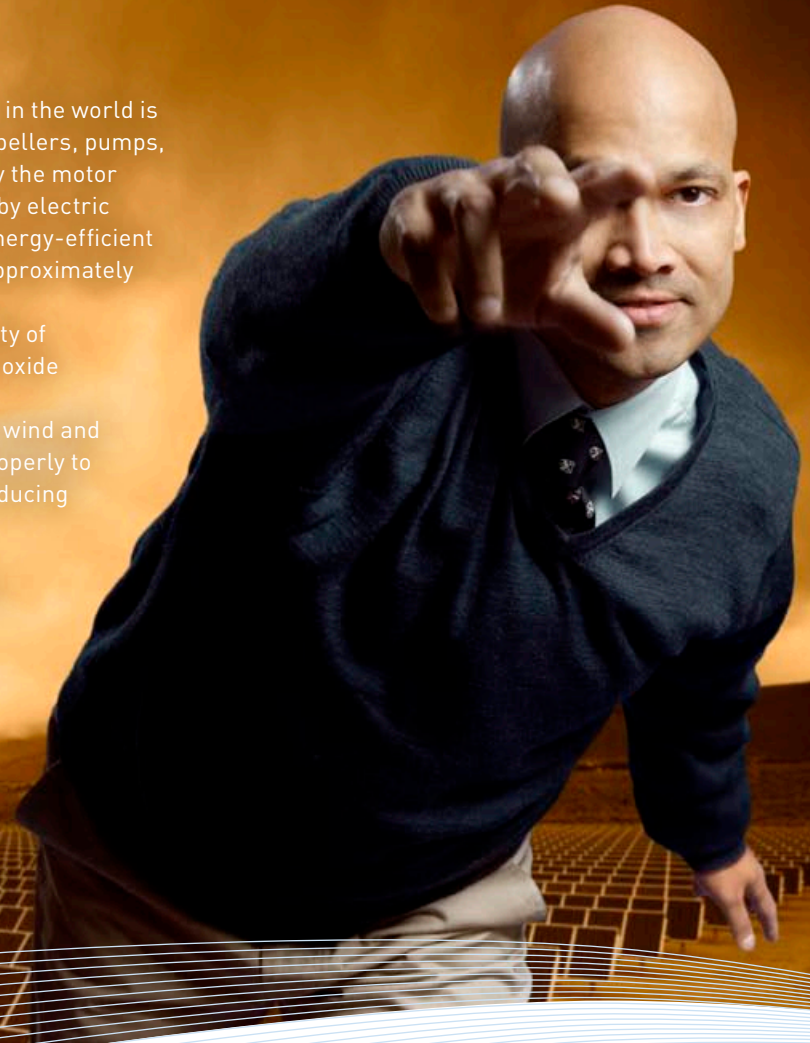
# CLEAN ENERGY AND CLEAN WATER

Vacon's products represent truly clean technology. Approximately one third of the electricity consumed in the world is used by electric motors which power, for example, escalators, elevators, HVAC equipment, cranes, propellers, pumps, and conveyor belts. When an AC drive is used to control the electric motor, more than 50% of the energy the motor consumes can be saved. On the whole, it is estimated that globally nearly 30% of the energy consumed by electric motors could be saved with an extensive use of AC drives. This means that a full use of AC drives and energy-efficient motors would provide approximately 10% savings in the electricity consumed in the world. Currently, approximately one in ten electric motors in the world is equipped with an AC drive.

In 2010, Vacon's AC drives helped to save about 35 TWh of energy. This equals the production capacity of approximately six nuclear reactors. At the same time, Vacon's AC drives helped reduce global carbon dioxide emissions significantly.

In addition to saving electricity, Vacon's AC drives help to produce clean energy. In the production of wind and solar energy, Vacon's products direct the electricity produced by a wind turbine or solar power plant properly to the grid. In 2010, the amount of energy produced with Vacon's products was approximately 15 TWh. Producing the same amount of energy using coal power would generate about 12 million tons of carbon dioxide.

The third aspect of clean energy has to do with water. We in Finland take clean nature and clean water for granted, but more than one billion people in the world live without sufficient amounts of fresh water. Vacon's products have a significant role in treating wastewater or turning, e.g., sea water into drinking water.



Shekhar Kubal, Product Marketing Director, is in charge of the product marketing of Vacon's general purpose AC drives portfolio.



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## PASSION FOR SAVING AND PRODUCING ENERGY

Vacon's operations are driven by a passion to develop, manufacture, and sell the best AC drives in the world – and nothing else. AC drives are used in the control of electric motors and in the production of renewable energy. Vacon has R&D and production units in Finland, the USA, China, and Italy. The company has sales offices in 27 countries. In 2010, Vacon's revenues were EUR 338.0 million and the company employed an average of 1,301 people around the world. Vacon Plc's shares (VAC1V) are listed on the NASDAQ OMX Helsinki.

An AC drive is a device that is used to control the speed of an electric motor in all industry segments and civil engineering. Furthermore, the AC drive is a key product in the production of renewable energy. With AC drives, it is possible to obtain significant energy savings and produce clean energy from renewable sources, such as the sun and wind.

Vacon was established in Vaasa, Finland in 1993. It was founded by 13 bold entrepreneurs who shared a passion to develop and manufacture the best AC drives in the world. The year 2010 was the company's 17th year of operations.

### Global presence

Vacon has production and R&D units in Finland, the USA, China, and Italy. The company has sales offices in 27 countries, and it uses several sales channels to sell its

products. Vacon's sales channels are original equipment manufacturers (OEMs), system integrators, brand label customers, distributors, and direct sales to end users.

Vacon supplies AC drives to nearly all industry segments and to civil engineering. Typical customer sectors include machine manufacture, water treatment, building automation, marine and offshore industry, renewable energy generation, and mining. AC drives are used, for example, in pumps, fans, elevators, escalators, conveyors, compressors, as well as wind and solar power plants.

Vacon's largest customers include Eaton, Honeywell, KONE, Konecranes, Rockwell Automation, Schindler, and The Switch. Vacon is the seventh largest manufacturer of AC drives in the world and the largest company concentrating solely on AC drives. Vacon estimates that its market share of the global AC drives market (USD 9 billion, Frost and Sullivan) is approximately 5%.

### YEAR 2010 IN BRIEF

Jan 25

The Vacon Drives Conference is organized in Bangkok, Thailand

May 24

Vacon reforms its organization

May 25

Vacon invests in solar energy products

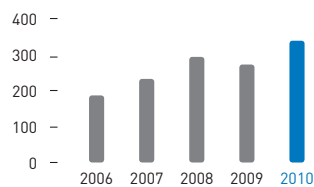
Sep 16

Vacon donates EUR 100,000 to Finnish universities

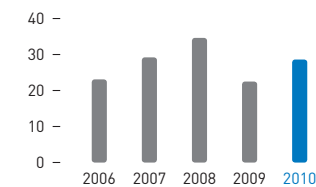
### Financial targets and shareholders

Vacon's goal is to achieve revenues of EUR 500 million in 2014. Its profitability target is an operating profit of 14% and a return on equity of a minimum of 30%. Vacon Plc's shares are listed on the NASDAQ OMX Helsinki. At the end of 2010, Vacon had 4,687 shareholders, of which 65.3% were institutions or private investors operating in Finland and 34.7% were nominee-registered and foreign owners. The closing price of Vacon's share on the last day of 2010 was EUR 39.00, and the company's market capitalization was EUR 593.4 (406.1 million in 2009).

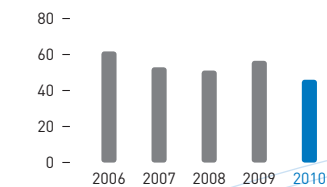
Revenues, MEUR



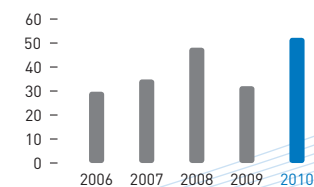
Operating profit, MEUR



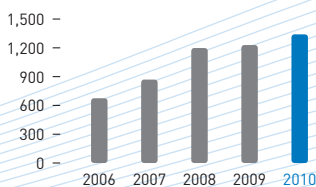
Equity ratio, %



Order book, MEUR



Number of personnel at the end of the period



Sep 30

Vacon's plant in the USA receives a gold-level LEED environmental certificate

Nov 8

Vacon introduces a new AC drive in Germany

Nov 10

Vacon supplies AC drives for Glaston's glass tempering machines

Nov 23

Vacon and F-Secure join forces for industrial automation security research

Nov 23

Vacon and KONE sign a supplier agreement

## BACK ON THE GROWTH TRACK

The year 2010 was very two-sided. In January–February, the AC drives market was still in a downturn in the wake of the global financial crisis, and visibility was poor. Nevertheless, the market recovered even faster than I and my colleagues dared to expect. Clear signs of an upward turn could be seen as early as the second quarter of the year. In terms of order volume, the third quarter was the best in Vacon's history so far.

In 2010, our orders increased to EUR 358 million in January–December (EUR 256 million in 2009). Revenues increased to EUR 338 million (EUR 272 million). Growth of revenues was slowed down by the inability of electronics component suppliers to meet the strongly increased demand. Renewable energy applications accounted for approximately 18% of our revenues. Our profitability developed as expected, and the company's operating profit was EUR 28.6 million (EUR 22.5 million).

Our production capacity is sized for future growth. During the past three years, we have been replacing and expanding our production capacity. The expansion of our plant in Finland was completed in 2008, new facilities were inaugurated in China at the end of 2010, operations in the USA moved to a new facility at the beginning of the year, and a new plant will be completed in Italy in 2011.

The year 2010 saw us get up to speed. I want to extend my thanks to, most of all, all Vacon employees who put the company back on the growth track with their uncompromising attitude. For a company like Vacon, it is also extremely important to work with the best possible partners in sales, production and R&D. I also want to thank all our partners for contributing to our success in 2010.

In 2011, Vacon aims to once again grow faster than the market, and we are more than well equipped to accomplish that.

We have succeeded in creating a global and effectively functioning company with a stable and diverse clientele, a strong product portfolio and the best experts in the industry. In accordance with our strategy, we utilize all sales channels possible, which proved to be an excellent choice both in time of recession and in the subsequent strong growth period.



We have established our own sales offices in 27 countries. The positive market development encourages us again to think about establishing new sales offices in the near future.

We have determinedly developed our procurement functions in order to improve our profitability while maintaining high quality. In 2010, we purchased more than 30% of the materials needed in production from so-called low-cost countries. Our goal is to increase this to 60% by 2014.

Our business operations are based on technology that is in enormous demand globally. The AC drive is a key product in improving energy efficiency in both industry and civil engineering. It is also a key product in energy production utilizing renewable sources of energy and in water management processes. Knowing that the world is suffering from shortage of energy, global warming, and the lack of clean water, it is justified to believe that our products will be in high demand long into the future. One central challenge for us is to increase the recognition of AC drives technology, particularly in emerging countries with strong development potential.

I believe that the economic cycles of the global economy will change more and more rapidly in the future. As a dedicated AC drives manufacturer, we are in an excellent position to react to changes quickly and, by doing that, gain a competitive advantage. Being able to use the changes to our advantage calls for courage to seize new opportunities – even if we are the first to do so.

Vacon's outlook for 2011 is good. Our goal is to make it excellent. At the same time, we will focus on building the prerequisites for making Vacon one of the leading AC drives manufacturers in the world – perhaps not the largest, but the best. Achieving this goal requires that we take steps to grow. We already took one significant step in 2010 when we separated the global management of our company from the operative management of the parent company and assigned more authority and responsibility to our regional management.

To achieve our ambitious goals we must quickly and wisely take advantage of the opportunities offered by the market. A good example of future growth opportunities is the AC drives, or rather inverters, used in the production of solar energy. This area of business got off to a

brilliant start last year and we expect it to grow strongly in the coming years.

Other good examples of our new growth areas are medium voltage AC drives and various productized maintenance services which we are currently looking into.

According to our calculations, the amount of energy saved in 2010 in various industrial and civil engineering applications by means of Vacon's AC drives was approximately 35 TWh. At the same time, approximately 15 TWh of wind or solar energy was produced with the help of our products. It is my vision that, one day, Vacon's products will provide savings of one percent in the electricity used around the world and produce five percent of electricity from renewable sources of energy. When will this happen? I don't know, but I do know that we are headed in the right direction.

Wishing you success in 2011,

*Vesa Laisi*  
President and CEO, Vacon Plc

## GROWING MARKETS

The global AC drives market picked up considerably in 2010, compared to 2009. In the first quarter, growth was still slow but from the second quarter on, the market saw strong growth. According to the Frost & Sullivan market research company, the global AC drives market grew by approximately 8% in 2010. The total value of the market was approximately USD 9 billion.

In 2010, Vacon's revenues increased by 24.3%, so once again the company was able to increase its market share. It is now estimated at about 5%. In terms of revenues, Vacon is one of the seven largest AC drives manufacturers in the world. The company's main competitors are global conglomerates for which AC drives are just one product among many. Vacon is the world's largest company focusing solely on AC drives. This focus and the subsequent agility and ability to respond to customers' needs provide a clear competitive advantage for Vacon.

According to Frost & Sullivan, geographically speaking, the largest AC drives market in terms of revenues is the Asia Pacific (APAC) region with a share of 43.4%. Correspondingly, the share of Europe was 25.3% and North America 22.6%. In 2010, the order volume increased by 19% in the Asia Pacific region, 4% in Europe, and 4.5% in North America.

Orders in 2010 concentrated on lower power products with smaller sales margins than those of the more powerful and more advanced units. This contributed to the development of Vacon's profitability in 2010.

Investments in the development of energy efficiency made in industry and civil engineering continued to increase in 2010, but they did not succeed in compensating for the 2009 market decline of approximately 16% (Frost & Sullivan).

In 2010, the market grew by 4% in terms of revenues in Europe and North America and by 12% in the Asia Pacific region. By 2014, the global AC drives market is expected to reach USD 11.8 billion in terms of revenues, with an increase of 31.1% from 2010 (Frost & Sullivan).

### Growth in several industry segments

The AC drives market can also be viewed by industry segment. The products are used almost everywhere in industry, civil engineering, and energy production. According to Frost & Sullivan, the largest industry segments using AC drives in 2010 were machine manufacture, pulp, paper and packaging, food, construction engineering, materials handling, energy production, water management, vehicle and transportation, and oil and gas production. The market in the marine and cement industry did not return to the pre-2009 level since projects requiring extensive investments were postponed from 2010. Nevertheless, growth was strong in other segments.

The rapid growth in demand resulted in a shortage of materials in the global components market. Vacon was also hit by the components shortage, and customer deliveries slowed down in the second half of 2010 in particular. Vacon expects the availability of components to return to the normal level in the first half of 2011.

### Market trends

Vacon is expecting the AC drives market to experience strong growth in the medium term. Growth is driven by the increasing concern for the sufficiency of energy and the state of the environment. More efficient use of energy is a precondition for global growth and the development of prosperity. Governmental decision-makers are also working to direct the industry towards using more energy-efficient operating methods. Illustrative of this are the 2020 objectives of different countries which aim to reach the goals agreed on in the UN Climate Change Conference in Copenhagen (COP 2009). Central to reducing greenhouse emissions is the development of energy efficiency and the production of renewable energy.

For example, the European Union passed directive 2005/32/EC, with gradual effect, which sets the energy efficiency requirements for electrical motors. This legislation plays a part in increasing the utilization rate of AC drives within the European Union in the coming years.

Geographically, the strongest growth is forecast to take place in the BRIC countries (Brazil, Russia, India, and China), and of these, China and India in particular. In Europe, the strongest growth area, at least in the short term, would seem to be Germany. The economic challenges faced by European countries create uncertainty in market development. In North America, growth is expected to continue to be stable due to, most of all, the development of energy efficiency and the increase in the production of renewable energy.

As the focus of growth in the AC drives market is shifting to the powerfully growing areas, the focus of production is also moving to Asia, in particular. AC drives manufacturers want to have a presence in the growth markets and, at the same time, take advantage of the competitive edge provided by lower production costs.

From a technological perspective, AC drives are expected to be cheaper, more reliable, easier to apply, more energy efficient, and offer better performance in the future.

New, more economical materials are gaining ground and, as a result, products are becoming easier to customize with software solutions.

Competing or substitute technical solutions do not exist for AC drives and are not within sight. Therefore, Vacon's view is that the market will inevitably continue to grow in the future. Vacon's unique position as an independent and focused AC drives manufacturer offers the company excellent prerequisites to grow faster than the market in the future.

## STRATEGY – OBJECTIVES, CHOICES, AND COMPETENCE

Vacon's goal is to achieve revenues of EUR 500 million in 2014. The company's long-term profitability target is an operating profit of 14% and a return on equity of a minimum of 30%.

Vacon has succeeded in growing approximately two times faster than the market during the past five years and, at the same time, in maintaining a good level of profitability. These continue to be the company's goals. In order for the company to achieve the long-term growth and profitability targets after 2014, the company's strategy must be monitored and developed on an on-going basis.

Safeguarding growth long into the future requires, among other things, that new future growth opportunities are identified and used wisely and at the right time. A good example of future growth opportunities is renewable energy and especially solar energy, which became one of the company's focus areas in 2010. Two other areas in which Vacon sees growth potential are higher power and higher voltage AC drives and more efficient productization and marketing of maintenance services. In these areas, Vacon is carrying out R&D.

The core of Vacon's business operations remains unchanged and is supported by four strategic priorities: product leadership, 100% focus on AC drives, a multi-channel sales network, and a global presence.

### Product leadership

For Vacon, product leadership means an extensive and competitive product portfolio and excellent product and application competence among its personnel. In 2010, Vacon introduced to the market a new Vacon 100 Motor Mountable product. At the same time, the power ranges of the existing products were expanded. In addition, Vacon invested considerably in the R&D of and competence development in products used in the production of wind and solar power. In 2011, the company will expand the offering of the new existing product generation on the market and continue investing in products used in the production of renewable energy.

### Focus on AC drives

Vacon is one of the world's largest companies focusing solely on the design and manufacture of AC drives. This focus offers Vacon a clear competitive advantage since it provides Vacon's customers with the best expert service in the industry every time, whether related to sales, customer service or service and maintenance.

### Multi-channel sales

Multi-channel sales have always been the core of Vacon's sales and marketing strategy. The company sells its products to original equipment manufacturers (OEMs), system integrators, brand label customers, distributors, and end customers. Utilizing several different distribution channels in each geographical area or industry segment

offers Vacon true competitive advantage. This has benefited the company both in the economic downturn and in the rapid recovery of the market since sales did not rely on one channel only. For a company focusing solely on AC drives, multi-channel sales is an opportunity and true competitive advantage.

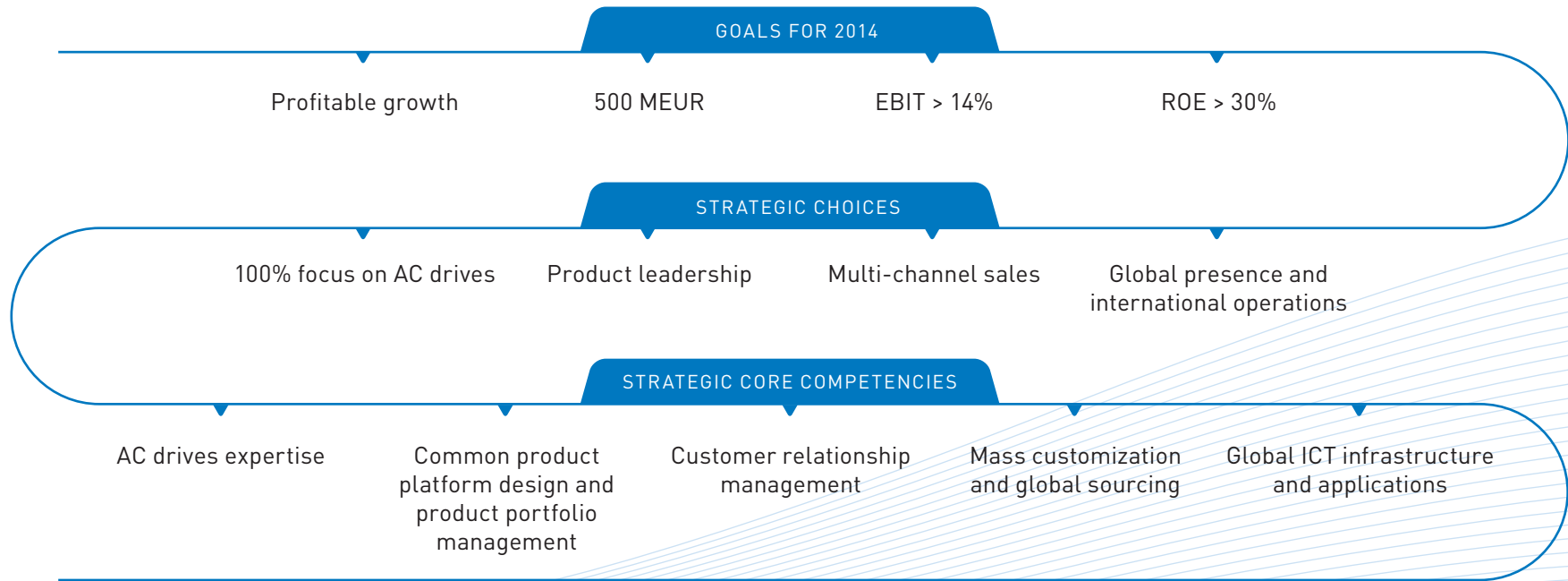
### Global presence

Vacon operates production and R&D units in four countries and has sales offices in a total of 27 countries. Extensive presence on different continents enables the company to place production close to the customer, thus hedging against currency risks. An extensive sales network offers sales the local touch they need. The new recently established sales companies succeeded in 2010 in growing their operations and profitability, allowing Vacon to continue expanding its sales network.

### Strategic know-how

In recent years, Vacon has invested heavily in the development of a common hardware and software platform for AC drives. Vacon's other strategic areas of expertise include product portfolio management, customer relationship management, mass customization, global sourcing as well as information and communication technology tools.

Each area of expertise is continuously developed and monitored in order to ensure the company has the required competence for implementing its strategy.





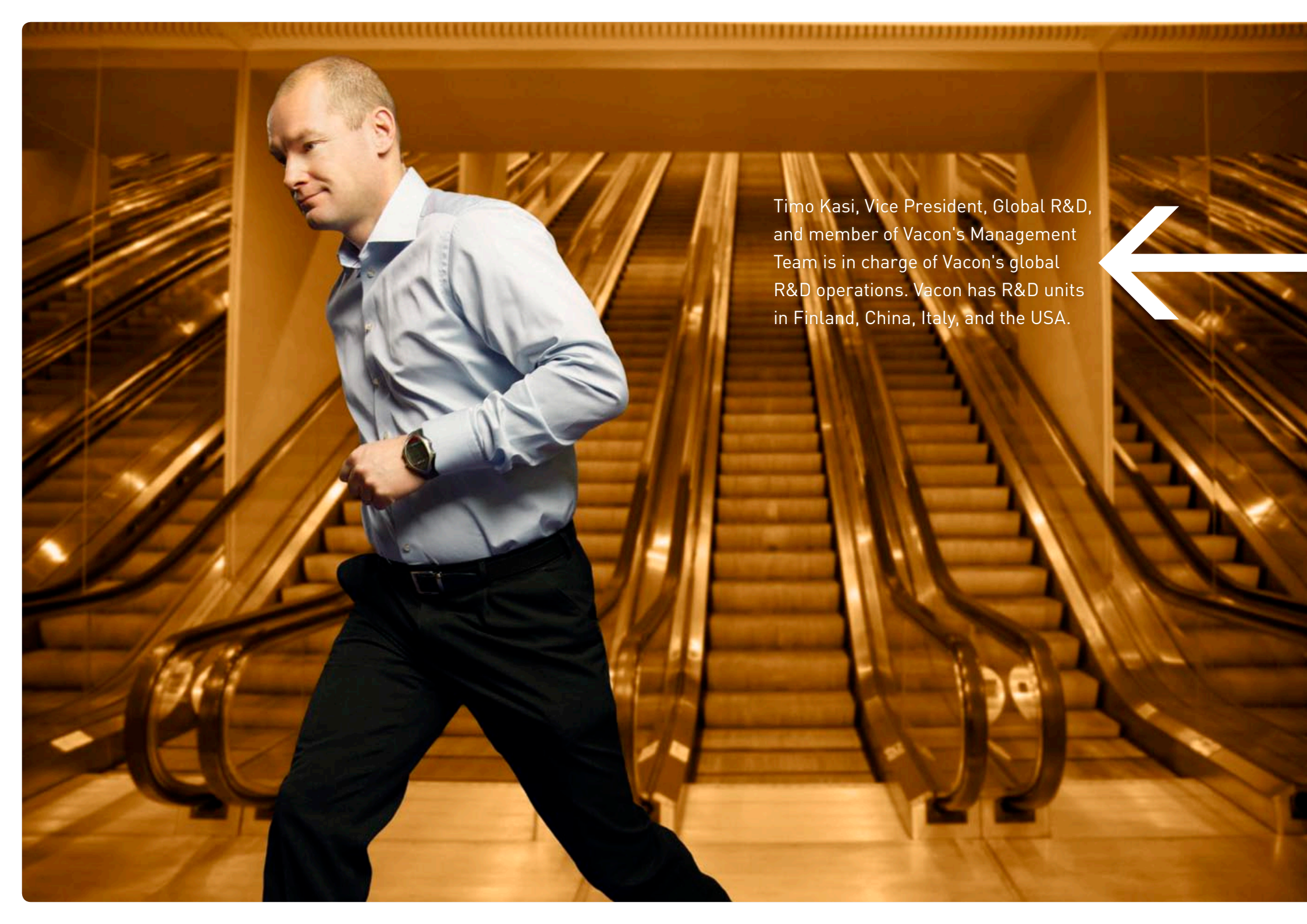
Katja Lassila, HR Manager, is in charge of developing Vacon's managerial work, recruiting office staff, and the company's employer image in Finland.



## 100% FOCUS ON AC DRIVES

Vacon's business is divided into three functions: R&D, production and logistics, and sales and marketing.

Vacon's customers have operations around the world and in nearly all industry segments.

A man in a light blue shirt and dark trousers is walking on a staircase. The scene is lit with warm, golden light. A large white arrow points from the right side of the image towards the text.

Timo Kasi, Vice President, Global R&D, and member of Vacon's Management Team is in charge of Vacon's global R&D operations. Vacon has R&D units in Finland, China, Italy, and the USA.

## CUSTOMER-DRIVEN R&D IS A PRIORITY

For Vacon, 2010 was a breakthrough year in terms of products aimed at utilizing solar energy. In addition, new generation products were brought to the market and customer-driven R&D collaboration continued to be strong.

- Traditionally, Vacon is seen as a manufacturer of AC drives products used for controlling the speed of electrical motors and various types of processes. Nevertheless, the year 2010 showed that the importance of AC drives is also increasing in energy production, and especially in the production of energy from renewable sources, says **Timo Kasi**, Vacon's Vice President, Global R&D.

In 2010, Vacon made significant investments in developing AC drives technology used in wind mills. Another notable groundbreaking field for Vacon was the inverter product portfolio developed for the needs of solar power plants. In the second half of 2010, Vacon introduced the Vacon 8000 Solar product family with a power range up to one megawatt. The plan is to further expand the product portfolio in 2011.

- For our own solar inverter R&D projects, we will install a battery of 400 solar panels on the roof of our plant in Vaasa in 2011. The combined power of the solar panels will be approximately 50–60 kilowatts. In addition to being used for R&D, the solar panels will produce electricity for Vacon's own needs, thus supporting the energy saving objectives of the plant, says Timo Kasi.

### A new decentralized AC drive on the market

In November 2010, Vacon introduced to the market the new Vacon 100 Motor Mountable AC drive which can be mounted on a motor or machine and which, in Vacon's product portfolio, represents the principle of decentralized use. AC drives designed in accordance with this principle can be placed as close to the motor as possible, usually on top of the motor or the device to be controlled.

- The Vacon 100 Motor Mountable is a good example of product development at Vacon's different R&D units. This robust product family with die-cast frames was designed by Vacon's R&D team in Italy using Vacon's shared global technology, software, and component solutions. What is interesting about the product is, among other things, the fact that there are no equivalent products on the market in terms of performance. Equipment designers and manufacturers can gain significant cost savings with this product since separate electrical rooms, long shielded motor cables, and equipment cabinets are not needed, says **Andrea Perin**, the Country Manager for Vacon in Italy.


### Good results through design partnership

Research and development are one of Vacon's cornerstones which is why the company invests a significant portion of its revenues, or approximately 6%, in R&D. In 2010, the number of new product development personnel increased considerably.

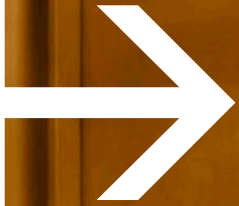
In its global R&D organization, Vacon works in close design partnership with many original equipment manufacturers, system integrators, and brand label customers. Partnerships with these customers bring in more than 50% of Vacon's revenues.

- The year 2010 was characterized by powerful, customer-driven product development. Illustrative of this is the supplier agreement Vacon signed with the elevator and escalator manufacturer KONE at the end of 2010. This is an indication of customers trusting our expertise and our ability to offer customer-driven design. In this case, we were able to provide the customer with a product solution to improve the energy-efficiency of elevators, says Timo Kasi.

In 2010, R&D also contributed to the securing of materials availability. - All in all, 2010 was a year of significant growth for us. The brisk increase in demand after the recession weakened the availability of materials, and this also reflected in the everyday operations of our R&D. We worked hard to ensure the availability of materials, trying to find alternative components for our products and ensure that the high quality and competitiveness of the products did not suffer. To a large extent, the measures taken consisted of securing R&D, testing, verifying, and obtaining approvals, Kasi summarizes.

A woman with long brown hair, wearing a dark blue suit jacket over a light blue shirt, is leaning forward with her hands on her hips, smiling at the camera. She is standing in a modern elevator lobby with three elevator doors in the background. The walls are a warm, golden-brown color with a diamond-shaped pattern. The floor is a light-colored, textured carpet. The lighting is warm and focused on the woman.

Magdalena Granö, Director, Global Logistics, is in charge of Vacon's global logistics operations, ensuring that the movement of goods is seamless, efficient, and as environmentally friendly as possible.



## IMPROVING THE EFFICIENCY OF PLANTS

Vacon develops its global plant operations through increasingly effective production and logistics solutions. Vacon's plants on different continents provide an opportunity to be closer to the customer and to serve them better. In order to streamline operations in these plants, Vacon restructured its global production organization in 2010.

In terms of production and logistics operations, 2010 was a challenging year for Vacon. At the beginning of 2010, the global economy was in recession, which caused many subcontractor chains all over the world to reduce their production capacity. Since the recession eased up quicker than expected, some subcontractors and component suppliers were unable to respond to the rapid growth. This also caused Vacon difficulties in obtaining sufficient quantities of components and materials for its plants.

In the second half of 2010, Vacon focused specifically on ensuring cost-efficient availability of the components and materials needed and further intensified collaboration with the subcontracting chain and component manufacturers.

### Extensive logistics services and networks

Vacon's plants are located in Europe, Asia, and North America. Plants, procurement networks, and customers

located in different parts of the world require well-designed and well-implemented logistics solutions. Vacon's logistics operations have been designed to match the company's growth targets.

– As an entity, the logistics chains are diverse. All phases in the logistics operations must work together seamlessly, from the delivery of components to the plant to the delivery of finished products to customers, says

**Magdalena Granö**, Director, Global Logistics.

– Transportation of components or products must be as efficient and environmentally friendly as possible. Therefore, we must find solutions that take distances into account and minimize total costs. This can be achieved through compatible local and global procurement operations and manufacturing products near the customer, Granö points out.


Sometimes there can be interruptions in a functioning logistics chain that we have no control over. These kinds of situations include local or regional emergencies.

– In the event of an unexpected interruption or problem in one link of the logistics chain, we must apply other solutions. For example, in 2010, the eruption of the Eyjafjallajökull volcano forced us to find alternative transportation for materials normally transported by air. Other local or more far-reaching exceptional situations may also break the transportation chain. We must be prepared for these situations with special plans and measures, says Granö.

## Review of Vacon's plant operations in 2010

Vacon's plants are located in Finland, China, the USA, and Italy.

- The plant in Finland has invested heavily in starting the volume production of new generation products. R&D and production of Vacon's products for the production of solar energy is centralized in the plant in Vaasa.
- Vacon operated two plants in China in 2010, with the new plant being commissioned while the old one was still being used. In December 2010, all plant operations were transferred to the new facilities.
- The new plant in Chambersburg, PA, USA, was commissioned in November 2009, and the portfolio of products manufactured at the plant was expanded in 2010. In October 2010, Vacon's plant in the USA was awarded the LEED Gold Building certificate issued by US Green Building. The certificate is granted for environmentally conscious construction and operations.
- In Italy, the construction of a new plant began in the summer of 2010. The plant will be commissioned in the second half of 2011. Production in Italy focused on starting volume production of the Vacon 100 Motor Mountable, introduced in 2010.



→ Pertti Rajamäki, Regional General Manager and Managing Director of Vacon's subsidiary in China, stresses the importance of multi-channel sales to Vacon's success.

## MARKET PICKED UP DURING THE YEAR

Signs of recovery visible in the AC drive market in the first half of 2010 got stronger as the year went on. Multi-channel sales turned out to be the force which pulled us through the challenging market situation. In Asia, growth continued throughout the year.

Globally, Vacon has 27 sales offices and thousands of partners, including system integrators, distributors, retailers, original equipment manufacturers as well as brand label customers who sell Vacon's products under their own brands. Vacon's marketing and sales are based on using multiple channels, which is one of the most important cornerstones of the strategy. "The importance of multi-channel sales is undisputable. As a manufacturer focusing on one specific business, we must be able to sell our products through several sales channels in order to ensure access to markets," says **Pertti Rajamäki**, who has been working as Regional General Manager in the Asia Pacific region for several years. In May 2010, he was also appointed Managing Director of Vacon's subsidiary in China. "Multi-channel sales offer us an extensive sales coverage, more controlled cash flow, and better predictability. We can also minimize risks in changing market situations," says Rajamäki.

### Ten years of growth in China

Vacon has been operating in China for ten years. Locals have also noticed the strong growth in recent years: in January 2010, the market research company China Industrial Control granted Vacon, as the only supplier of low voltage AC drives, the esteemed Gongkong Decade of Growth award.

Another delightful event for Rajamäki is the new 24,000 m<sup>2</sup> plant and office building which was completed in Suzhou at the end of 2010. "The new plant allows us to more than double our production volume. There is also room for a possible expansion on the same plot," he says. "Investments in the new product line, a significant increase in the number of personnel, and an increase in customer training guarantee that 2011 in the new, great plant will be a busy and challenging, but I believe it will also be rewarding."

### Technology and services to meet customer needs

One of Vacon's global OEM customers is the elevator and escalator manufacturer KONE, with which Vacon signed a supplier agreement in November 2010. The agreement between Vacon and KONE, which just celebrated its 100th anniversary, covers new energy-efficient AC drives which have been designed in close collaboration. The agreement was made against the backdrop of KONE's 2008 objective of reducing the energy consumption of its elevators by 50%. KONE reached this target in 2010 by, among other things, utilizing the new solution created by Vacon which feeds the energy created by the descent and ascent of elevators back into the grid of the building. This provides energy savings of up to 35% of the elevator's total energy consumption.

"Our partnership with KONE is a good example of Vacon's ability to develop technology and products which are suited to the new market and customer needs. Vacon creates solutions that only a dedicated AC drives house can provide," says **Heikki Hiltunen**, Vacon's Executive Vice President.

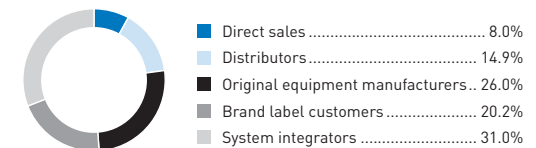
### Globally strengthened position

In 2010, Vacon strengthened its position globally in all main market areas and was clearly the world's largest company solely focusing on the AC drives technology. Demand for low and medium power AC drives in particular grew strongly. Improved demand and the sales efforts by the company manifested as an extensive increase in orders received in all market areas.

In the second half of 2010, Vacon carried out a customer satisfaction survey on the company's organization, products, and services, which provided a lot of feedback. Measures have been taken on the basis of the feedback and their implementation will be monitored in 2011.

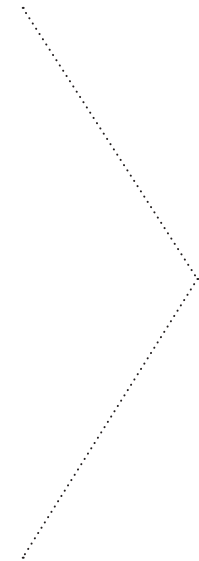
Vacon believes that growth in the AC drives market will continue in both electrical motor applications and technology for the production of renewable energy, i.e. wind and solar power. Based on market research and its own view, Vacon estimates its global market share at approximately 5%.

Revenues by distribution channel in 2010



## APPLICATIONS OF VACON'S AC DRIVES

Vacon supplies AC drives to nearly all segments of industry and civil engineering. Typical segments include machine manufacture, water treatment, building automation, construction engineering, marine and offshore, renewable energy production, and mining. AC drives are used, for example, to control pumps, fans, elevators, escalators, conveyors, and compressors. On the following pages are some examples of our customer applications.





## Barka 2 turns sea water into pure drinking water

Nearly 40% of the world's population suffers from a shortage of clean water. Since 97% of all water is salty, salt removal is an important process which ensures the availability of water in the future. Vacon's AC drives help turn sea water into drinking water at the Barka 2 water treatment plant in the Sultanate of Oman.

Non-potable sea or brackish water can be turned into drinking water as well as water suitable for irrigation, industrial processes, and other uses by removing salt and other minerals from raw water.

There are thousands of salt removal plants in the world, the largest of which are located in the Arabian peninsula. On the coast of Oman, 50 kilometers northeast of the capital Muscat, stands a new 678 MW power plant, including a salt removal plant, with a daily capacity of 120,000 m<sup>3</sup>. Vacon has supplied the plant with AC drives with a total power of more than 13 MW. The majority of these control various pumps and mixers.

Vacon's AC drives have a significant role in producing high-quality drinking water at Barka 2, which uses reverse osmosis to remove salt from sea water. Since salt removal consumes more energy than traditional water treatment, Vacon's AC drives provide the plant with considerable benefits, such as:

- energy savings
- optimized adjustments
- improved process reliability
- prolonged life of equipment



## Energy-conscious giants of the Caribbean

Oasis of the Seas and its sister ship Allure of the Seas are currently the largest cruise liners in the world. Their design was based on the efficient utilization of energy and a small carbon footprint per passenger. Vacon's AC drives control the air-conditioning systems delivered by Koja Marine.

Oasis of the Seas and Allure of the Seas are massive, 361-meter-long floating wonderlands. They are larger and more diverse than any cruise liners designed before but still, they consume energy 15–25% more efficiently than their predecessors and the carbon footprint per passenger is small.

HVAC systems usually account for about 30% of the energy consumed by ships. The entire air-conditioning systems on the new luxury liners were designed in a large collaboration project in which the main contractor was Koja Marine, a well-known Finnish supplier of air-conditioning systems for luxury liners. The company designed space-saving air-conditioning systems which guarantee maximum comfort for passengers. According to the owner, the energy savings amount to nearly 30%.

Vacon, Koja Marine's long-term partner, supplied approximately 350 AC drives for each giant ship. AC drives adjust fans steplessly, using the energy needed in air-conditioning efficiently.

Vacon's AC drives:

- adjust the temperature, ventilation, and humidity level in public areas, maintaining good air quality on the ship
- adjust the operations of the fans in accordance with the carbon dioxide amount measured in public areas to allow for optimal energy consumption



## Consumption of renewable energy on the increase

Research institutes estimate that investments in the production of renewable energy will grow from the 2009 level of USD 9 billion to USD 150 billion by 2020, and to USD 200 billion by 2030. Products manufactured by Vacon are used in the production of both wind and solar energy.

In the spring of 2010, Vacon bought a small Spanish company specializing in the design of solar inverters. As a result, later in the year Vacon introduced to the market the Vacon 8000 Solar inverter, operating in the 10 kW to 1 MW range, for solar power plants. Vacon 8000 Solar is

an important link between solar panels and the electricity grid: it converts the DC power from solar panels into AC power that can be fed into the grid.

In 2010, Vacon obtained valuable experience in the solar energy market through various customer applications in which the power ranges varied between a few dozen kilowatts to several megawatts. So far, over 200 MW of solar energy applications have been supplied in Europe. A significant part of these have been supplied to the Czech Republic. Deliveries have also been made to Italy, Spain, Belgium, Finland, Australia, and China.

One of the customer applications is the Vetreria di Borgonovo glassware factory, established in the 1950s, located near the town of Piacenza in northern Italy. Vacon's 1 MW solar inverter was connected to the solar panels mounted on the roof of the factory. Vacon's Multimaster software makes it possible to connect one to eight inverter modules, based on the amount of sunshine, and thus ensures that the glassware factory's solar power plant operates with the best possible efficiency.



## Gondola across the Olympic scenery

Peak 2 Peak is a gondola connecting the Whistler Mountain and Blackcomb Mountain ski resorts in Canada. Whistler Mountain is among the highest and most well-known mountains in North America and the main location of the 2010 Vancouver Olympics. Vacon's technology is used in the control of the gondola.

The Peak 2 Peak Gondola is a so-called 3S Gondola system, a combination of a gondola cabin and a ropeway with three ropes that can be operated in both directions. The

total travel distance of the gondola is 4,400 m, the length of unsupported span is 3,024 m and the highest point from the ground is 436 m. The top speed of the gondola is 7.5 meters per second, or 27 km per hour, and the ride time across the Fitzsimmons Valley is 11 minutes. The gondola connecting the two mountains enables skiers to enjoy skiing on the slopes of both resorts in the same day, which was not as convenient previously.

The manufacturer of the gondola is the Doppelmayr/Garaventa Group, which is the world quality and technology leader in ropeway engineering and a long-term partner

of Vacon's subsidiary in Austria. Vacon supplied Vacon NX Common DC bus products to the Peak 2 Peak project. Vacon's technology offers several benefits, such as:

- taking advantage of energy generated by braking
- no distortion in the electrical grid (< 5% THDi)
- local customer support, minimal maintenance need
- flexible AC drives systems
- a redundant system due to parallel units



## A shore power system feeds electrical power to ships at the port of Shanghai

For electrical equipment to function reliably and efficiently, pure sinusoidal AC power is needed. Shanghai, the second largest port in the world, has a movable 2,000 kVA shore power supply system equipped with Vacon's AC drives which is used to feed electrical power to ships docked in the port.

While at the port, ships usually produce the electricity they need with their own diesel generators, creating exhaust fumes and noise. Thus in most ports, ships must use expensive high-quality fuel to reduce emissions.

So far, only a few ports in the world have taken advantage of shore power supply systems in which low-emission and noise-free electricity from the country's national grid can be fed to the docked ships via a transformer or a cable.

Shanghai is an important import and export harbor for China, and every day an average of 170 large ships and several smaller vessels arrive at the port. The electricity grid standards in ships coming from different parts of the world vary, and supplying the wrong type of electricity may damage the ship's electrical equipment. Therefore,

the port of Shanghai uses a movable, 2,000 kVA shore power supply system equipped with Vacon's AC drives to convert the requirements of the ship's grid in terms of voltage and frequency.

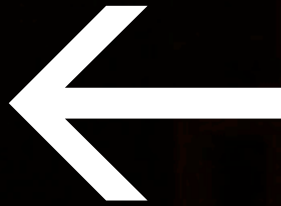
The solution is environmentally friendly and offers a number of benefits, such as:

- reduced pollution and noise level
- low energy consumption and minimal vibration
- efficient, accurate, and stable supply of electricity
- long life

→ For detailed customer reference stories, please see [www.vacon.com](http://www.vacon.com) > Media Center > Articles > Reference Stories



Heikki Autio, Senior  
Development Engineer,  
is one of Vacon's  
founding members.



## ADMINISTRATION AND MANAGEMENT – THE ROAD TO SUCCESS

Vacon Group operates in accordance with the principles for good corporate governance and complies with the Corporate Governance Code 2010 for Finnish listed companies, which is available on the website of the Finnish Securities Market Association at [www.cgfinland.fi](http://www.cgfinland.fi).

## CORPORATE GOVERNANCE STATEMENT

### Compliance with the Corporate Governance Code of Finnish Listed Companies

Vacon Plc adheres to the Finnish Corporate Governance Code for listed companies, effective from October 1, 2010, in its entirety. This Corporate Governance Statement has been compiled in accordance with Recommendation 54 of the Corporate Governance Code. The Corporate Governance Code in full is available on the Securities Market Association website at [www.cgfinland.fi](http://www.cgfinland.fi). The company's Corporate Governance Statement is available on the company's website at [www.vacon.com](http://www.vacon.com) > Investors > Corporate governance. Vacon Plc's shares are listed on the NASDAQ OMX Helsinki.

### Description of internal monitoring and risk management systems relating to the financial reporting process

#### Monitoring systems

Vacon Plc's Board of Directors is responsible for the appropriateness of management and operations of the Vacon Group. Vacon Plc's President and CEO is, with the support of the Group's Management Team, responsible for arranging the monitoring mechanisms for internal monitoring, risk management, internal audit, accounting, and financial administration. The guidelines cover the entire Vacon Group. The monitoring systems aim to ensure the legality of operations, compliance with rules, and reliability of financial reporting in the company.

### Internal monitoring

The Group's annual strategy process determines the strategy and also Vacon Group's targets, main actions, and budget for the next financial year. Vacon Plc's Board of Directors approves the strategy and the annual business plan. The Group's Management Team meets monthly, and regularly monitors and covers the Group's financial situation and the implementation of the business plan. Furthermore, each function monitors the meeting of its targets in its management team on a monthly basis. Vacon Plc's Board of Directors receives weekly reports on Group-level orders, and the monthly performance is covered in Board meetings. In the Board meetings, Vacon Plc's President and CEO presents in his monthly report the key financial figures and the most significant events and trends affecting the Group's business operations and its development.

Vacon Group's financial performance is monitored monthly through a Group-wide consolidation and reporting system. In addition, the goal is to integrate all of Vacon's subsidiaries into the same ERP system. Currently, 91% of revenues are reported through a common ERP system.

The reporting system covers the income statements, balance sheet figures, and key figures of the Group, parent company, and subsidiaries, and, in addition to this, production indexes for the plants. The orders received by the plants and sales companies as well as invoicing are monitored in the Group on a daily basis. Comparison figures used in all monitoring are the budget, the actual figures from the previous year, and the current year's forecasts.

The Group's financial administration and financial officers of the subsidiaries form a network which monitors the financial management of the Group. The Group's financial reporting process adheres to the guidelines authored by the Group in compliance with legislation and requirements set by the International Financial Reporting Standards (IFRS) and other requirements set for listed companies.

### Internal audit

The purpose of Vacon's internal audit is to ensure that the company implements its strategy in accordance with the agreed operational principles and processes. The internal audit covers all Group functions in both the parent company and subsidiaries. The internal audit ensures that the financial reports published by the company provide materially accurate information on the company's financial situation and that the company adheres to good governance by complying with laws and regulations, operates effective risk management, and manages its funds appropriately.

The Board of Directors approves the annual internal audit plan and receives regular reports on the internal audits completed. The internal audit also assists the Board of Directors in monitoring and managing the company. Special audits are also performed as needed. The targets of internal audit are always selected for one year at a time, and the extent of financial auditing carried out in the units in question, the diversity of the unit's operations, and experience basis cumulated in the company are taken into account. Vacon seeks to carry out an internal audit in the

major subsidiaries once a year and in sales companies at three-year intervals.

The company's Group Business Controller is in charge of the internal audit, reporting to the Group's CFO, and, if needed, the Group Business Controller always has a direct connection to the President and CEO and the Board of Directors. Primarily the Group's own resources are used for the internal audit, although, if needed, an independent third party is used in more demanding audits. When needed, internal audit offers corrective process instructions to units and implements operating methods and processes proven in the Group to the subsidiaries.

### Risk management

Vacon's risk management is governed by the risk management policy approved by the Board of Directors, defining the objectives, principles, roles and responsibilities of risk management. The company's risk management aims to ensure that business objectives are met and the continuity of business operations is secured. Risk management is part of the management of the Group's business operations, it is proactive and aims to take all fundamental risks into account.

Identifying and assessing risks are important parts of the risk management process. Risks are identified at two-year intervals at a highly detailed level, and action plans are created for the most important risks which are monitored monthly.

The underlying principle is that risk management is spread throughout all levels of the organization. Every employee is encouraged to identify risks, assess them, and report them. Employees are expected to report any risks either to their immediate superior or to the Group's CFO, who is in charge of the development of risk management methods, implementation of risk management, risk reporting, and insurance programs. Vacon Group's Management Team assesses risks regularly, revises risk reporting, if necessary, and reports to the Board of the parent company on the company's key risks.

Vacon has defined the following objectives in its risk management policy, and in all decision-making, they aim to:

- ensure the safety of Vacon Group's personnel, customers, and third parties
- ensure the safety and high quality of Vacon's products and operating methods
- comply with local and international laws, regulations, and recommendations
- ensure that risks are identified and taken into account in decision-making
- ensure the continuity of business operations and sustainable growth
- protect Vacon's brand and reputation.

A thorough risk survey was completed in 2010 in collaboration with Aon. The greatest risks identified were the

risks associated with suppliers and interruptions in the operations. In addition, the availability of components was ranked high in the risk survey due to the current market situation. Detailed knowledge of the guidelines applied in different countries was also identified. Vacon updated its own continuity plan for the Vaasa plant and is working to update the continuity plans for the plants in China and the USA in 2011.

Vacon Group's risk policy is explained to all personnel and it is also included in the orientation of new employees. More information about risk management is available to employees, for example, on the Group's intranet. Vacon Plc describes the significant near-term risks and uncertainties associated with the business operations in its Interim Reports and Board of Directors' report.

### Insiders

Vacon Plc observes the guidelines for insiders aimed at listed companies approved by the NASDAQ OMX Helsinki. In addition, Vacon Plc applies its own insider guidelines, which in some areas set stricter requirements for handling insider information than those of the NASDAQ OMX Helsinki.

Vacon Plc maintains a public register of insiders in the SIRE system of Euroclear Finland Oy. 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 parent company's Board of Directors, other public permanent insiders are the Group

Management Team, the secretary to the parent company's Board of Directors, as well as the spouses or registered partners of all the above, minors, and other family members who have lived in the same household for at least one year. Vacon Plc's company-specific insiders include personnel in the treasury and communications departments and the executive assistants of senior management. The Group also maintains insider registers for individual projects.

The duration of Vacon Plc's silent period is 21 days. The silent period ends upon the publication of an Interim Report or financial statements release. During the silent period, Vacon Plc's permanent insiders are not allowed to trade in the company's securities. The company does not comment on the market outlook and does not meet financial market or media representatives during the silent period. Also, Vacon Plc does not purchase its own shares during this period.

### Audit

In accordance with Vacon Plc's Articles of Association, the company has a minimum of one and a maximum of two auditors and at a maximum the same number of deputy auditors. The auditors must be public accountants or accounting firms authorized by the Central Chamber of Commerce of Finland. The auditors elected by Vacon Plc's Annual General Meeting are the authorized public accountants KPMG Oy Ab and the principal auditor appointed by KPMG for the financial year was Petri Kettunen, APA. In addition to the duties in accordance with current regulations, he also reports on

his observations in the audit to Vacon Plc's management. The scope and contents of the audit are defined to take into account the fact that the company does not have its own internal audit organization.

### Description of the composition and operations of the Board of Directors and its committees

#### Composition and term of office of the Board of Directors

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

Vacon Plc's Annual General Meeting held on March 23, 2010, decided that the Board of Directors should have seven members. Pekka Ahlqvist, Jari Eklund, Jan Inborr, Mika Vehviläinen, and Riitta Viitala were re-elected as Board members. Juha Kytölä and Panu Routila were elected as new Board members. Jan Inborr was re-elected Chairman and Mika Vehviläinen was elected Vice Chairman of the Board of Directors at the organization meeting of the Board.

### Duties of the Board of Directors

The tasks and duties of Vacon Plc's Board of Directors are defined on the basis of the Limited Liability Companies Act, the company's Articles of Association, and the Board of Directors' rules of procedure. The Board of Directors attends to the company's administration and the arrangement of its operations. The Board is responsible for overseeing the proper supervision of accounting and control of financial matters. The Board of Directors is also responsible for the tasks of the Audit Committee in accordance with Recommendation 27 of the Corporate Governance Code for Finnish listed companies. The company's Board of Directors has approved written rules of procedure on the duties of the Board, matters to be discussed, as well as 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. In accordance with the rules of procedure, Vacon Plc's Board of Directors:

- confirms Vacon Plc's and Vacon Group's long-term objectives and strategy
- approves the Group's business plan, budget, and financial plan, and monitors how these are implemented
- decides on individual major and strategically important investments and approves the investment programs of Group companies

- monitors the Group's financial performance and how its goals are achieved
- appoints Vacon Plc's President and CEO, Executive Vice President, and the members of the Group Management Team, and decides on the composition of the subsidiaries' Boards of Directors
- decides on the principles for bonus and incentive schemes
- reviews and adopts the Interim Reports, Group's and parent company's financial statements, and Board of Directors' report
- confirms Vacon Group's values.

### Evaluation of independence

At the beginning of 2010, Vacon Plc's Board of Directors evaluated the independence of Board members in relation to the company in accordance with Recommendation 15 of the Corporate Governance Code for Finnish listed companies.

Based on this evaluation, the Board declares that all members of the Board are independent of the company and that all Board members with the exception of Panu Routila are independent of the major shareholders of the company.

### Decision-making

Vacon Plc's Board of Directors shall always act in the interests 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 in question and the company. The chairman of the Board of Directors is responsible for convening Board meetings and for the meeting procedures. When votes are taken, the majority opinion is the Board's decision and, in the case of a tie, the chairman has a casting vote. In an election of persons, a tie is decided by drawing lots.

### Meeting practice and self-assessment

Vacon Plc's Board of Directors convenes approximately ten times per year. In addition to the Board members, the company's President and CEO and CFO attend Board meetings. The Board of Directors has not allocated special areas of focus for its members to monitor business operations. Matters are presented at meetings by the President and CEO of Vacon Plc or, at his request, by another member of the Group Management Team. According to the Board of Directors' rules of procedure, the President and CEO ensures that the Board obtains sufficient information to assess the operations and financial situation of the Group. In addition, the parent company's President and CEO also supervises the implementation of the Board's decisions and reports to the Board on any deficiencies or problems in implementation.

The Board evaluates its work and procedures by carrying out a self-assessment once a year.

The Board had 11 full meetings in 2010. The average attendance percentage illustrating the participation of members in the work of the Board was 97% in 2010.

Attendance of the members of the Board of Directors in meetings:

Jan 1–Dec 31, 2010	Board of Directors	Remuneration and Nomination Committee
<b>Members of the Board of Directors, December 31, 2010</b>		
Pekka Ahlqvist	11/11	2/2
Jari Eklund	11/11	4/4
Jan Inborr	11/11	6/6
Juha Kytölä	9/9	
Panu Routila	8/9	
Mika Vehviläinen	11/11	4/4
Riitta Viitala	10/11	
<b>Former members of the Board:</b>		
Mauri Holma	2/2	
Veijo Karppinen	2/2	2/2
<b>Total</b>	<b>97%</b>	<b>100%</b>

### Fees and other benefits of the members of the Board of Directors

Vacon Plc's 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 as monetary compensation.

The fees paid to the members of Vacon Plc's Board of Directors in accordance with the 2010 Annual General Meeting were as follows:

- monthly fee for the Chairman, EUR 2,500
- monthly fee for each Board member, EUR 1,250
- bonus depending on the company's result, which may be a maximum of EUR 2,500/month for a Board member and a maximum of EUR 5,000/month for the Chairman.

The Board members are entitled to per diem allowances and reimbursement of travel expenses in accordance with Vacon Plc's general travel policy.

### 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 prepares matters and makes recommendations for the Annual General Meeting and the Board to decide on. The Board of Directors has confirmed the central duties and operating principles of the Remuneration and Nomination Committee in written rules of procedure.

The duties of the Remuneration and Nomination Committee include, among other things, creating forms of remuneration that boost motivation and also take into account the special characteristics of Vacon. The committee also prepares proposals for Vacon Plc's Annual General Meeting concerning the election of members to the Board of Directors and compensation for the Board of Directors. It identifies successor candidates for the members of the Board and proposes members for the Board of Directors to the Annual General Meeting.

The committee members in 2010 were Jan Inborr, Jari Eklund, and Mika Vehviläinen. The Remuneration and Nomination Committee held six full meetings in 2010. The average attendance percentage illustrating the participation of the members in the work of the committee was 100% in 2010.

Vacon Plc has a Corporate Governance working group that meets once a year to review and develop matters controlled by the Corporate Governance Code for Finnish listed companies in the company. The Board of Directors approves the Corporate Governance Statement prepared by the working group. The working group comprises one member of the Board, the Board's secretary, President and CEO, CFO, and a representative of Investor Relations. The company has not established a separate Audit Committee but the Board of Directors is in charge of the Committee's tasks.

### President and CEO and other management

#### President and CEO

Vacon's Board of Directors appoints the parent company's President and CEO and defines in writing the terms of service of the President. The President and CEO prepares matters to be decided at the meetings of Vacon Plc's Board of Directors and is responsible for executing the Board's decisions. The President and CEO is responsible for Vacon Plc's administration and is Chairman of the Group Management Team.

In 2010, the company's President and CEO was Vesa Laisi. If Vacon Plc terminates the President's employment contract, the company will pay the President severance compensation equivalent to the salary for the six-month period of notice and 18 months' salary. The retirement age for the President and CEO is 60 years. The company has taken out pension insurance for the President and CEO, on the basis of which the pension to be paid is 60% of the salary that the pension is based on. The pension ends when the President and CEO turns 65. The salary that the pension is determined on is based on the average monthly salary calculated from the TyEL employee pension earnings basis from the last four years. The members of the Management Team have an equivalent pension age and pension insurance.

### Group Management Team

The Board of Directors has appointed the Vacon Group's Management Team which supports the President and CEO in the preparation of strategic issues, the handling of significant and by nature fundamental operative matters as well as ensuring internal communications.

Vacon Group's Management Team prepares and guides the development of the Group's processes and business operations and the Group's shared functions. The Management Team handles, in particular, the company's strategy, budget, major procurements and projects, Group structure and organization as well as major policies of administration and the HR policy issues. The Management Team consists of the parent company's President and CEO and Group-level senior management. The Management Team is not an administrative body as stipulated by the Limited Liability Companies Act. The subsidiaries report to regional sales managers. The regional sales managers and manufacturing plant directors report directly to designated members of the Management Team.

In 2010, the Vacon Group's Management Team consisted of:

- Vesa Laisi, President and CEO
- Heikki Hiltunen, Executive Vice President
- Tuula Hautamäki, Vice President, Human Resources
- Jukka Kasi, Vice President, Business Development
- Timo Kasi, Vice President, R&D
- Jari Koskinen, Vice President, Global Production Operations
- Eriikka Söderström, CFO

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

Vacon Plc's Board of Directors approves the salaries, bonuses, and other benefits of the parent company's President and CEO and the Group Management Team annually. The total remuneration of the President and the Management Team consists of a fixed monthly salary and a bonus. The basis on which the bonus is determined is the same for the President and the Management Team. The bonus amount depends on the meeting of the Group's revenues, operating profit, and working capital targets. The performance-based bonus may be an amount equivalent to six months' salary at a maximum. The President and CEO and the Management Team participate in Vacon Plc's share-based incentive system.

The incentives for Vacon Plc's President and CEO for the years 2008–2010 were as follows:

- the bonus amount equals four months' salary when revenues, operating profit, and turnover of working capital in each year are in accordance with the company's strategy
- the share-based bonus is 7,200 shares per year when revenues, operating profit, and turnover of working capital in each year are in accordance with the company's strategy.

The President and CEO's annual earnings, including the monthly salary and bonuses, were EUR 337,000 in 2010. The Executive Vice President's annual earnings were EUR 277,000 in 2010.

### Salaries and other benefits paid to the Management Team

EUR thousand	2010	2009	2008
Salaries and other short-term employee benefits	1,342	1,616	1,570
Share-based payments	154	522	1,015
<b>Total</b>	<b>1,496</b>	<b>2,138</b>	<b>2,585</b>

### Bonus scheme for personnel

Vacon Plc's Board of Directors approves the bonus for all personnel in the parent company every year. In 2010, a total of approximately EUR 848,000 was paid to personnel in bonuses.

## BOARD OF DIRECTORS



### Jan Inborr

chairman  
born 1948, B.Sc. (Econ.).  
Soldino Oy, CEO  
Board member since 2002

**Previous positions:**  
Worked in various positions at the Ahlström companies in 1972–2008

**Board member at:**  
Enics AG, BaseN Oy, Mervento Oy, Pricasting Oy, Symbicon Oy (chair), Valucast Oy

No Vacon Plc shares

### Pekka Ahlqvist

member  
born 1946, M.Sc. (Eng.), MBA  
Board member since 2004

**Previous positions:**  
Vice President, Automation, Wärtsilä Corporation 2006–2007, Vice President, Power Plants, Wärtsilä Corporation, 2001–2006, and President of Wärtsilä NSD Finland Oy 1999–2001. Various management positions at the ABB Group in Finland, China, and Thailand 1987–1999. Management positions in Oy Kymi-Stromberg Ab, Instrumentarium Oy, Oy Stromberg Ab and Teollisuussäätiö Oy in 1972–1986

**Board member at:**  
Pemamek Oy

No Vacon Plc shares

### Jari Eklund

member  
born 1963, M.Sc. (Econ.)  
Investment Director,  
Tapiola Insurance Group  
Board member since 2001

**Previous positions:**  
Various positions in the Tapiola Group since 1993. Research Manager at Kansallis-Osake-Pankki 1988–1993, Assistant at University of Vaasa 1987–1988

**Board member at:**  
Seligson & Co Oyj, Ilkka-Yhtymä Oyj (member of supervisory board), Mortgage Society of Finland

No Vacon Plc shares

### Juha Kytölä

member  
born 1964, M.Sc. (Eng.)  
CEO, Wärtsilä Finland Oy;  
Director at Delivery Center  
Ecotech, global environmental technologies  
Board member since 2010

**Previous positions:**  
Management and expert positions at the Wärtsilä Group since 1989, e.g. Research and Development Manager for 4-stroke engines and development 2003–2005, and management positions in production 2005–2008

**Board member at:**  
Oy Merinova Ab, Ostrobothnia Chamber of Commerce (chair)

No Vacon Plc shares

### Panu Routila

member  
born 1964, M.Sc. (Econ.)  
President and CEO,  
Ahlström Capital Oy  
Board member since 2010

**Previous positions:**  
Managing Director of Alteams Oy, a Kuusakoski Group company, 2002–2007, Director of Outokumpu Copper's Drawn Products division 1995–2002, management positions of financial administration abroad for a total of seven years. Management positions at Partek 1986–1995

**Board member at:**  
Enics AG (chair), Å&R Carton AB, Elbi Elektrik (chair), AC Cleantech Management Oy (chair), Ripasso Energy AB

No Vacon Plc shares

### Riitta Viitala

member  
born 1959, PhD. (Econ.)  
Professor, Head of Department of Management,  
University of Vaasa  
Board member since 2008

**Previous positions:**  
Positions at the University of Vaasa since 1999, Training Manager, Chydenius Institute of the University of Jyväskylä 1997–1998, education and development positions at the Central Ostrobothnia and Helia Universities of Applied Science 1989–1996, Personnel Development Manager at the Finnish Postal Service 1983–1989, Administration Manager, Tapio Laakso Oy 1982–1983

**Board member at:**  
Ilkka-Yhtymä Oyj, I-Mediat Oy, Vaasan Sähkö Oy, Board member at the Vaasa division of the Ostrobothnia Chamber of Commerce

No Vacon Plc shares

### Mika Vehviläinen

member  
born 1961, M.Sc. (Econ.)  
CEO, Finnair Oyj  
Board member since 2009

**Previous positions:**  
Several management positions in sales, marketing, strategy, and business development with Nokia in Asia, North America, and Europe since 1991. Chief Operating Officer of Nokia Siemens Networks until the end of 2009

**Board member at:**  
Ilmarinen Mutual Pension Insurance Company, Supervisory Board The Finnish Fair Corporation, Supervisory Board Service Sector Employers PALTA, Board of Directors

No Vacon Plc shares

### Stefan Wikman

secretary  
born 1956, LL.M. (Law)  
Partner of Roschier  
Attorneys Ltd.

**Previous positions:**  
KWH Plast Ltd, Managing Director 1991–1994, member of the group management in KWH Group Ltd 1990–1994, general counsel of KWH Group Ltd 1986–1989. Lawyer at the Union Bank of Finland, lawyer and partner of the law firm V. Niinikangas Ky

**Board member at:**  
Harry Schaumans Stiftelse (chair)

**Delegation member at:**  
Stiftelsen för Åbo Akademi, Stiftelsen för Österbottens högskola

No Vacon Plc shares

## GROUP MANAGEMENT TEAM



### Vesa Laisi

President and CEO  
born 1957, M.Sc. (Eng.),  
M.Sc. (Econ.)  
Employed by the company  
since 2002.

**Previous positions:**  
Director, Sales and Marketing of Vaisala Corporation 2000–2002, Vice President of ABB Industry Oy 1995–2000, Profit Center Manager at ABB Industry Oy 1993–1995, Director, Sales and Marketing at ABB Industry Oy 1988–1993, Product Engineer at Stromberg UK Ltd 1986–1988, and Development Engineer at Strömberg Electronics factory 1982–1986

**Board member at:**  
Finnfacts (chair), The Federation of Finnish Technology Industries, The Switch Engineering Oy, VNT Management Oy

**Vacon Plc's shares:**  
13,006

### Heikki Hiltunen

Executive Vice President, Products and Markets, and Deputy to the CEO  
born 1962, B.Sc. (Eng.)  
Employed by the company since 2002.

**Previous positions:**  
Managing Director of Tel-labs Oy and Vice President & General Manager for Europe, the Middle East, and Africa (EMEA) of Tellabs International 2000–2002. Sales, marketing and R&D director at Honeywell Industrial Automation in Finland, the USA, and Germany 1992–2000. Various positions in project, R&D and product marketing at Ahlstrom Automation Oy 1986–1992

**Board member at:**  
Aspectum Oy, Hockey-Team Vaasan Sport Oy (chair)

**Vacon Plc's shares:**  
9,948

### 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.

**Previous positions:**  
Process Development Manager at ABB Substation Automation Oy 1996–2000, Quality Manager at ABB Transmit Oy 1994–1996, Product Manager at ABB Power Oy 1991–1994, and Design Engineer at ABB Voimansiirto Oy 1989–1991

**Vacon Plc's shares:**  
10,478

### Jukka Kasi

Vice President, Corporate Development, and Vice President, Vacon Drives Finland  
born 1966, M.Sc. (Eng.)  
Employed by the company since 1997.

**Previous positions:**  
Vacon Suzhou Drives Co. Ltd Managing Director 2007–2008, Vacon Plc Vice President, Component Customers 2003–2006, Vacon Plc Vice President, R&D 1999–2003, Vacon Plc Project Manager 1997–1998, Product Development Manager at ABB Transmit Oy 1996–1997, Project Manager at ABB Power 1994–1996, USA: frequency converter designer 1992–1994, ABB Small AC drives: product design 1990–1992

**Vacon Plc's shares:**  
55,503

### Timo Kasi

Vice President, R&D  
born 1966, M.Sc. (Eng.)  
Employed by the company since 1999.

**Previous positions:**  
Vice President, R&D, at Vacon Plc since 2003, R&D Manager (control technology) at Vacon Plc 1999–2003, ABB Transmit Oy: Product Development Manager tasks 1993–1999, ABB Relays: Project Manager 1992–1993, ABB Relays: product design 1990–1992

**Vacon Plc's shares:**  
8,082

### Jari Koskinen

Vice President, Production  
born 1960, M.Sc. (Econ.), MBA  
Employed by the company since 1994.

**Previous positions:**  
Vacon Suzhou Drives Co. Ltd. Managing Director 2005–2007, Business Controller at ABB Corporate Research Finland Oy 1993–1994, Business Controller at ABB's Small AC Drives profit center 1989–1993, and various positions at Tietobotnia Oy 1981–1989 (e.g. Project Manager, ADP Programmer and System Planner)

**Vacon Plc's shares:**  
362,403

### Eriikka Söderström

Vice President, Finance and Control and CFO  
born 1968, M.Sc. (Econ.)  
Employed by the company since 2009.

**Previous positions:**  
CFO at Oy Nautor Ab, Corporate Controller at Nokia Siemens Networks, various financial management positions at Nokia Networks (e.g. Director, Business Control and acting CFO)

**Vacon Plc's shares:**  
1,092

Shareholdings on December 31, 2010.

Marco Mendes,  
Sourcing Engineer,  
is a liaison between  
Vacon's R&D and suppliers.



## RESPONSIBILITY – A CLEAR COMPETITIVE ADVANTAGE

Vacon looks at its corporate responsibility from three perspectives: financial, ecological, and social. Each area is developed in accordance with the principles of sustainable development.

## VACON DEVELOPS SUSTAINABLE ENERGY SOLUTIONS FOR THE FUTURE

Increasing global energy consumption, global warming, and decreasing clean water supplies are trends affecting the entire world. Vacon sees its products in a significant role in the search for answers to challenges posed by the changing world, and the demand for our products will increase in the future.

Vacon's operations are based on more efficient utilization of energy and developing sustainable energy solutions for future needs. From the responsibility perspective, Vacon's operations are defined by two significant future objectives:

- Vacon's products are used to save 1% of the world's electricity consumption
- Vacon's products are used to produce 5% of the world's renewable energy

A global company, Vacon develops its operating methods from the perspectives of ecological and social well-being and profitable growth. In its global operations, Vacon's unambiguous policy has always been, and will always be, compliance with both local and international laws, rules, and regulations.

### Vacon's corporate responsibility reporting

The objective of Vacon's corporate responsibility reporting is to openly disclose the company's principles and operating policies. Corporate responsibility reporting is developed to better serve the information needs of stakeholders interested in Vacon. Currently, environmental responsibility reporting covers, as applicable, Vacon's production units in Finland, China, the United States, and Italy. Financial responsibility reporting covers the entire Group. Social responsibility reporting covers the entire Group, as applicable. The main focus continues to be on operations in Finland, since the majority of personnel work in Finland. Vacon develops the extent of reporting in accordance with the principles of sustainable development. The corporate responsibility section of the 2010 Annual Report applies the G3 version of the GRI (Global Reporting Initiative) guidelines, and according to self-assessment, it meets the criteria of application level C.

### Ongoing dialog with stakeholders

Vacon is an active and reliable party that engages in ongoing dialog with its stakeholders. This dialog is used in the development of business operations, and it helps in understanding the development of society better. Open and active communication and being approachable are integral to Vacon's way of operating.

**Customers.** Vacon's customers include, among others, global original equipment manufacturers whose solutions make everyday life easier for people in different parts of the world. Vacon develops AC drives solutions for the needs of its customers to improve process functionality and to save energy.

**Personnel.** Professional personnel who are committed to development is an important asset for the achievement of Vacon's goals. Vacon invests in competence development and continuous training. Vacon works in different parts of the world to ensure improved well-being, job satisfaction, and occupational safety for its personnel.

**Shareholders and investors.** Vacon is a listed company and its owners expect profitable growth and success in the global market. Shareholders and investors require that

the company manages its risks well and has a functioning governance system. From the shareholders' point of view, Vacon is a company that develops and offers solutions to global challenges regarding sustainable development.

**Subcontractors and partners.** Vacon's products represent high technology. The company purchases the components and materials for its products from a subcontractor network spread around the world. Subcontractors must operate in an ecologically, socially, and financially responsible manner. They must also commit to Vacon's responsibility requirements. Compliance with the requirements is monitored as part of supplier evaluations.

**Media.** The media is an important stakeholder and is central to providing other stakeholders with information on Vacon's operations. Proper management of media relations calls for active, reliable, and transparent communications regarding the company's operations.

**Other stakeholders.** Vacon is a locally significant party in the countries in which it operates, creating jobs and well-being directly and indirectly. Vacon works in ongoing and open collaboration with authorities, organizations, schools, universities, and research institutions.

## Vacon's key themes

### Development of sustainable energy solutions

Vacon develops and offers products for the development of energy-efficiency and production of renewable energy. Vacon operates responsibly and produces clean technology. Solutions produced by Vacon help achieve global climate objectives and improve living conditions around the world.

Vacon's AC drives significantly reduce the energy consumption of electrical motors in the world. AC drives also play an important role in the processes of renewable energy production and water treatment to make clean drinking water.

### Well-being and profitable growth

Vacon's financial responsibility aims to create profitable growth. Vacon's goal is to expand its business operations and create jobs and well-being for people.

Vacon strives to ensure profitability with a long-term growth strategy, by complying with good corporate governance in its business operations, and by regularly assessing risks. The outlook for growth is favorable since there is an increasing need for sustainable energy solutions.

As a global actor, Vacon values a competent and healthy personnel, now and in the future.

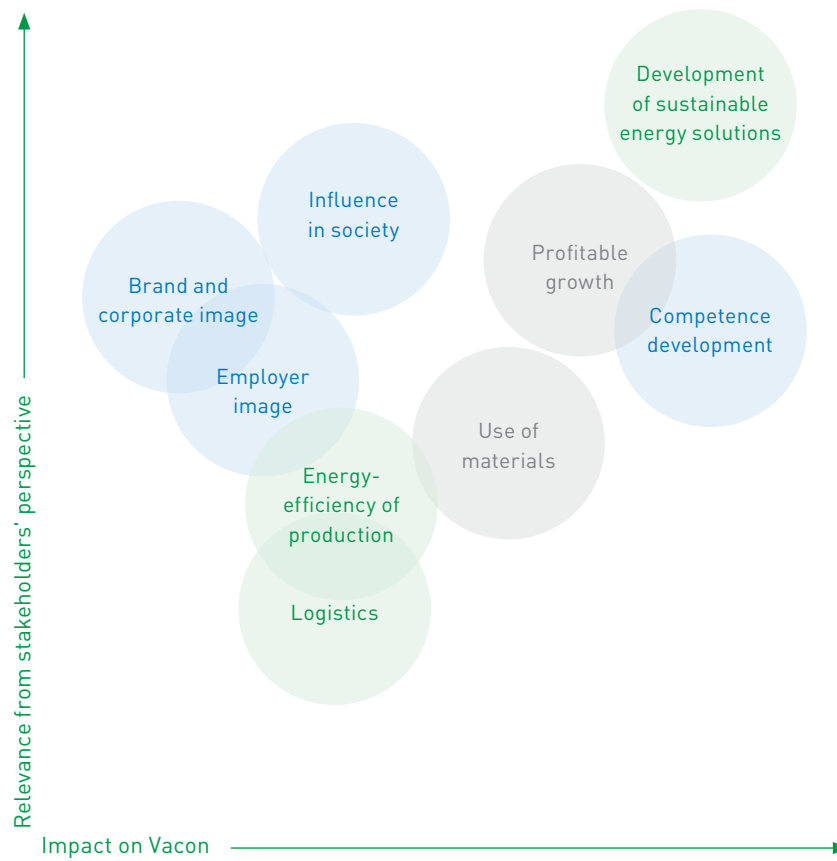
### Eco-efficient operations

Vacon's solutions help achieve sustainable development objectives. In its own operations, Vacon strives to improve the life cycle of its products by promoting the environmental friendliness of its products and services.

Design plays a major part in the environmental impact of a product's entire life cycle. Vacon manufactures its products as efficiently as possible from both an environmental and materials perspective. Subcontractors are also required to operate responsibly and manage environmental matters appropriately.

## INTRODUCTION

Vacon uses a relevance matrix to view issues important in terms of corporate responsibility. The review was carried out internally. Vacon's goal is to carry out a relevance assessment with its primary stakeholders as well.



## PROFITABLE AND SUSTAINABLE GROWTH

### Financial targets were reached in terms of revenues and result

In 2010, Vacon reached its target of revenues growth. In addition, the company's result improved from the previous year. Cash flow was weaker than in the previous year, which was due to the funds tied to working capital.

### Market-specific development

Despite the uncertainty in the world economy, the year 2010 was favorable for Vacon. The company succeeded in increasing its market shares through determined development efforts and maintaining competitiveness. Vacon Group's revenues increased to EUR 338.0 million (EUR 272.0 million in 2009). The greatest growth was experienced in the Asia Pacific region where revenues grew by 44.8% compared to the previous year, to EUR 50.5 million (EUR 34.9 million). Revenues from North and South America increased by 30.1% to EUR 60.3 million (EUR 46.3 million). In Europe, the Middle East, and Africa, revenues increased by 19.1% from the previous year, to EUR 227.3 million (EUR 190.8 million).

The Group's operating profit for the financial year was EUR 28.6 million (EUR 22.5 million), or 8.5% of the revenues. Result before taxes was EUR 27.5 million (EUR 22.0 million). The share of operating profit increased by 26.8% from the previous year. Profit for the financial year was

EUR 19.1 million (EUR 16.1 million), showing an increase of 18.7% compared to the year before.

The amount of Vacon Group's liquid assets was EUR 18.4 million (EUR 17.2 million). Gross capital expenditure was EUR 15.9 (18.2) million.

Vacon was a significant tax payer in 2010 as well. During the financial period, the amount of taxes paid by Vacon was EUR 8.5 million (EUR 5.9 million). In addition, Vacon's employees paid taxes on their income from Vacon.

### International recognition

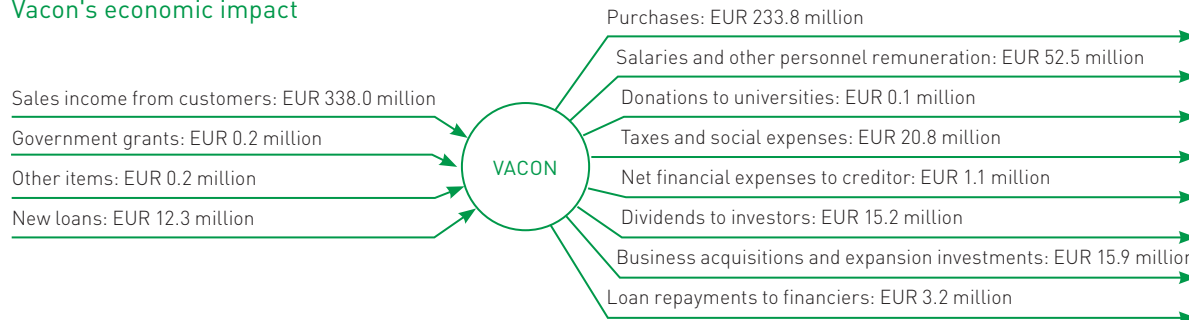
At the beginning of 2010, the market research company China Industrial Control granted Vacon a Gongkong Decade of Growth award. According to the organization, the

characteristics all recognized companies have in common include innovative thinking, a dedicated attitude, sharp market know-how, and a drive for new technologies. Vacon has become a significant actor in its field in the Chinese market within the past decade.

### Long-term objectives

Vacon's long-term financial goal is to achieve revenues of EUR 500 million and an operating profit (EBIT) of 14% in 2014. Vacon has set an annual target for return on equity (ROE) of a minimum of 30%. We believe that Vacon will continue to be an excellent employer in the future as well.

### Vacon's economic impact



## AC DRIVES – A KEY TO ENERGY-EFFICIENCY

Vacon develops and offers AC drives solutions in order to reach global sustainable development objectives. Vacon strives to continuously improve the eco-friendliness of its products throughout their life cycle and to manufacture them as efficiently as possible for the benefit of the environment.

The impact of Vacon's products on energy consumption is manifold compared to the resources required to manufacture drives. The amount of energy saved by using an AC drive during its entire life cycle is many times the energy consumed in the manufacture of the drive and its components.

According to our calculations, the amount of energy saved in various industrial and civil engineering applications by means of Vacon's AC drives was approximately 35 TWh in 2010. At the same time, approximately 15 TWh of wind or solar energy was produced with the help of our products.

Vacon's AC drives enable companies and society to reduce the generation of greenhouse gases, particularly carbon dioxide. AC drives are used in all industry segments and civil engineering; for example, in the processes of renewable energy production and water treatment. In addition, AC drives help reduce the mechanical stress on electrical motors.

Vacon produces the best solutions in energy technology. When planning and building the infrastructure of developing

countries, applying the best technology is the solution for a sustainable future. AC drives, using energy efficiently, represent such technology since they can improve the standard of living of communities in many ways.

### Tangible improvements in the company's operations in 2010

In September 2010, Vacon's subsidiary in the USA was awarded the LEED® Gold environmental certificate for its plant in Chambersburg, Pennsylvania. LEED certification is awarded by the Green Building Certification Institute (GBCI). The LEED program covers the design, construction, and functions of eco-efficient buildings for the duration of the building's entire life cycle.

In September, Vacon signed the voluntary energy-efficiency agreement of Finland's Ministry of Employment and the Economy. The company is aiming for energy savings of 20% in operations at the Vaasa plant by 2016. Vacon is also working to reduce its energy consumption on each unit manufactured as the business volume increases. Improving energy-efficiency is tied to the company management objectives.

In 2010, energy savings of 20% were achieved by renewing the lighting of Vacon's plant in Vaasa. Energy-efficiency is also pursued by means of other remodeling investments and streamlining operations related to daily production.

Solutions reducing the energy consumption of the property play a significant role in meeting the objectives. Vacon is currently investigating the opportunity to utilize solar energy in heating the plant in Vaasa.

### Environmental management system

Vacon's plant in Vaasa has an ISO 14001 environmental system certified by SGS-FIMKO. In 2011, Vacon's plant in China will also implement the ISO 14001 system. Vacon's goal is to ensure a uniform and efficient environmental performance with the system.

### Product design to meet environmental objectives

Vacon sets strict environmental requirements on its new products. In the concept phase of design, Vacon uses the Design for Environment check list which provides guidance in the efficient use of materials and resources.

AC drives are made of plastic, steel, aluminum, electronic components, cables, and circuit boards. Vacon complies with the EU's RoHS directive which restricts the use of hazardous materials in electrical and electronic products. All of Vacon's products have been RoHS compliant since 2000. Vacon is committed to taking care of recycling and appropriate reuse of its products as required by the EU's WEEE directive.

### Manufacturing takes the environment into consideration

Vacon's operating model is modern: only the final assembly and testing of the product takes place at Vacon's facilities. The company's manufacturing process does not pollute the air, water, or soil. Energy is consumed by assembly as well as testing the finished products. Feeding energy produced in testing back into the electrical grid is done using Vacon's own AC drives technology. The feedback reduces the amount of energy to be purchased and the environmental impact of production. Vacon Group's production processes consumed about 16,368 MWh of energy in 2010 (14,215 MWh in 2009). 89% of the energy consumed at the Vaasa plant is produced without creating carbon dioxide emissions, and the share of renewable energy is 52%.

The sorting and recycling of various types of waste are organized efficiently at the company's business locations. Currently, 95% of the waste generated is reused or recycled.

Vacon's business areas have their individual environmental objectives, and the development managers are in charge of meeting the objectives and implementing an operating method aligned with the objectives. Environmental matters are part of the company's annual evaluation. The personnel's environmental competence is developed by means of regular training.

In 2010, no environmental accidents or cases of exceeded reference values were reported in any phase of production. Production did not release any emissions into the air or discharges into water systems.

### Key figures for the Vacon Group's production process

	2010	2009	2008	2007
Consumption of electrical power, MWh	16,368	14,215	12,413	10,800
Electricity fed back into the test grid, MWh*	19,676	20,000	16,000	14,000
Recycling of electronics waste, tons	45	27.6	17.3	15.0
Other recyclable material, tons	249.7	315	315	218
Hazardous waste, tons	6.5	2.9	5.9	4.7

\*Vacon's internal test network recycled a larger amount of energy than the amount of the energy purchased. Electrical energy generated during the AC drives loading tests was fed back to the grid. The electrical grid was only used for covering the energy lost in test system dissipation.

## PASSION FOR EXCELLENCE

Vacon's personnel policy is rooted in the company's strong values. Vacon's objective is to be the best in its industry. Reaching this objective requires ongoing competence development and taking care of the well-being of personnel. As a responsible employer, Vacon takes care of the physical and mental well-being of its personnel and in various ways monitors job satisfaction and managerial performance.

### Vacon's values

Vacon's values create a foundation for work ethics.

#### Customer first

We start from the customer's needs. Our way of working is flexible, and we make sure we provide the best possible service to the customer. We treat all our customers, both internal and external, with the same respect.

#### People in focus

Our way of working is based on honesty and fair play. Respect for the individual, mutual trust, and concern for others are a natural part of social interaction.

#### Entrepreneurship and a drive for achievement

Our way of working is based on internal entrepreneurship: we take responsibility, we have courage, and we take the initiative. We are committed to reaching our goals. At the

same time, we are open to new challenges. Our operations are effective and we improve them continuously.

#### Passion for excellence

We are dedicated to the quality of our products, services, and our way of working. We offer our best possible expertise to the customer. We create innovative solutions. Our products use the most appropriate technology.

#### Ethical guidelines and human rights

In all its operations, Vacon adheres to laws and regulations, acts ethically and with integrity, and produces high-quality work. Vacon takes responsibility for the environment and respects human rights in all operations, and requires that its partners do the same.

Vacon Group is committed to complying with universally accepted human rights, children's rights, and employees' rights. This means that Vacon is committed to:

- providing a healthy and safe working environment and preventing risks relating to health and safety
- respecting freedom of association, and the freedom of being a member of a trade union
- not discriminating against job applicants and employees in any way. In line with this, the company does not discriminate against minorities on the basis of race,

gender, social status, origin, religion, or political or other membership in compensation, recruiting, access to training, and promotion.

- complying with laws and industry norms in terms of working hours and compensation
- refraining from using child labor (children under 14 years of age), forced labor, or any kinds of punishment
- prohibiting corruption and bribery in all operations. Vacon and its employees do not pay or accept bribes or unlawful payments.

Vacon is in the process of developing an orientation program which will contain a commitment, to be signed by each participant, to comply with the company's ethical guidelines and respect human rights in all operations.

#### Personnel policies and working conditions

The foundation of employee well-being at Vacon is a good working community and valuing the individual. Responsibility for personnel is seen, among other things, as a good personnel policy, equality in the working community, and a motivating work atmosphere. Occupational safety and health at the Vaasa plant are managed in accordance with the OHSAS 18001 system.

Vacon builds and promotes strong and encouraging team spirit and wants to be the best AC drives provider on

the market. Vacon's goal is to create conditions in which the personnel are willing and able to commit to long-term development and growth with the company.

Ergonomics is one of the challenges in the field, which is why surveys are continuously carried out by occupational health care. In 2010, the ergonomic condition of the office personnel's workstations was improved by means of adjustment and new office chairs. Collaboration continuing throughout the entire company has succeeded in stopping the trend of increasing musculoskeletal problems. Efforts to make factory work lighter and reduce the frequency of heavy lifting have succeeded.

### Well-being through collaboration

Vacon stresses the importance of proactive occupational health care. Occupational health care participates closely in the achievement of the personnel well-being objectives. Each Vacon employee is entitled to have a pre-employment medical examination, which provides valuable information for strengthening one's well-being.

Vacon has launched a voluntary Aino Active pilot project in which teams from production and office staff participate. The Aino Active project covers matters relating to mental well-being and coping, weight management, and lifestyle choices.

The third Aslak rehabilitation course offered to Vacon's employees ended in 2010. The goal of the Aslak course was the long-term improvement and maintenance of working ability. Vacon will continue to organize Aslak courses for its employees.

### From temporary layoffs to hiring again

At the beginning of 2010, the economic situation in the global market was weak. The company wanted to refrain from laying employees off in order to retain top competence. This succeeded well, and only temporary layoffs were needed to pull through the weakened economy. In Finland, 160 office staff members were temporarily laid off for a maximum of 14 workdays. A reduced work week was implemented in both the USA and Italy.

In the second half of 2010, the market showed clear signs of picking up. During the year, the number of Vacon personnel grew by 111 people. The majority of the new employees were employed in R&D positions in Finland, China, and the USA.

### Job satisfaction and development discussions

Job satisfaction is monitored annually through a job satisfaction survey. The response rate for the 2010 job satisfaction survey was fairly high, 93.1%. The results of the survey were consistent with the results of the previous years,

and no significant changes have taken place. According to the survey, the personnel consider the following to be the company's strengths:

### Strong employer image

- Trust in the company's success now and in the future
- Vacon's goals are well known
- The company's values and goals are meaningful
- Taking personal responsibility
- Orientation and induction in new positions

According to the job satisfaction survey, the following should be improved:

- Efficiency of the company's decision-making and commitment to decisions made
- Level of efficiency and quality of work in different departments
- Competitiveness of pay
- Meaningfulness and challenges of work

Vacon's management has taken into account the results of the job satisfaction survey and will work continuously to improve job satisfaction.

Job satisfaction is also covered in face-to-face development discussions between superiors and employees annually. Development discussions play a central role when surveying how employees feel they are coping in their jobs and what development wishes they have.

### Professional development

Vacon is an international company with top expertise and ambitious objectives. From the point of view of professional competence, Vacon's challenge is to retain its current expertise and strengthen employee competence e.g. in renewable energy.

At Vacon, competence development is based on the company's strategic objectives and mapping of development needs. Systematic measures are taken to develop and strengthen strategic competence. Development is pursued with various methods such as on-the-job learning, coaching and training, job rotation, and self-study.

Product competence, world-class production plant competence, and competence in multi-channel sales are the top three areas of competence development at Vacon. Vacon invests in competence management since it will have a significant role in our future success.

In 2010, Vacon completed the Urapolku (Career Path) project to develop and streamline career advancement opportunities for Vacon's personnel. The project examined, among other issues, career paths for specialists and personnel mobility between different business areas or

different countries. It generated a process model that helps all Vacon employees better plan their careers and development, and supports competence at Vacon as a whole. One of the opportunities offered by Vacon that aims to expand professional competence is to work as a posted employee in another country.

### Orientation and development programs

Currently, Vacon's top three training programs aim to improve the personnel's product, sales, and marketing competence in terms of AC drives.

In addition to extensive training programs, Vacon also organizes separate training courses on various topics, including the Six Sigma program for quality improvement, the JET management program, and a variety of training programs in financial administration, technology, languages, communication, and HR management.

A mentoring program aimed at experts and a coaching program aimed at superiors are being planned. These aim to provide superiors with tools for empowering management and for the development of managing oneself and one's working methods.

### Occupational safety

Vacon aims to be a pioneer in occupational safety matters and to develop a working environment with zero accidents. Employees and the management jointly develop occupational safety on an ongoing basis.

At Vacon, occupational safety is a matter shared by everyone. Everyone has the responsibility and obligation to report issues that potentially interfere with occupational safety. The superior's task is to promote and monitor the processing of employee initiatives. Superior responsibility was one of the main themes in 2010 manager coaching.

In 2010, Vacon's occupational safety committee had 12 members. The occupational safety manager was the chairperson of the occupational safety committee. The employees elected the actual labor protection delegates by casting a vote. In addition, the occupational safety committee consists of experts in electrical installation and fire safety.

The occupational safety committee convenes at least four times per year. If needed, occupational health care attends the meetings of the occupational safety committee. The committee handles accidents at work and reviews preventive and corrective measures taken in order to prevent new similar accidents.

The committee also participates annually in the company's risk assessment, processing of the job satisfaction survey results, promoting of employee initiatives, ongoing ergonomic solutions, and various development projects.

Vacon systematically assesses the harm and hazards caused by work and working conditions using a comprehensive risk assessment model. The company also uses external experts to complement its own expertise in risk assessment.

### Proactive management of well-being at work

Vacon takes determined measures to promote occupational health and safety matters. For example, Vacon launched a program called Työkuntoon, based on proactive management of well-being at work, in the operations in Finland in 2010. The program focuses on providing sufficient and timely support for the personnel's well-being at work, identifying signs of reduced well-being in a timely manner as well as effectively addressing development needs relating to one's duties and work arrangements.

In 2010, the program focused on the superiors' responsibility in the management and supervision of people. The model aims to address issues that weaken one's working condition and increase absences due to illness and take determined action to improve the situation.

In 2010, the Vaasa plant completed a sizeable remodeling project to considerably improve ventilation in the workplace. Based on the results of the job satisfaction survey, a plan was also compiled to reduce the noise level in the workplace.

### Meetings and training go online

In a company like Vacon, with operations on three different continents and across a number of time zones, online tools and Web conferences are everyday matters. Online solutions make communications across the globe significantly easier. The majority of internal meetings, briefings, and training sessions take place through Vacon's internal IT network.

Presentations are mostly recorded and available online for later viewing and listening. The solutions make it possible to save time and reduce travel, which is well aligned with the objectives of sustainable development.

### Work-life balance

One of the main themes of Vacon's personnel strategy is comprehensive well-being. In addition to professional competence, it comprises mental, physical, and social well-being.

The theme in 2010 was mental well-being. Mental well-being consists of satisfaction with one's life and work, a positive basic attitude, being active, and accepting oneself. An important foundation of mental well-being is work that matches the employee's goals and professional skills. A happy employee is motivated and committed.

Vacon understands that a person's well-being is the sum of many parts. The company wants to take good care of all aspects of well-being.

### Remuneration and benefits

Vacon wants to provide its competent personnel with not only competitive remuneration but also a healthy and fair working environment. Remuneration at Vacon is based on the work requirement level and personal performance. Remuneration and employment contracts are based on general agreements and individual solutions. All employees

are automatically enrolled in a bonus scheme based on the company's sales result and profit earned.

All of Vacon's employees in Finland are covered by the company's voluntary sickness expense insurance. Employees who have worked at Vacon for more than ten years are entitled to one extra paid week of vacation. All of Vacon's employees around the world are entitled to the use of vacation timeshares owned by the company.

### Collaboration with educational institutions

Vacon offers comprehensive school students opportunities to work in working life familiarization and internship positions. For students at universities of applied sciences and institutes of higher education, as well as those in the final stages of their studies, Vacon offers summer jobs and thesis work positions. Vacon also creates and maintains relationships with students by participating in student events and fairs and by organizing company visits or lectures. Vacon supports various student events related to Vacon's field of operation. Vacon collaborates especially with students of technology.

**Social influence and sponsorship**

Among Vacon's most important social and European channels of influence are the Federation of Finnish Technology Industries and the Confederation of Finnish Industries EK. In addition to industry and employment organizations, Vacon participates in the CleanTech Finland network which promotes the success of the best clean technology companies and cleantech expertise from Finland in the international market.

The Baltic Sea is close to the hearts of Finns, and its well-being is also important to Vacon. Vacon has pledged to donate to the Baltic Sea Action Group (BSAG) AC drives for a water purification project in the Baltic area.

Vacon is the main cooperation partner of the Sail Training Association Finland (STAF). Vacon supports the Sails for Environment environmental protection program of STAF.

Sponsorship has always been one of Vacon's marketing methods. Vacon supports young, emerging collaboration partners who succeed in their own sector and share similarities with Vacon's values and corporate culture.

In sports, Vacon sponsors the Finnish Alpine Ski Team to success. Locally, Vacon partners with Hockey-Team Vaasan Sport Oy.

Vacon supports Finnish higher education. In 2010, Vacon made donations of EUR 100,000 in total to Aalto University, the Lappeenranta University of Technology, the Tampere University of Technology, and the University of Vaasa in order to develop technical education.

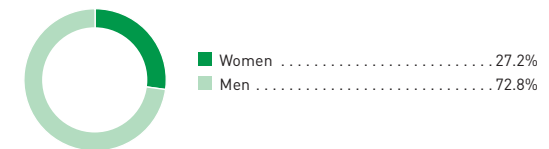
**Social responsibility key figures**

Accidents at work	13
Close calls	40

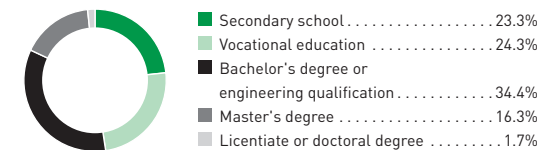
**Personnel key figures**

	2010	2009
Group employees, average, persons	1,301	1,231
Average age of personnel, years	36.2	36.1
Average years of service	5.7	5.6

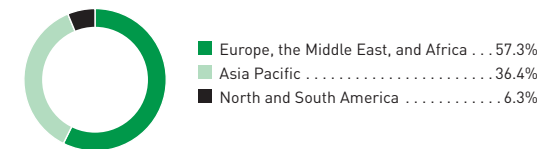
**Gender distribution 2010**



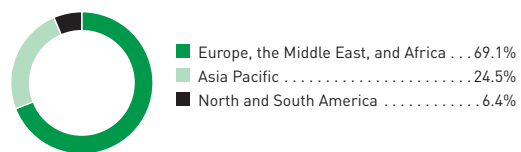
**Level of education 2010**



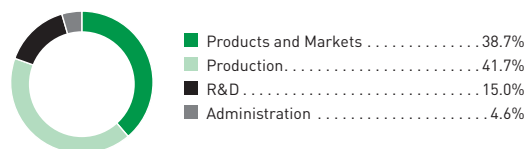
**New recruitment by region 2010**



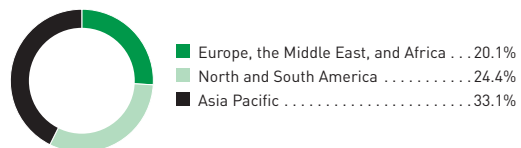
### Personnel by region 2010



### Personnel by function 2010



### Personnel turnover by region 2010



### Personnel 2007–2010

	2010	2009	2008	2007
Number of personnel at the end of the period	1,339	1,228	1,197	869
Europe, the Middle East, and Africa, %	69.1	71.2	74.6	81.9
North and South America, %	6.4	6.6	6.7	0
Asia Pacific, %	24.5	22.2	18.7	18.1
Women, %	27.2	27.5	29.2	28.4
Men, %	72.8	72.5	70.8	71.6
Share of R&D personnel, %	15.0	13.8	13.0	11.6

### Personnel turnover 2007–2010

	2010	2009	2008	2007
New employees	368	236	300	313
Employees whose employment ended	263	184	168	119
Total turnover, % *	23.6	17.1	19.6	24.9

\*The total turnover includes both new employees and those whose employment ended.

The figures include all employment relationships that started or ended during the year in question, irrespective of the nature or duration of employment, excluding the effects of a business acquisition.

VACON PLC'S CORPORATE RESPONSIBILITY REPORTING IN ACCORDANCE WITH APPLICATION LEVEL C OF THE GRI GUIDELINES

Application levels of the GRI Reporting Guidelines\*

Application level	C	C+
G3 profile information	To be reported: 1.1, 2.1–2.10, 3.1–3.8 3.10–3.12, 4.1–4.4, 4.14–4.15	The report has been verified externally
Description of the G3 governance system	Not required	
G3 indicators	A minimum of ten indicators are reported, including at least one indicator for each of the following areas: social responsibility, economic responsibility, and environmental responsibility.	

Vacon Plc reports on corporate responsibility in accordance with GRI Reporting Guidelines Application Level C.

\* For more information, please see [www.globalreporting.org](http://www.globalreporting.org)

GRI content index	Application of GRI	Comments	Pages
<b>Strategy and analyses</b>			
1.1	Statement from the CEO	X	6–7
<b>Organizational profile</b>			
2.1	Name of the organization	X	4–5
2.2	Primary brands, products, and/or services	X	15, 19, 21–25
2.3	Operational structure of the organization	X	4
2.4–2.5	Location of organization’s headquarters and the countries where the organization operates	X	Back cover
2.6	Nature of ownership and legal form	X	4–5
2.7	Markets served	X	6–7, 8
2.8	Scale of the reporting organization	X	4, back cover
2.9	Significant changes during the reporting period regarding size, structure, or ownership	X	55
2.10	Awards received in the reporting period	X	17, 19, 41, 43
<b>Report profile, scope and boundary</b>			
3.1–3.3	Reporting period, date of most recent previous report, and reporting cycle	P	Corporate responsibility is reported annually as part of the Annual Report. For more information, please see Vacon’s website. 38
3.4–3.5	Contact point for questions regarding the report or its contents, process for defining report content	X	Stakeholder engagement underway 38, 109
3.6–3.8	Boundary of the report	X	38
3.10–3.11	Re-statements of information provided in earlier reports and significant changes from previous reporting scope or measurement methods	-	No significant changes in the reporting scope or measurement methods.

GRI content index	Application of GRI	Comments	Pages
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**GRI content index**

3.12	GRI content index	X	50-53
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**Governance, commitments, and engagement**

4.1-4.4	Governance structure of the organization, mechanisms for shareholders and employees to provide recommendations or directions to the Board of Directors	X	27-35
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**Stakeholder engagement**

4.14-4.15	Definition of stakeholder groups and stakeholder engagement practices	P	The principal stakeholders have been defined. Stakeholder engagement underway.
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**Economic responsibility**

**Economic performance**

C	EC1	Direct economic value generated	X	41
C	EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	P	Vacon develops products and solutions for solving the challenges posed by climate change.
C	EC3	Coverage of the organization's defined benefit plan obligations	P	Vacon adheres to the legislation of the countries in which it operates also regarding pension obligations.
C	EC4	Significant financial assistance received from government	P	41

**Market presence and economic impacts**

A	EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	P	For more information, please see Ethical guidelines and human rights.
C	EC6	Spending on locally-based suppliers at significant locations of operation	P	Vacon aims to make strategically effective procurements and invests in a global network.
C	EC7	Procedures of local hiring	P	45

**Environmental responsibility**

**Materials**

C	EN1	Materials used by weight or volume	P	43
C	EN2	Percentage of materials used that are recycled input materials	X	43

**Energy**

C	EN3	Direct energy consumption by primary energy source	P	43
A	EN5	Energy saved due to conservation and efficiency improvements	X	42
A	EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	X	42

VACON PLC'S CORPORATE RESPONSIBILITY REPORTING IN ACCORDANCE WITH APPLICATION LEVEL C OF THE GRI GUIDELINES

GRI content index		Application of GRI	Comments	Pages	
<b>Water</b>					
C	EN8	Total water withdrawal by source	P	Not material in Vacon's operations since Vacon's processes do not use water.	43
<b>Emissions, Effluents, and Waste</b>					
C	EN16	Total direct and indirect greenhouse gas emissions by weight	P	The emissions are mainly generated by the production of the energy used. Vacon's products and solutions reduce energy requirements and the generation of greenhouse gases.	43
C	EN22	Total weight of waste by type and disposal method	X		43
<b>Products and services</b>					
C	EN26	Initiatives to mitigate the environmental impacts of products and services	X		42
C	EN27	Percentage of products sold and their packaging materials that are reclaimed by category	-	Vacon is in the process of launching a project to utilize recycled products.	
<b>Compliance</b>					
A	EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	-	None in 2010.	
<b>Transport</b>					
A	EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	-	The majority of internal meetings, briefings, and training sessions take place through Vacon's internal IT network.	
<b>Overall</b>					
A	EN30	Total environmental protection expenditures and investments by type	P	Development of production and logistics is underway.	4-5
<b>Social responsibility</b>					
<b>Product responsibility</b>					
C	PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement	X	Health and safety matters are a material part of Vacon's risk management.	29
A	PR2	Compliance with product safety legislation and regulations	X		29, 38
C	PR3	Type of product and service information required by procedures	-	Vacon's product information complies with the product information criteria of all the major market areas.	
A	PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	X		19

**GRI content index** **Application of GRI** **Comments** **Pages**

**Employment**

C	LA1	Total workforce by employment type (full-time/part-time), employment contract (permanent/term), and region	P		44
C	LA2	Total number and rate of employee turnover by age group, gender, and region	X		48, 49
A	LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees	X		47
A	LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees	X		45
C	LA7	Rates of injury, occupational diseases, lost days, and absenteeism by region	P		48
C	LA10	Average hours of training per year per employee by employee category	P		46-47
A	LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	P		45
A	LA12	Percentage of employees receiving regular performance and career development reviews	X		45, 46
C	LA13	Breakdown of governance bodies and employees according to gender, age group and minority group membership	X		34, 44, 48

**Human rights**

C	HR1-HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	P	Please see the Ethical Guidelines applicable to all of Vacon's suppliers.	44
A	HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	P	Human rights training is included in Vacon's orientation program.	44
C	HR4	Total number of incidents of discrimination and actions taken	X	None in 2010. Please see the Ethical Guidelines.	44
C	HR6-HR7	Operations identified as having a significant risk of incidents of child labor or forced labor, and measures taken to contribute to the elimination of child labor or forced labor	P	None in 2010. Please see the Ethical Guidelines.	44

**Society**

C	S03	Percentage of employees trained in the organization's anti-corruption policies and procedures	P	Please see the Ethical Guidelines.	44
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The GRI Guidelines core indicators EC8, EN4, EN11-12, EN17, EN19-21, EN23, PR6, PR9, LA4-5, LA8, LA14, HR5, S01-2, S04-5, and S08 have not been reported.

Content index key

Indicator type	Level of GRI reporting
C = Core indicator	X = reported in accordance with GRI
A = Additional Indicator	P = Reported in part
	- = Not reported for 2010



# FINANCIAL STATEMENTS

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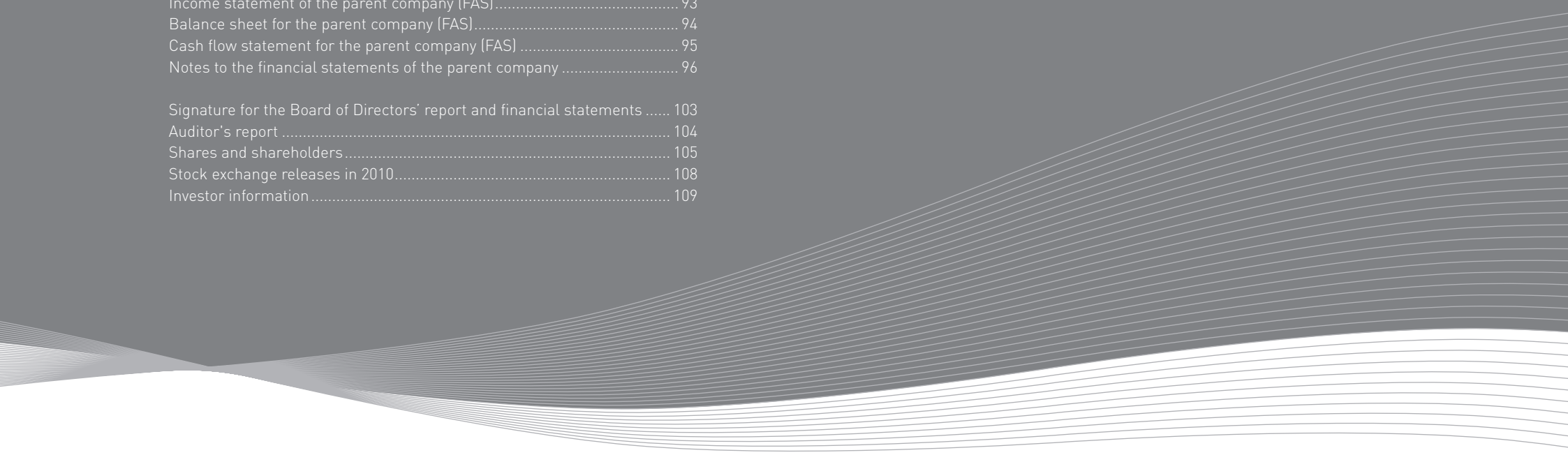
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## General review of 2010

The global AC drive market picked up in 2010 significantly compared to 2009. According to the market research company Frost & Sullivan, the estimated growth of the AC drive markets was approximately 8% in 2010. The growth was attributable to the overall recovery of the global economy and investments in the production of renewable energy and the improvement of energy efficiency both in industry and civil engineering. The value of the AC drive market in 2010 was approximately USD 9 billion.

Market growth continued to be strongest in the Asia Pacific region. In North America and EMEA (Europe, the Middle East and Africa), growth was more moderate. According to the research company Frost & Sullivan, the AC drive market grew by approximately 12% in the Asia Pacific region in 2010. In Europe and North America, the growth rate was at 4%. In Europe, Germany was the engine for growth.

Among the industries, the construction industry, production of renewable energy, and machine manufacture grew the most. In fields requiring sizeable investments, such as shipbuilding, growth was still slow.

Vacon's business operations developed strongly during 2010. Demand for small products with lower margins increased, which affected the development of the company's relative operating profit. Vacon also created significant new customer relationships. The most notable of which was the supplier agreement signed with KONE Group on new AC drives utilizing energy efficiently. The products have been designed in close collaboration with the customer.

In 2010, the total value of orders received by the Group amounted to EUR 358.2 million (EUR 256.1 million), an increase of 39.9% from the previous year. The Group's order book stood at EUR 52.1 million at the end of 2010 (EUR 32.0 million). The order book increased by EUR 20.1 million from the beginning of the year but declined

from the highest values of the year as delivery capacity improved. Vacon's revenues for 2010 totaled EUR 338.0 million (EUR 272.0 million), an increase of 24.3% from the previous year.

The 2010 operating profit was EUR 28.6 million (EUR 22.5 million), which equals 8.5% (8.3%) of the Group's revenues. The increase in operating profit was boosted by the clear increase in revenues. Growth of the operating profit percentage was slowed down in October–December, just as throughout the year, by the concentration of sales on lower power, lower margin products and by a provision recognized in the 2010 result due to a lawsuit regarding the customs practices of the subsidiary in China. Furthermore, the development of the operating profit was affected by the component costs of electronics which increased as a result of spot market purchases. The company also invested in growth in 2010 by recruiting new personnel for R&D and production in particular. This has increased the company's fixed costs.

Vacon's result was weakened by the lawsuit pending against the subsidiary in China. A Chinese prosecutor is demanding that Vacon pays EUR 3.2 million in compensation. Altogether, the costs relating to the customs issue amount to EUR 3.8 million in the 2010 result. Excluding these non-recurring items, Vacon's operating profit would have been EUR 32.4 million (9.6%) in 2010.

Vacon is expecting the AC drive market to grow significantly in the medium-term. Driving growth is the increasing concern for the sufficiency of energy and the state of the environment. More efficient use of energy is a condition for the development of global growth and well-being. Public decision-makers are also working to direct the industry towards using more energy-efficient operating methods. In addition, additional investments to increase the share of renewable energy in global energy production are expected.

## Result

The Group's revenues grew 24.3% in 2010 to EUR 338.0 million (EUR 272.0 million in 2009). Revenues of the parent company Vacon Plc totaled EUR 260.4 (206.3) million. Consolidated operating profit was EUR 28.6 (22.5) million and profit for the period was EUR 19.1 (16.1) million. Earnings per share (EPS) increased to EUR 1.22 (1.01).

The Group's cash flow from business operations was EUR 15.9 (37.1) million. The consolidated balance sheet total was EUR 203.3 (145.6) million. Vacon's equity ratio was 46.0% (56.5%). Gearing was 10.7% (2.0%). Return on investments was 27.0% (23.1%) and return on equity (ROE) was 22.1% (20.5%).

### Key figures:

	2010	2009	2008
Revenues, MEUR	338.0	272.0	293.2
Operating profit, MEUR	28.6	22.5	34.6
Operating profit, % of revenues	8.5	8.3	11.8
Return on equity, %	22.1	20.5	34.3
Equity ratio, %	46.0	56.5	51.1

## Global position

Vacon strengthened its global position in 2010. Based on market surveys, the company estimates that its market share is about five percent.

Vacon's revenues by region were as follows in 2010: Europe, the Middle East and Africa in total 67.2% (70.1% in 2009), North and South America 17.8% (17.0%), Asia Pacific 14.9% (12.8%).

Vacon's 2010 revenues by distribution channel were as follows: direct sales 8.0% (9.8%), original equipment manufacturers 26.0% (25.0%), distributors 14.9% (13.0%), brand label customers 20.2% (19.4%), and system integrators 31.0% (32.9%).

## Business strategy

An AC drive is a device that is used to control the speed of an electric motor in all industry segments and civil engineering. Furthermore, an AC drive is a key product in the generation of renewable energy. AC drives can provide significant energy savings and generate clean energy from renewable sources such as the sun and wind. This creates a solid base for long-term growth in the AC drives business. By focusing solely on AC drives, Vacon aims to grow profitably and much faster than the average growth rate in the sector.

Vacon's goal is to reach revenues of EUR 500 million and operating profit of 14% by the end of 2014. The targeted return on equity is a minimum of 30%. The core of Vacon's business operations remains unchanged and is supported by four strategic priorities: product leadership as a competitive strategy, 100% focus on AC drives, a multi-channel sales network, and a global presence.

For Vacon, product leadership means an extensive and competitive product portfolio and excellent product and application competence among personnel. In 2010, Vacon introduced to the market a new Vacon 100 Motor Mountable product and, concurrently, increased the power ranges of the existing products. In addition, Vacon invested considerably in the R&D of and competence development in its products for the production of wind and solar power. In 2011, the company will expand the new product generation offering already on the market and continue investing in products used in the production of renewable energy.

Vacon is one of the world's largest companies focusing solely on the design and manufacture of AC drives. This focus offers a clear competitive edge for Vacon since it provides Vacon's customers with the best expert service in the industry every time, whether related to sales, customer service or service and maintenance.

Multi-channel sales are at the core of Vacon's sales and marketing strategy. The company sells its products to original equipment manufacturers (OEMs), system

integrators, brand label customers, distributors, and end customers. Utilizing several different sales channels in each geographical area or industry segment offers Vacon a true competitive edge. This has benefited the company in both the economic downturn and the rapid recovery of the market since sales have not relied on one channel only. For a company focusing solely on AC drives, multi-channel sales is an opportunity and true competitive advantage.

Vacon operates production and R&D units in four countries and sales offices in a total of 27 countries. Extensive presence on different continents enables the company to place manufacturing close to the customer, thus hedging against currency risks. An extensive sales network offers sales the local touch it needs. The new recently established sales companies succeeded in 2010 in growing their operations and profitability, and Vacon continues to expand its sales network.

In recent years, Vacon has invested heavily in the development of a common hardware and software platform for AC drives. Vacon's other strategic areas of expertise include product portfolio management, customer relationship management, mass customization, global sourcing as well as information and communication technology tools.

Each area of expertise is continuously developed and monitored in order to ensure the company has the required competence for implementing its strategy.

## Changes in corporate structure

Vacon acquired a majority in a small Spanish R&D company in March 2010. The organizational change of the Vacon Group parent company became effective on June 1, 2010. Vacon Plc divided into two functional entities: the Vacon Drives Finland profit unit, and global Group management. Concurrently, the company renewed the organizational structure of its Products and Markets area. At the end of 2010, Vacon's own sales network comprised 24 subsidiaries as well as branch offices in Romania, Ukraine, United Arab Emirates, Thailand, and Slovakia.

## Investments

The Group's gross investments totaled EUR 15.9 million (EUR 18.2 million) in 2010. Expenditure focused mainly on increasing and maintaining production capacity and on standardizing and developing information systems. During 2010, a new factory was completed in China, and the construction of a new factory was launched in Italy.

## Research and development

R&D expenditure in 2010 totaled EUR 20.8 million (EUR 17.6 million), and EUR 4.8 million (EUR 5.4 million) of this was capitalized as development costs. The share of R&D costs of the Group's revenues was 6.2% (6.5%).

Development of new products continued according to plans. In 2010, Vacon made significant investments into developing AC drive technology used in wind power plants. Another notable groundbreaking field for Vacon was the inverter product portfolio developed for the needs of solar power plants. In the second half of 2010, Vacon introduced the Vacon 8000 Solar product family with a power range of up to one megawatt. In November, the company released its latest product, the Vacon 100 Motor Mountable, which has been received well by the market. R&D is focused on improving cost efficiency, functionality, use of space, user-friendliness, energy-efficiency, and visual features. The company also invested in growth by recruiting new personnel in R&D.

Vacon has R&D units in Finland, China, the USA, and Italy.

## Financial instruments valued at fair value

In the financial statements, forward exchange contracts are valued at fair value. The principles used are described in more detail in the accounting principles and notes to the financial statements.

## Personnel

Vacon's personnel policy is rooted in the company's strong values. Vacon's objective is to be the best in its industry. Reaching this objective requires ongoing competence development and taking care of personnel well-being. As a responsible employer, Vacon takes care of the physical and mental well-being of its personnel and, in various ways, monitors job satisfaction and managerial performance.

Vacon's personnel increased by 111 people during 2010. At the end of December, the Group employed 1,339 people (1,228), of whom 687 (627) were in Finland and 652 (601) in other countries. The number of personnel by function is as follows: sales and marketing 39% (39%), production 42% (42%), R&D 15% (14%) and administration 4% (5%). The average age of personnel was 36.2 (36.1) years. The average length of employment was 5.7 (5.6) years. 27.2% (27.5%) of employees were women and 72.8% (72.5%) were men.

### Personnel key figures:

	2010	2009	2008
Average number during the year	1,301	1,231	1,131
Salaries and wages during the year, MEUR	52.5	42.9	42.4

## Bonus scheme

Vacon wants to provide its competent personnel with not only competitive remuneration but also a healthy and fair working environment. Remuneration at Vacon is based on the work requirement level and personal performance. Remuneration and employment contracts are based on general agreements and individual solutions. All employees are automatically enrolled in a bonus scheme based on the company's sales result and profit earned. Group management and some of Vacon's personnel also belong to a long-term share bonus scheme.

## Competence

Vacon is an international company with top expertise and ambitious objectives. From the point of view of professional competence, Vacon's challenge is to retain its current expertise and strengthen competence e.g. in renewable energy.

At Vacon, competence development is based on the company's strategic objectives and mapping of development needs. Systematic measures are taken to develop and strengthen strategic competence. Development is pursued by means of various methods, such as on-the-job learning, coaching and training, job rotation, and self-study.

One of the main themes of Vacon's personnel strategy is comprehensive well-being. In addition to professional competence, it comprises mental, physical, and social well-being. Vacon understands that a person's well-being is a sum of many parts. The company wants to take good care of all aspects of well-being.

## Employee well-being

The starting point of employee well-being at Vacon is a good working community and valuing the individual. Responsibility for personnel is visible, among other things, in a good personnel policy, equality in the working community, and a motivating work atmosphere. Occupational health and safety at the Vaasa plant are managed in accordance with the OHSAS 18001 system.

Job satisfaction is monitored annually through a job satisfaction survey. Vacon's management takes into account the results of the job satisfaction surveys and works continuously to improve job satisfaction.

In 2009, Vacon's operations in Finland launched an ongoing program for proactive promotion of well-being at work. The program focuses on providing adequate and timely support for the personnel's well-being at work, identifying signs of reduced well-being as well as effectively addressing development needs relating to employees' duties and work arrangements.

## Environment

Vacon develops and offers AC drive solutions in order to reach global sustainable development objectives. Vacon strives to continuously improve the eco-friendliness of its products throughout their life cycle and to manufacture them as efficiently as possible.

The impact of Vacon's products on energy consumption is manifold compared to the resources required to manufacture the products. The energy consumed in the manufacture of an AC drive and its components is many times smaller than the amount of energy that is saved by using the AC drive during its entire life cycle.

Vacon's plant in Vaasa has an ISO 14001 environmental system certificate from SGS-FIMKO. In 2011, Vacon's plant in China will also implement the ISO 14001 system. Vacon's goal is to ensure uniform and efficient environmental performance by means of the system.

## Energy-efficient improvements were implemented at Vacon's plants in 2010

In September 2010, Vacon's subsidiary in the USA was awarded the LEED® Gold environmental certificate for its plant in Chambersburg, Pennsylvania. LEED certification is awarded by the Green Building Certification Institute (GBCI). The LEED program covers the design, construction, and functions of energy-efficient buildings for the duration of a building's entire life cycle.

In September, Vacon signed a voluntary energy-efficiency agreement with Finland's Ministry of Employment and the Economy. The company is working towards 20% energy savings in the Vaasa plant's operations by 2016. Vacon is also working to reduce its energy consumption on each unit manufactured as the business volume increases. Improving energy-efficiency is tied to the company management objectives.

In 2010, 20% energy savings were achieved by renewing the lighting at Vacon's plant in Vaasa. Energy-efficiency

is also pursued by means of other renewal investments and streamlining operations related to daily production. Solutions reducing the energy consumption of property play a significant role in meeting objectives. Vacon is currently investigating an opportunity to utilize solar energy in heating the plant in Vaasa.

### Vacon promotes environmental protection

Vacon sets strict environmental requirements on its new products. In the concept phase of design, Vacon uses the Design for Environment check list, which provides guidance in the efficient use of materials and resources.

AC drives are made of plastic, steel, aluminum, electronic components, cables, and circuit boards. Vacon complies with the EU's RoHS directive which restricts the use of hazardous materials in electrical and electronic products. All of Vacon's products have been RoHS compliant since 2000. Vacon is committed to taking care of recycling and the appropriate reuse of its products as required by the EU's WEEE directive.

Vacon applies a modern operating model: only the final assembly and testing of the product takes place at Vacon's facilities. The company's manufacturing process does not pollute the air, water, or soil. Energy is consumed by assembly as well as testing the finished products. Feeding energy produced in testing back into the electrical grid is done using Vacon's own AC drive technology. Feedback reduces the amount of energy to be purchased and the environmental impact of production. Vacon Group's production processes consumed about 16,368 MWh of energy in 2010 (14,215 MWh in 2009). 89% of the energy consumed at the Vaasa plant is produced without creating carbon dioxide emissions, and the share of renewable energy is 52%.

The sorting and recycling of various types of waste are organized efficiently at the company's business locations. Currently, 95% of the waste generated is reused or recycled.

Vacon's business areas have their individual environmental objectives, and the development managers are in charge of meeting the objectives and implementing an operating method aligned with the objectives. Environmental matters are part of the annual evaluation the company carries out. The personnel's environmental competence is developed by means of regular training.

In 2010, no environmental accidents or cases of exceeded reference values were reported in any phase of production. Production did not release any emissions into the air or discharges into water systems.

### Board Report in relation to other environmental reporting

The Annual Report published by the company contains a corporate responsibility section that includes a section on the environment.

## Company ownership and corporate governance

### Shares and shareholders

In April 2010, the parent company paid dividends of EUR 10.6 million, or EUR 0.70 per share (69% of the earnings per share in the 2009 financial year).

Vacon's market value stood at EUR 593.4 million at the end of December (EUR 406.1 million). The closing price of the share on December 31, 2010, was EUR 39.00. The lowest price in January–December was EUR 24.90, and the highest was EUR 39.75.

A total of 2,670,146 Vacon shares (17.6% of the share stock) were traded during 2010, or in monetary terms, EUR 86.4 million. Vacon had 4,687 registered shareholders according to the shareholder register dated on December 31, 2010. The number of nominee registered shares and those registered by foreigners totaled 34.7% (28.9%) of the shares.

### Own shares

On December 31, 2010, Vacon Plc held a total of 80,565 of its own shares, which it had acquired at an average price of EUR 21.48. This is 0.5% of the share capital and voting rights, so it has no major impact on the distribution of ownership or voting rights in the company.

### Board of Directors and President and CEO

The members of the Board of Directors until the Annual General Meeting held on March 23, 2010, were Pekka Ahlqvist, Jari Eklund, Mauri Holma, Jan Inborr, Veijo Karpinen, Mika Vehviläinen, and Riitta Viitala. Pekka Ahlqvist, Jari Eklund, Jan Inborr, Mika Vehviläinen, and Riitta Viitala were re-elected as Board members, and Juha Kytölä and Panu Routila were elected as new Board members. Jan Inborr was re-elected Chairman and Mika Vehviläinen was elected Vice Chairman of the Board of Directors at the organization meeting of the Board of Directors. The term of office for Board members continues until the end of the following Annual General Meeting.

Vacon's President and CEO throughout the financial year was Vesa Laisi and Executive Vice President was Heikki Hiltunen.

### Auditors

In accordance with the decision of the Annual General Meeting, the company's auditors are the authorized public accountants KPMG Oy Ab and the principal auditor appointed by them is Petri Kettunen, APA.

### 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

information about key risks and risk management at Vacon are provided in the notes to the financial statements and in the risk management section of the Annual Report.

### **Dividend policy**

The dividend policy adopted by Vacon's Board of Directors is to propose a dividend that is in line with the company's financial performance. The goal is to distribute approximately 50% of the period's net profit in dividends. The financing required for growth in operations is taken into account when deciding on the dividend.

### **Risks and factors causing uncertainty in the near future**

Risks typical of Vacon's business operations have to do with, among other things, uncertainty in demand and increased price competition, losing customers, goodwill, availability of raw materials and components as well as currency rate fluctuations. The most topical short-term risk has to do with the availability of raw materials and components, which has posed challenges to the company's production and slowed down product deliveries. Risks relating to suppliers and interruption of operations were also highlighted in the latest risk review.

Vacon's order book is traditionally short in terms of time and therefore it is not associated with significant risks relating to scheduling or cancellations of deliveries. The share of products delivered for the production of renewable energy in Vacon's revenues is growing continuously. Risks typical of this business include longer delivery and payment times, which increases risks related to extending credit to customers and order cancellations.

Worldwide, Vacon has thousands of customers. The share of the ten largest customers in Vacon's revenues is less than 50%. Vacon does not fund customer projects. The company continuously evaluates its customers' creditworthiness and ability to fulfill their commitments.

Vacon is capable of adapting its production capacity to market demand. The company estimates that its financial assets and withdrawable credit commitments are at a sufficient level for safeguarding liquidity.

Vacon's balance sheet includes EUR 9.1 million of goodwill, which is mainly attributable to the business acquisition completed at the beginning of 2008. Goodwill is tested annually in order to detect possible impairment.

Price changes, availability, and the quality of raw materials and components may affect the company's profitability and scope of operations. Purchase agreements for raw materials and components are mainly annual agreements that contain price and exchange rate clauses for changes in the global market prices for raw materials and other materials. The cyclical changes in the global economy may restrict the business opportunities for certain component suppliers.

The most significant financial risks affecting the company's profit are currency risks. Exchange rate fluctuations may impact the business operations, although internationalizing operations reduce the relative importance of individual currencies. The most significant currency risks proportionate to the euro are associated with the US dollar and the Chinese renminbi. The Group applies IAS 39 compliant hedge accounting for cash flow hedging with respect to operative currency exposure.

A lawsuit is pending against Vacon's subsidiary in China. A Chinese prosecutor is demanding that Vacon pays EUR 3.2 million in compensation, which was recognized in the result as a provision for the last quarter of 2010. The court proceedings will begin in March 2011, and the court's decision is expected in the second quarter of 2011.

### **Outlook for 2011**

Vacon estimates that the AC drive market will grow by 6–10% in 2011. Investments in improving energy-efficiency and the production of renewable energy support strong growth in all market areas. Market growth is expected to be the strongest in the Asia Pacific region. Solid growth is also forecast in

the EMEA region and North America. Demand for Vacon's products is expected to grow in all industry sectors. Demand for higher power products is also expected to recover in 2011. The economic hardships of certain countries in Europe will create uncertainty in terms of economic growth in the euro area. The problems in the availability of raw materials and components that interfered with the company's deliveries in 2010 are forecast to continue during the first months of 2011. Vacon expects the availability of raw materials and components to improve by mid-2011.

### **Market guidance for 2011**

Vacon estimates that its 2011 revenues will increase 10–20% and its operating profit percentage is expected to rise from 2010. Earnings per share are expected to improve from 2010.

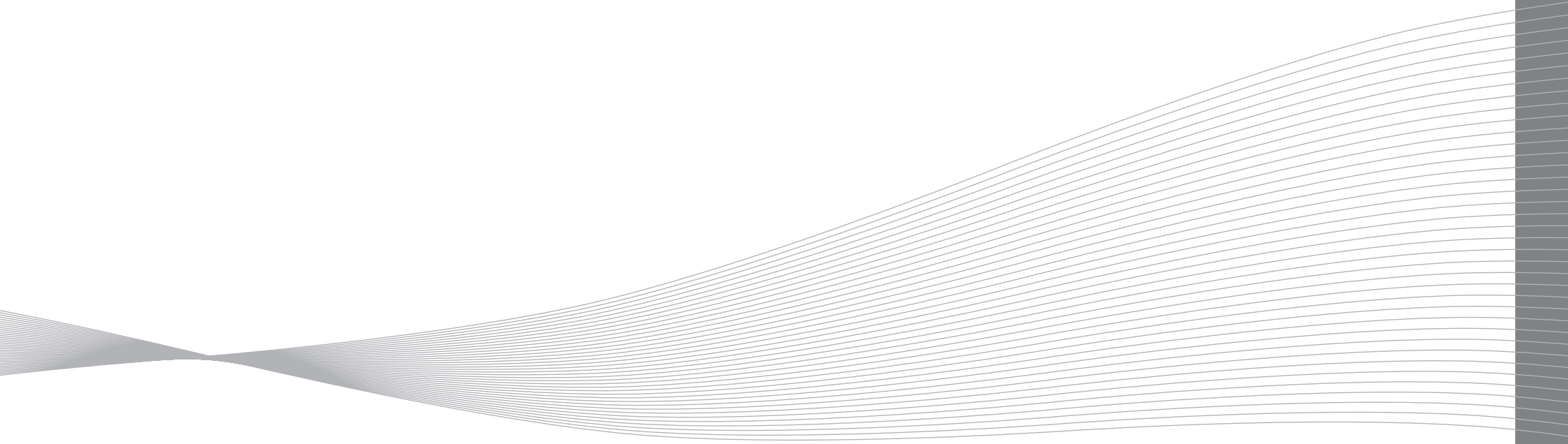
Vacon's goal is to reach revenues of EUR 500 million and operating profit of 14% by the end of 2014. The targeted return on equity is a minimum of 30%.

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. In the case of further acquisitions, gearing can be increased to a maximum of 60%.

## **Board proposal for distribution of profit**

At the end of the financial year, the distributable equity of the parent company stands at EUR 59.9 million. The Board of Directors proposes to the Annual General Meeting to be held on March 22, 2011, that a dividend of EUR 1.00 per share be paid from the parent company's profit of EUR 20.1 million for the financial year 2010 and that the remainder of the profit for the year be transferred to retained earnings. According to this proposal, a total of EUR 15.2 million would be paid in dividends.

# CONSOLIDATED FINANCIAL STATEMENTS



## KEY FIGURES

	IFRS 2010	IFRS 2009	IFRS 2008	IFRS 2007	IFRS 2006
<b>Per share data</b>					
Earnings per share, EUR	1.22	1.01	1.51	1.37	1.04
Equity per share, EUR	5.90	5.25	4.88	4.13	3.42
Dividend per share, EUR *)	1.00	0.70	0.65	0.75	0.65
Dividend payout ratio, % *)	82.13	69.02	42.94	54.59	62.57
Effective dividend yield, % *)	2.6	2.6	3.5	2.7	2.5
Price/earnings ratio	32.0	26.3	12.1	20.4	25.1
<b>Share price development</b>					
Lowest during the year, EUR	24.90	15.30	17.00	24.60	17.70
Highest during the year, EUR	39.75	28.90	32.44	38.00	26.99
Closing price at end of year, EUR	39.00	26.70	18.30	28.00	26.10
Average price for the year, EUR	32.49	21.51	26.65	30.01	22.60
Market capitalization, MEUR	593.36	406.11	278.00	426.50	397.10
Trading volume, share	2,670,146	4,493,871	4,915,722	8,241,357	4,439,458
Trading volume, %	17.6	29.6	32.3	54.1	29.2
Adjusted average number of shares during the financial year **)	15,213,083	15,204,263	15,238,236	15,226,997	15,209,303
Number of shares at end of year **)	15,214,435	15,209,989	15,193,188	15,232,188	15,213,428
Own shares	80,565	85,011	101,812	62,812	81,572

	IFRS 2010	IFRS 2009	IFRS 2008	IFRS 2007	IFRS 2006
<b>Group's financial ratios</b>					
Revenues, MEUR	338.0	272.0	293.2	232.2	186.4
Change in revenues, %	24.3	-7.2	26.3	24.6	24.3
Operating profit, MEUR	28.6	22.5	34.6	29.2	23.1
Change in operating profit, %	26.8	-35.0	18.5	26.4	27.6
Operating profit as % of revenues	8.5	8.3	11.8	12.6	12.4
Profit before taxes, MEUR	27.5	22.0	32.6	28.8	22.7
Profit before taxes as % of revenues	8.1	8.1	11.1	12.4	12.2
Return on equity, %	22.1	20.5	34.3	36.5	33.7
Return on investments, %	27.0	23.1	37.0	41.2	45.1
Interest-bearing net liabilities, MEUR	9.8	1.6	12.3	-11.0	-8.8
Gearing, %	10.7	2.0	16.3	-17.1	-16.6
Working capital, MEUR	45.9	31.2	42.5	27.2	21.8
Equity ratio, %	46.0	56.5	51.1	52.9	61.7
Gross capital expenditure, MEUR ***)	15.9	18.2	11.2	9.1	8.5
Gross capital expenditure as % of revenues	4.7	6.7	3.8	3.9	4.6
R&D costs, MEUR	20.8	17.6	17.0	14.3	12.6
R&D costs as % of revenues	6.2	6.5	5.8	6.2	6.7
Personnel at the end of the period	1,339	1,228	1,197	869	675
Order book, MEUR	52.1	32.0	48.0	34.8	29.7

\*) The 2010 dividend is the Board of Directors' proposal to the Annual General Meeting.

\*\*) The average number of shares in the financial period was 15,213,083. The number of shares outstanding is 15,214,435.

\*\*\*) The 2008 figure for gross capital expenditure does not include the acquisition of the AC drives business of TB Wood's.

## CALCULATION OF KEY FIGURES

Earnings per share =	$\frac{\text{Profit for the financial year attributable to equity holders of the parent company}}{\text{Adjusted average number of shares}}$
Equity per share =	$\frac{\text{Total equity - non-controlling interests}}{\text{Adjusted number of shares at the end of the year}}$
Dividend per share =	$\frac{\text{Dividend for the financial year}}{\text{Adjusted number of shares at the end of the year}}$
Dividend payout ratio, % =	$\frac{\text{Dividend for the financial year} \times 100}{\text{Profit for the financial year attributable to equity holders of the parent company}}$
Effective dividend yield, % =	$\frac{\text{Dividend per share} \times 100}{\text{Adjusted closing share price at end of year}}$
Price/earnings ratio =	$\frac{\text{Adjusted closing share price at end of year}}{\text{Earnings per share}}$
Return on equity, % =	$\frac{\text{Profit for the financial year} \times 100}{\text{Total equity, average of the beginning and end of the year}}$
Return on investments, % =	$\frac{(\text{Profit before taxes} + \text{interest and other financial expenses}) \times 100}{\text{Balance sheet total} - \text{non-interest-bearing liabilities, average of the beginning and end of the year}}$
Equity ratio, % =	$\frac{\text{Total equity} \times 100}{\text{Balance sheet total} - \text{advances received}}$
Gearing, % =	$\frac{(\text{Interest-bearing liabilities} - \text{cash, bank balances, and financial assets}) \times 100}{\text{Total equity}}$
Working capital =	Inventories + non-interest-bearing current receivables - non-interest-bearing current liabilities
R&D costs =	R&D costs recorded in the income statement (including costs covered with subsidies) and capitalized development expenses
Market capitalization =	Number of shares outstanding at end of year x closing share price
Trading volume, % =	$\frac{\text{Number of shares traded during the year} \times 100}{\text{Adjusted average number of shares}}$

## CONSOLIDATED STATEMENT OF INCOME (IFRS)

### Consolidated income statement (IFRS)

EUR thousand	Note	Jan 1–Dec 31, 2010	%	Jan 1–Dec 31, 2009	%
Revenues	4.5	338,032	100.0	272,036	100.0
Other operating income	6	435		276	
Change in inventories of finished goods and work in progress		6,645		-961	
Materials and services	7	-186,664		-138,141	
Employee benefit related expenses	9	-64,869		-53,558	
Depreciation/amortization	10	-11,086		-9,604	
Other operating expenses	8	-53,907		-47,507	
<b>Operating profit</b>		<b>28,586</b>	<b>8.5</b>	<b>22,541</b>	<b>8.3</b>
Financial income	13	1,084		949	
Financial expenses	13	-2,142		-1,513	
<b>Profit before taxes</b>		<b>27,529</b>	<b>8.1</b>	<b>21,977</b>	<b>8.1</b>
Income taxes	14	-8,477		-5,923	
<b>Profit for the period</b>		<b>19,053</b>	<b>5.6</b>	<b>16,054</b>	<b>5.9</b>
Attributable to:					
Equity holders of the parent company	15	18,524		15,420	
Non-controlling interests		528		634	
Earnings per share calculated on profit belonging to the equity holders of the parent company:	15				
Basic earnings per share, EUR		1.22		1.01	
Diluted earnings per share, EUR		1.22		1.01	

### Consolidated statement of comprehensive income (IFRS)

EUR thousand		Jan 1–Dec 31, 2010	Jan 1–Dec 31, 2009
Profit for the period		19,053	16,054
Other items in the statement of comprehensive income:			
Cash flow hedging		-65	-73
Translation difference		1,469	-63
Comprehensive income total		20,457	15,918
Attributable to:			
Equity holders of the parent company		19,928	15,284
Non-controlling interests		528	634

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS)

### Assets

EUR thousand	Note	Dec 31, 2010	%	Dec 31, 2009	%
<b>Non-current assets</b>					
Goodwill	16	9,102		8,140	
Development costs	16	12,634		9,134	
Other intangible assets	16	11,145		13,282	
Property, plant, and equipment	17	20,660		18,473	
Financial receivables	20	0		173	
Deferred tax assets	14	4,817		3,340	
Other financial assets	21	3,837		5,307	
		62,193	30.6	57,849	39.7
<b>Current assets</b>					
Inventories	22	31,881		19,287	
Trade and other receivables	23	90,820		51,285	
Cash and cash equivalents	24	18,392		17,172	
		141,093	69.4	87,744	60.3
<b>Total assets</b>		<b>203,286</b>	<b>100.0</b>	<b>145,593</b>	<b>100.0</b>

### Equity and liabilities

EUR thousand	Note	Dec 31, 2010	%	Dec 31, 2009	%
<b>Equity attributable to equity holders of the parent company</b>					
Share capital	25	3,059		3,059	
Share premium		4,966		4,966	
Other reserves		63		51	
Own shares		-2,646		-2,646	
Retained earnings		84,268		74,401	
		89,710	44.1	79,831	54.8
Non-controlling interests		1,551	0.8	1,512	1.0
<b>Total equity</b>		<b>91,261</b>	<b>44.9</b>	<b>81,343</b>	<b>55.9</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities	14	5,344		4,623	
Employee benefits	27	1,603		1,495	
Interest-bearing liabilities	28	9,852		12,408	
Other liabilities		173		0	
		16,973	8.3	18,526	12.7
<b>Current liabilities</b>					
Trade and other payables	29	62,415		36,092	
Income tax liabilities		6,471		1,328	
Provisions	30	7,857		1,920	
Interest-bearing liabilities	28	18,309		6,384	
		95,052	46.8	45,724	31.4
<b>Total liabilities</b>		<b>112,025</b>	<b>55.1</b>	<b>64,250</b>	<b>44.1</b>
<b>Total equity and liabilities</b>		<b>203,286</b>	<b>100.0</b>	<b>145,593</b>	<b>100.0</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

EUR thousand	Jan 1–Dec 31, 2010	Jan 1–Dec 31, 2009
<b>Cash flow from operating activities</b>		
Profit for the period	19,052	16,054
Adjustments:		
Depreciation/amortization	11,085	9,604
Financial income and expenses	1,057	564
Taxes	8,477	5,923
Other adjustments	-195	547
Changes in working capital:		
Change in inventories	-11,498	2,076
Change in non-interest-bearing receivables	-36,241	9,681
Change in non-interest-bearing liabilities	30,504	-792
Interest received	489	215
Interest paid	-891	-935
Other financial items	-1,566	-115
Taxes paid	-4,348	-5,679
<b>Net cash flow from operating activities</b>	<b>15,925</b>	<b>37,143</b>
<b>Cash flow from investing activities</b>		
Acquisition of subsidiary	-727	0
Investments in tangible and intangible assets	-13,695	-16,129
Proceeds from the disposal of tangible and intangible assets	0	1,382
Other investments	0	-2,326
Repayments on loan receivables	790	0
Proceeds from the divestiture of other investments	281	583
<b>Net cash flow from investing activities</b>	<b>-13,351</b>	<b>-16,490</b>
<b>Cash flows from financing activities</b>		
Proceeds from long-term borrowings	173	0
Repayments on long-term loans	-3,043	-3,291
Proceeds from short-term borrowings	12,083	0
Repayments on short-term loans	-210	-5,794
Dividends paid	-11,214	-10,416
<b>Net cash flow from financing activities</b>	<b>-2,211</b>	<b>-19,501</b>
<b>Change in liquid funds</b>	<b>363</b>	<b>1,152</b>
Liquid funds at the beginning of the period	17,172	15,715
Translation differences for liquid funds	857	305
Liquid funds at the end of the period	18,392	17,172

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR thousand	Equity attributable to equity holders of the parent company						Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Own shares	Retained earnings	Total		
<b>Equity on Dec 31, 2008</b>	3,059	4,966	51	-2,646	68,713	74,143	1,351	75,494
Dividends paid					-9,989	-9,989	-476	-10,465
Total comprehensive income for the period					15,284	15,284	634	15,918
Share bonuses					277	277		277
Other changes					116	116	3	119
<b>Equity on Dec 31, 2009</b>	3,059	4,966	51	-2,646	74,401	79,831	1,512	81,343
Dividends paid					-10,647	-10,647	-522	-11,169
Comprehensive result for the financial period					19,928	19,928	528	20,456
Share bonuses					560	560		560
Other changes			12		26	38	33	71
<b>Equity on Dec 31, 2010</b>	3,059	4,966	63	-2,646	84,268	89,710	1,551	91,261

### 1. General information

The Vacon Group is a global company providing a comprehensive set of AC drives and related services. Vacon Plc and its subsidiaries focus exclusively on AC drives.

Vacon Plc is a Finnish public limited company that has been established in accordance with the laws of Finland. The company's registered office is in Vaasa, and its registered address is Runsorintie 7, 65380 Vaasa, Finland. Copies of the consolidated financial statements are available at [www.vacon.com](http://www.vacon.com) or from Vacon Plc's headquarters.

Vacon Plc's Board of Directors approved these financial statements for publication at its meeting on February 1, 2011. According to the Finnish Limited Liability Companies Act, the shareholders at the Annual General Meeting have the option to approve or reject the financial statements after they have been published. The Annual General Meeting may also decide on amending the financial statements.

### 2. Accounting principles for the consolidated financial statements

#### Accounting principles for financial statements

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), applying the IAS and IFRS standards in force on December 31, 2010, as well as the SIC and IFRIC interpretations. International Financial Reporting Standards refer to the standards and their interpretation to be applied in the community as provided in the Finnish Accounting Act and the provisions issued on the basis of this act, and in regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards. Notes to the consolidated financial statements have also been prepared in accordance with Finnish legislation regarding accounting and limited liability companies.

Vacon adopted the IFRS standards on January 1, 2004, until which date reporting was conducted in accordance with the Finnish Accounting Standards (FAS). For the transition, Vacon applied the First-Time Adoption of the IFRS standard, which allows certain transitional exceptions for the retrospective application of individual standards. The most significant exception applied was using the FAS-compliant financial statement carrying amounts as the consolidated goodwill carrying amounts in the IFRS transition balance sheet.

Financial statement information is presented in thousands of euros and it is based on the original acquisition cost unless otherwise stated in the accounting principles below.

#### Estimates

When preparing the IFRS-compliant consolidated financial statements, the company's management is required to make estimates and assumptions. These affect the amount of assets, liabilities, income, and expenses to be recorded. The estimates and assumptions are based on historical experience and other justifiable assumptions that are believed to be reasonable under the circumstances that serve as the foundation for assessing the items entered in the financial statements. The final figures may differ from these estimates. The estimates concern the feasibility of realizing certain assets, the useful economic lives of tangible and intangible assets, the setting of provisions relating to the business operations, goodwill, deferred tax assets, and determination of contingent assets and liabilities. For goodwill, the anticipated income and interest rate used in testing for impairment contain estimates. The estimate of future taxable income creates a basis for stating deferred tax assets.

#### Principles of consolidation

The consolidated financial statements include the parent company and all companies in which the parent company has the majority of votes or other controlling interest. The financial results of subsidiaries acquired or established during the year are consolidated from the date of acquisition

or establishment. The consolidated financial statements have been prepared using the acquisition cost method. All payments to be made to complete an acquisition are recognized at the time of acquisition. The identifiable assets and liabilities of acquired companies have been valued at fair value at the time of acquisition. The difference between the price paid for the company and its net assets valued at fair value constitutes goodwill. As allowed by IFRS 1, acquisitions made before the adoption of IFRS have not been adjusted to comply with IFRS principles; instead, they remain at the FAS compliant values at the time of adoption. In 2010, the Group implemented the revised IFRS 3 Business Combinations standard. In accordance with the standard transition rules, business combinations with an acquisition date earlier than the mandatory adoption of the standard are not adjusted.

Intra-group business transactions, receivables, liabilities, non-realized margins, and intra-group profit distribution have been eliminated in the consolidation. The allocation of profit or loss from the financial period to the shareholders of the parent company and the non-controlling interests is presented in the income statement. The allocation of the comprehensive income to the shareholders of the parent company and the non-controlling interests is presented in the statement of comprehensive income. The share of the non-controlling interests is presented as an individual item under total equity. In the consolidated financial statements, the changes in Group companies' accumulated depreciation have been divided into change in deferred taxes and profit for the period. In the consolidated statement of financial position, the accumulated depreciation difference has been divided into deferred taxes and non-restricted equity. In 2010, the Group adopted the amended IAS 27 Consolidated and Separate Financial Statements standard. As a result of the standard amendment, a subsidiary's losses can be allocated to non-controlling interests even when they exceed the amount of investment by the non-controlling interests.

### Foreign currency items

The figures concerning the financial performance and position of the Group's business units are measured in the currency in the main business environment of each unit ("business currency"). The consolidated financial statements are presented using euro, which is the business and presentation currency of the Group's parent company.

Separate companies' transactions carried out in foreign currencies are recorded in the business currency at the exchange rate of the transaction date. On the balance sheet date, monetary items denominated in foreign currencies are valued at the exchange rate at the year-end. Translation differences from business transactions are presented in the sales and purchases translation differences. Translation differences from interest-bearing liabilities and receivables are presented in their net amounts in financial income and expenses.

The income statements of Group companies whose business currency or financial statement currency is not the euro are translated into euros using the average rate for the financial year, and balance sheets using the rate on the balance sheet date. Translation differences arising from the different exchange rates used in the income statement and balance sheet have been recorded in the other items in the comprehensive income statement. Translation differences arising from applying the acquisition cost method and the resulting currency exchange rates have also been recorded as a separate item in the comprehensive income statement.

The cash flows of foreign subsidiaries have been translated into euros at the average exchange rate of the financial year.

### Financial assets and liabilities

#### Financial assets

The Group's financial assets are classified according to the IAS 39 Financial Instruments: Recognition and Measurement standard into the following categories: financial assets at fair value through profit and loss, loans and other receivables, and available-for-sale financial assets. Financial assets are

classified according to their purpose when acquired and at the time of their acquisition. Purchases and sales of financial assets are recognized on the transaction date.

An item in financial assets is classified in the category 'financial assets at fair value through profit and loss' if it has been acquired for trading purposes or if it is classified as recognized at fair value through profit and loss when originally booked. Derivatives that do not fulfill the conditions for hedge accounting as stated in IAS 39 are presented in this category.

'Loans and other receivables' are assets other than derivative assets that involve fixed or definable payments, are not quoted on the active markets, and that the Group does not hold for trading purposes. They are valued at amortized acquisition cost. On the balance sheet, they are included in short-term or non-current assets according to their nature. Loans and other assets are presented as non-current assets if they mature in over 12 months.

Available-for-sale financial assets are assets other than derivative assets that have been specifically allocated to this category or have not been classified in any other category. They are included under non-current assets. Available-for-sale financial assets comprise shares and holdings in investment funds. They are valued at fair value if the fair value can be reliably determined.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash and bank deposits. The credit limit for the Group's cash pooling is included under current interest-bearing liabilities, if the net limit is in use.

#### Financial liabilities

Financial liabilities are entered in the accounts initially at fair value. Transaction costs are included in the original carrying amount of financial liabilities. Subsequently, all financial liabilities are measured using the effective interest rate method at amortized cost. Financial liabilities are included under current and non-current liabilities.

### Derivative instruments and hedge accounting

Derivative contracts are originally booked at acquisition cost, which matches their fair value. In subsequent financial statements, derivative contracts are valued at fair value. Publicly quoted market prices and rates as well as generally used measurement models are used to define the fair value of derivatives. The information and assumptions used in the measurement models are based on verifiable market prices and values. The fair values of derivative contracts expiring within a year are shown on the balance sheet under current receivables or liabilities, and contracts with longer maturity under non-current receivables or liabilities.

The Group applies IAS 39 compliant hedge accounting for cash flow hedging with respect to operative currency exposure. In this case, the Group, when initiating hedge accounting, documents the relationship between the item to be hedged and the hedging instrument, the method used to measure effectiveness, and the hedging strategy in accordance with the Group's risk management policy, so that these meet all IAS 39 requirements for hedge accounting. The hedging instruments used are foreign exchange forwards. For those hedging relationships that meet the hedge accounting criteria, the effective portion of the change in the fair value of the hedging instrument is recorded in shareholders' equity and any remaining ineffective portion is recognized through profit and loss. The cumulative change in fair value, which is entered in other items in the comprehensive income statement, is recognized through profit and loss at the moment the anticipated cash flow is recognized in the income statement.

The Group does not apply hedge accounting to interest rate swaps and foreign currency denominated loans that hedge foreign currency denominated net investments in foreign business units. Changes in the fair value of hedging instruments are recorded in financial items in the income statement.

If the derivative instruments do not meet the criteria for hedge accounting specified in IAS 39, the change in the fair value of the derivative instrument is recognized immediately in the income statement.

### Goodwill and other intangible assets

The goodwill generated from acquisitions consists of the difference between acquisition cost and identifiable net assets valued at fair value. Goodwill has been allocated to cash generating units. Goodwill and intangible assets with an unlimited economic life, if there are any, are tested annually for impairment.

Testing for impairment is done by comparing the amount of recoverable cash to its carrying amount. A unit's recoverable amount is determined from cash flow predictions discounted to their present value. The discount rate used in the calculation is based on the business unit's return on equity requirement. The ROE requirement comprises three components: the risk-free interest in each country, the general risk premium in the share market, and the beta coefficient, which measures the level of risk of operations. The discount rate used is defined so that the equity structure is debt-free. The discount rate used in the calculations is defined before taxes. More information about the sensitivity of the amount of recoverable cash to changes in the assumptions used is given in Note 16.

Other intangible assets include software licenses, computer programs, subscription fees, customer relationships and technology developed. They are valued at historical cost and are amortized on a straight-line basis over their expected useful lives.

The depreciation periods for intangible assets are:

Software licenses, computer programs and membership fees.....	3-5 years
Customer relationships and technology developed .....	3-7 years

Any subsequent expenses associated with intangible assets are capitalized only if it is likely that the future financial benefit will flow to the company and if the acquisition cost can be

reliably determined. Otherwise the costs are recognized as expenses as they are incurred.

### R&D costs

R&D costs are recognized as expenses as they are incurred. Development costs that meet the criteria specified in IAS 38 are capitalized in intangible assets and amortized over their effective life span, but no later than in five years. Capitalized expenses include direct material costs, labor costs, and related overheads.

A product designed to replace an existing product remains at the research stage until it has been tested and found feasible in prototype testing and is therefore likely to become available for sale later. After that, it moves on to the development stage and the expenses are capitalized on the balance sheet.

Expenses related to products developed for new product portfolios are not capitalized since the future benefits of such products are difficult to estimate. The expenses for products developed for a specific customer are also not capitalized.

### Property, plant, and equipment

Machinery and equipment represent the largest component of property, plant, and equipment. On the balance sheet these are valued at original acquisition cost less accumulated depreciation.

Ordinary maintenance and repair costs are booked as expenses as incurred. Significant modernization and improvement investments are capitalized and depreciated over the remaining economic life of the related main asset.

Property, plant, and equipment are depreciated on a straight-line basis over their economic useful life.

The depreciation schedule for property, plant, and equipment is as follows:

Machinery and equipment.....	3-15 years
Other tangible assets .....	5-10 years

Gains or losses from the sale or disposal of property, plant, and equipment are recorded in the income statement.

### Impairment

The carrying amount of assets is assessed on each balance sheet date to identify potential impairment. If there are any indications of impairment, the recoverable amount of the asset is estimated to be the higher of the net sales price or the value in use. Impairment is recognized if the carrying amount exceeds the recoverable amount.

### Leases

Leasing agreements where the Group has an essential part of the risks and benefits inherent in ownership are classified as finance leases. At the commencement of the lease, they are entered on the balance sheet at an amount that equals the fair value of the leased property at the commencement of the lease or a lower present value of the minimum lease payments. The leasing fees are divided into financial expenses and loan repayment. Financial expenses are allocated to financial periods during the leasing period so that the interest rate for the remaining debt will be the same for each financial period. The corresponding leasing liabilities less financial expenses are included in interest-bearing liabilities. The interest rate portion of financing is recognized in the income statement during the leasing period. Property, plant, and equipment acquired under finance leasing contracts are depreciated over the lesser of the useful life of the asset or duration of the lease period.

Leasing agreements that are not finance leases constitute operating leases. These fees will be recognized as expenses in equal installments over the leasing period.

### Inventories

Inventories are entered on the balance sheet at the acquisition cost or at the lower net realizable value using the FIFO method.

The acquisition cost of finished goods and work in progress includes raw materials, direct salaries, and other direct expenses as well as the appropriate share of indirect production costs, excluding interest expenses. Net realizable value is the estimated sales price in ordinary activities less the costs associated with the sale of products.

#### Trade and other receivables

Trade and other receivables are recognized at original value. Uncertain receivables are assessed on the basis of the risk involved in individual items. Credit losses are recorded as expenses in the income statement, and on the balance sheet the amount is deducted from the value of receivables.

#### Pension schemes

In Group companies, pension schemes are arranged in different ways depending on the pension legislation and practices of the country in question. As a rule, the pension arrangements represent contribution plans. In addition, the pension schemes of some foreign subsidiaries represent defined benefit plans.

Payments for contribution plans are recorded as expenses for the period to which they are allocated. The present value of defined benefit plans is determined using a method based on an anticipated benefit unit, and the assets covered by the arrangement have been valued at fair value on the balance sheet date. Actuarial gains and losses are recorded in the income statement during the average remaining years of employment of the personnel participating in the plan to the extent that it exceeds 10% of the present value of the defined benefit plan or the higher fair value of the assets covered by the plan. At the time of transition on January 1, 2004, all actuarial gains and losses were recorded under shareholders' equity.

#### Revenues

Sales are recognized in connection with the transfer of ownership-related risks and benefits to the buyer. Generally, the risks and benefits are transferred at delivery. Sales adjustment items include cash discounts as well as exchange rate profits and losses on sales.

#### Operating profit

The concept of operating profit is not defined in IAS 1: Presentation of Financial Statements. The Group has defined it as follows: Operating profit is the net sum of revenues plus other operating income less purchase costs adjusted with the change in inventories of finished goods and work in progress and the expenses arising from production for own use, less employee benefit costs, depreciation, amortization, and any impairment losses, and other operating costs. All other income statement items except those mentioned above are shown beneath operating profit. Exchange differences are included in the operating profit provided that they originate from items related to business operations; otherwise, they are recorded under financial items.

#### Government grants

Subsidies received from the government or other parties are recognized as income in the income statement, with matching expenses recorded. Subsidies are recorded as deductions from the corresponding expenses. Subsidies associated with tangible and intangible assets are deducted from the asset acquisition price and the net acquisition cost is capitalized on the balance sheet.

#### Equity compensation benefits

The Group has a share bonus scheme that offers key personnel the opportunity to receive company shares in three earning periods of one calendar year as a reward for achieving their personal targets. The earning periods are the calendar years 2008, 2009, and 2010. The share bonus has been recorded as an expense and as an increase in equity. The amount recorded

as expenses during the earning period has been determined on the basis of the market value on the day the shares were awarded. The terms of the share bonus scheme are given in more detail in Note 26 'Share-based payments'.

#### Provisions

Items related to contracts and other effective obligations that are likely to require financial resources are recorded on the balance sheet as provisions, if their amount can be reliably assessed. Currently, these only include warranty provisions and any negative contracts and outstanding reclamations. The anticipated future warranty costs of delivered products are recorded as warranty provisions. Realized warranty costs, with changes in warranty liability taken into account, are recorded in the income statement in the period during which they are incurred.

#### Income taxes

Taxes in the consolidated income statement include the Group companies' taxes paid and accrued corresponding to the financial result for the period on the basis of taxable income calculated in accordance with each company's local tax regulations, adjustments to taxes from previous financial periods, and changes in deferred taxes.

The recorded deferred tax receivables and liabilities include the temporary differences between the Group companies' taxes and the balance sheet, as well as differences arising in connection with Group elimination. To calculate deferred tax assets and liabilities, the tax rate used is the following year's tax rate approved for the country in question on the balance sheet date or a tax rate which has been in practice approved on the reporting period closing date. The most significant tax assets and liabilities consist of tax losses carried forward, appropriations, capitalizations of development costs, non-current asset items allocated at acquisition, financial instruments, and Group eliminations.

Deferred tax assets from tax losses carried forward are recorded in cases where it is likely that the loss can be used against the taxable income in future financial years. Deferred tax liabilities are recorded in full.

### Contingent liabilities and contingent assets

A contingent liability is a potential obligation generated as a result of prior events, the existence of which is only confirmed when an uncertain event outside the Group's control is materialized. A contingent liability is also an existing obligation which is not likely to require the fulfillment of the payment obligation or the size of which cannot be reliably determined. A contingent liability is presented in the notes.

A contingent asset is an asset item generated as a result of prior events, the existence of which is only confirmed when one or more uncertain event not completely under the Group's control materializes or fails to materialize in the future. A contingent asset is presented in the notes to the financial statements if it is likely that the company will gain financial benefit from it.

The presentation principle regarding contingent liabilities and assets has been harmonized in the Group. The comparison data from last year has been updated.

### Application of revised and amended standards and interpretations in 2010

In 2010, the Group implemented the revised IFRS 3 Business Combinations standard. The revised standard contains several changes important for the Group. In accordance with the revised standard, an acquisition method continues to be applied in business combinations. However, certain changes have been made to the method compared to the previous IFRS 3 standard. For example, all payments made to complete an acquisition are recognized in the fair values of the acquisition date and some contingent payments classified as liabilities are later measured at fair value in the comprehensive income statement. For

each acquisition, it is possible to choose whether the valuation of the non-controlling shareholders' share is based on fair value or on their proportionate share of the net assets of the object of acquisition. All costs related to the acquisition are recognized as expenses. Thus the standard amendments affect the value of goodwill to be recognized from acquisitions and the sales results of business operations. The standard amendments will also affect items to be measured through profit and loss in both the acquisition period and those financial periods during which additional sales price is paid or additional acquisitions are completed. In accordance with the standard transition rules, business combinations with the acquisition date prior to the mandatory adoption of the standard are not adjusted.

In 2010, the Group also adopted the amended IAS 27 Consolidated and Separate Financial Statements standard. The amended standard requires that the effects of changes in a subsidiary's ownership be recognized directly in the Group's equity when the parent company's controlling interest is maintained. If the controlling interest in the subsidiary is lost, the possible remaining investment is measured at fair value through profit and loss. As a result of the standard amendment, losses of a subsidiary can be allocated to non-controlling interests even when they exceed the amount of investment by the non-controlling interests.

## 3. Acquired business operations

In March 2010, the Group acquired a majority (85%) of Global Inver Sonne S.L, a small Spanish company, in order to promote its own technology for utilizing solar energy. The sales price was EUR 0.8 million.

The values of acquired assets and debts taken out as liabilities at the acquisition date were as follows:

Acquisition cost	EUR thousand
Cash price	483
Contingent sales price	329
Fair value of net assets acquired	145
Goodwill	667

Itemization of acquired net assets	Recognized values
Tangible assets	1
Inventories	50
Receivables, total	33
Cash and cash equivalents	73
Total assets	157
Total liabilities	12
Acquired net assets	145

Impact on cash flow	
Cash price	-483
Contingent sales price	-329
Cash funds received	143
Net payment for acquisition from cash funds	340

The Group is committed to paying EUR 0.3 million as contingent consideration, of which EUR 0.2 million is tied to certain technical procedures and EUR 0.1 million to the revenues of 2010 and 2011 and orders received. If the Solar business exceeds the budgeted revenues and order quantity of the Vacon 8000 Solar products by 30%, the contingent consideration of EUR 0.1 million will be paid in full.

## 4. Segment information

Vacon has one business segment, which is AC drives. Figures for the segment are equal to the figures for the entire Group. Vacon's operations are organized into the following functions: Products and Markets, Production, Research & Development, Finance and Administration, Human Resources, and IT and Process Development and Business Development. To ensure that the organization is customer-oriented, operations are controlled by distribution channels: distributors, system integrators, end customers, original equipment manufacturers (OEM), and brand label customers.

### Geographical details

The Group operates in three geographic areas: EMEA (Europe, the Middle East, and Africa), the Americas (North and South America), and APAC (Asia Pacific). Revenues are presented by customers' locations and assets by location.

Non-current assets are presented without financial instruments, deferred tax assets, assets related to benefits arrangements following the end of employment, and rights arising from insurance contracts.

### Geographical areas, revenues from external customers:

EUR thousand	2010	2009
EMEA	227,260	190,837
Americas	60,251	46,308
APAC	50,521	34,891
Total	338,032	272,036

2010, EUR thousand	Revenues from external customers	Non-current assets
Finland	67,709	31,742
Other countries	270,323	25,634
Total	338,032	57,376

2009, EUR thousand	Revenues from external customers	Non-current assets
Finland	57,975	29,789
Other countries	214,061	24,720
Total	272,036	54,509

Group income from one customer amounted to approximately EUR 41.3 million in 2010 (EUR 30.7 million in 2009), which equaled 12.2% (11.3%) of the Group's revenues.

## 5. Long-term projects

Consolidated revenues recognized from long-term projects are not included in income in 2010 (EUR 45,000 in 2009).

## 6. Other operating income

EUR thousand	2010	2009
Rental income	192	252
Government grants	195	0
Other	48	24
Total	435	276

## 7. Materials and services

EUR thousand	2010	2009
Materials and consumables		
Purchases during the financial year	186,769	134,329
Change in inventories	-5,585	1,095
External services	5,480	2,717
Total	186,664	138,141

## 8. Other operating expenses

EUR thousand	2010	2009
Delivery costs and commissions	8,556	6,370
Sales and marketing expenses	10,255	8,757
Rents	8,005	7,750
Administrative expenses	15,195	12,900
Other costs	11,896	11,730
<b>Total</b>	<b>53,907</b>	<b>47,507</b>

## 9. Employee benefit related expenses

EUR thousand	2010	2009
Salaries	50,918	42,198
Share bonuses granted paid in shares	560	252
Share bonuses granted paid in cash	1,055	462
Pensions		
Defined benefit plans	602	359
Contribution plans	7,473	6,224
Other indirect personnel costs	4,262	4,063
<b>Total</b>	<b>64,869</b>	<b>53,558</b>
Office personnel	808	763
Factory personnel	493	468
Average number of personnel	1,301	1,231

## 10. Depreciation and amortization

EUR thousand	2010	2009
<b>Depreciation by asset group</b>		
Intangible assets		
Development costs	1,298	979
Intangible rights	4,257	3,986
Other intangible assets	509	309
<b>Total</b>	<b>6,064</b>	<b>5,274</b>
Property, plant, and equipment		
Machinery and equipment	5,022	4,330
<b>Total</b>	<b>5,022</b>	<b>4,330</b>
<b>Total depreciation, amortization, and impairment charge</b>	<b>11,086</b>	<b>9,604</b>

## 11. Auditor's fees

EUR thousand	2010	2009
Audit fees	151	136
Tax consulting	67	16
Other services	73	22
<b>Total</b>	<b>291</b>	<b>174</b>

## 12. R&D costs

The income statement includes research and development costs recorded as expenses of EUR 16.0 million in 2010 (EUR 12.2 million in 2009).

## 13. Financial income and expenses

EUR thousand	2010	2009
Interest income from loans and other receivables	139	186
Exchange rate gains on loans and other receivables	1,029	305
Exchange rate gains on financial loans valued at amortized acquisition cost	-343	-159
Other financial income	259	617
<b>Total</b>	<b>1,084</b>	<b>949</b>
Interest expenses on financial loans valued at amortized acquisition cost	-632	-667
Exchange rate losses on loans and other receivables	-1,383	-804
Other financial expenses	-127	-42
<b>Total</b>	<b>-2,142</b>	<b>-1,513</b>
<b>Financial income and expenses, total</b>	<b>-1,058</b>	<b>-564</b>

Items above the operating profit include exchange rate differences of EUR -1,090,000 from hedge accounting derivative contracts and of EUR 704,000 from trade receivables (in 2009, EUR 118,000 from derivative contracts and EUR -312,000 from trade receivables).

## 14. Income taxes

EUR thousand	2010	2009
Taxes based on the taxable income for the financial year	-9,345	-5,518
Taxes on the previous year	107	-50
Deferred taxes	761	-355
Total	-8,477	-5,923

### Calculation of taxes

Profit before taxes	27,529	21,976
Taxes calculated in accordance with domestic tax rate	7,158	5,714
Impact of foreign subsidiaries' differing tax rates	-411	-121
Tax-free income	-122	-3
Non-deductible expenses	1,154	294
Unrecognized deferred tax assets from tax losses	1,146	425
Taxes on the previous year	-107	-50
Other items	-341	-336
Taxes in the income statement	8,477	5,923

### Deferred tax assets and liabilities

EUR thousand	2010	2009
<b>Net deferred tax liability is allocated on the balance sheet as follows:</b>		
Deferred tax assets	4,817	3,340
Deferred tax liability	-5,344	-4,623
	-528	-1,283

### Gross change in deferred taxes recorded on the balance sheet:

Deferred taxes Jan 1	-1,283	-946
Items entered in income statement	761	-355
Translation differences	-21	-8
Items entered in equity	15	26
Deferred taxes Dec 31	-528	-1,283

### Change in deferred tax assets and liabilities during financial year:

2010, EUR thousand	Jan 1	Items entered in income statement	Items entered in equity	Translation difference	Dec 31
<b>Deferred tax assets:</b>					
Employee benefits	27	15			42
Tax losses carried forward	2,123	201			2,325
Internal margin from inventories	905	628			1,533
Other temporary differences	285	632			917
Total	3,340	1,476	0	0	4,817
<b>Deferred tax liabilities:</b>					
Property, plant, and equipment	10	-10			0
Capitalized intangible assets	3,316	686			4,002
Accumulated depreciation difference	1,278	66		21	1,365
Other temporary differences	19	-27	-15		-23
Total	4,623	716	-15	21	5,344
Deferred taxes, net	-1,283	761	15	-21	-528

### 2009, EUR thousand

<b>Deferred tax assets:</b>					
Employee benefits	52	-25			27
Tax losses carried forward	1,299	824			2,123
Internal margin from inventories	1,051	-146			905
Other temporary differences	183	102			285
Total	2,585	755	0	0	3,340
<b>Deferred tax liabilities:</b>					
Property, plant, and equipment	51	-41			10
Capitalized intangible assets	2,438	878			3,316
Accumulated depreciation difference	999	271		8	1,278
Other temporary differences	43	2	-26		19
Total	3,531	1,110	-26	8	4,623
Deferred taxes, net	-946	-355	26	-8	-1,283

## 15. Earnings per share

Basic earnings per share are calculated by dividing the profit for the financial period attributable to the equity holders of the parent company by the weighted average number of shares outstanding during the year. At the end of financial years 2009 and 2010, the Group had no diluting instruments.

EUR thousand	2010	2009
Profit for the financial year attributable to equity holders of the parent company	18,524	15,420
Number of shares		
Weighted average number of shares during the year	15,213,083	15,204,263
Basic earnings per share, EUR	1.22	1.01
Diluted earnings per share, EUR	1.22	1.01

## 16. Intangible assets

EUR thousand	Goodwill	Development costs	Other intangible rights	Other intangible assets	Total 2010	Total 2009
Acquisition cost, Jan 1	8,140	16,132	22,067	2,383	48,722	41,336
Increases	667	4,783	1,627	715	7,792	8,152
Decreases					0	-452
Transfers between items			-16		-16	-2
Translation differences	294	14	350	109	767	-312
Acquisition cost, Dec 31	9,102	20,929	24,028	3,207	57,266	48,722
Accumulated amortization, Jan 1	0	-6,998	-10,362	-805	-18,165	-13,409
Accumulated amortization on decreases and transfers			5		5	454
Amortizations for the financial year		-1,298	-4,257	-509	-6,064	-5,273
Translation differences			-113	-49	-162	63
Accumulated amortization, Dec 31	0	-8,296	-14,727	-1,363	-24,386	-18,165
Carrying amount, Dec 31, 2010	9,102	12,634	9,301	1,844	32,880	
Carrying amount, Dec 31, 2009	8,140	9,134	11,705	1,578		30,557

Capitalized development costs refer to such development costs that meet the criteria specified in the IAS 38 standard. Other intangible assets include software licenses, computer programs, subscription fees, customer relationships, and technology developed.

### Impairment testing of goodwill in cash-generating units

Goodwill is tested annually in accordance with IFRS. Vacon Group goodwill has been allocated to eight cash-generating units.

Allocating and testing goodwill at the level of cash-generating units also helps to plan and monitor the Group's operations.

Impairment of goodwill is tested by comparing the recoverable amount of cash of a cash-generating unit with its balance sheet value. A unit's recoverable amount is determined from cash flow predictions discounted to their present value. The cash flows in turn are based on the five-year forecast drawn up by the unit's management. The forecast takes into account only the unit's organic growth. The basis used for calculating long-term growth is an annual growth of two percent, except for India where three percent is used due to a higher inflation rate than in Western countries.

The Group's goodwill is distributed among eight business units (the Netherlands, Spain, Italy, Sweden, Germany, the USA, and India). According to the annual impairment tests, the recoverable amount of cash of the cash generating units exceeds their carrying amounts, so the impairment tests have not resulted in impairment losses being recorded.

## Sensitivity analysis

### Decline in forecasted operating profit

Management estimates of the future profitability of operations have a key impact on the results of impairment testing. The estimated growth in business operations and the operating profit margin affect profitability. The reduction in forecasted operating profit that would result in the recoverable amount of the subsidiaries corresponding to the carrying amount of net assets, varies from unit to unit between -5% and -66%.

### Rise in discount rate

The discount rate used in calculations also has a major impact when determining the recoverable amount. Calculations show that depending on the unit, the subsidiaries can withstand a rise of 1.5–55.6 percentage points in the discount rate before taxes before their recoverable amount corresponds to the carrying amount of net assets.

Goodwill has been allocated to the following cash-generating units:

EUR thousand	2010	2009
Subsidiaries	9,102	8,140

### Main assumptions used in impairment testing:

	2010	2009
Growth in revenues on average (p.a., five-year forecasts)	5-16 %	5-35 %
Pretax discount rate	9.53-19.60 %	9.03-17.10 %
Long-term growth	2-3 %	2-3 %
Goodwill allocated, EUR thousand	9,102	8,140
Carrying value, EUR thousand	53,755	38,749
Result of impairment test (recoverable amount vs. carrying value)	Exceeds	Exceeds

Changes in the company's markets, the global economy, and interest rates are reflected in the growth and profitability forecasts for the business units and in the related risk and requirements for returns. The assumptions made for the impairment tests are based on the management

view of the development of the coming financial periods on the closing date. The forecasts and assumptions have been drawn up to carry out impairment tests. The forecasts and other assumptions are reviewed constantly and can change.

## 17. Property, plant, and equipment

EUR thousand	Land and water areas	Machinery and equipment	Advance payments and construction in progress	Other tangible assets	Total 2010	Total 2009
Acquisition cost, Jan 1	132	43,759	1,363	121	45,375	39,062
Increases		3,261	4,543	7	7,811	7,518
Decreases		-266	-1,139		-1,405	-1,006
Transfers between items		-78	-9		-87	-22
Translation differences		907	63	6	976	-177
Acquisition cost, Dec 31	132	47,583	4,821	134	52,670	45,375
Accumulated depreciation, Jan 1	0	-26,894	0	-8	-26,902	-22,735
Accumulated depreciation on decreases and transfers		259			259	94
Depreciation for the financial year		-5,009		-12	-5,021	-4,323
Translation differences		-345		-1	-346	62
Accumulated depreciation, Dec 31	0	-31,989	0	-21	-32,010	-26,902
Carrying amount, Dec 31, 2010	132	15,594	4,821	113	20,660	
Carrying amount, Dec 31, 2009	132	16,865	1,363	113		18,473

Property, plant, and equipment include assets acquired through financial leasing agreements.

2010, EUR thousand	Machinery and equipment	Total	2009, EUR thousand	Machinery and equipment	Total
Acquisition cost	1,160	1,160	Acquisition cost	1,160	1,160
Accumulated depreciation	-1,160	-1,160	Accumulated depreciation	-1,120	-1,120
Carrying amount	0	0	Carrying amount	40	40

## 18. Breakdown of financial assets and liabilities by measurement category

2010, EUR thousand	Financial assets/ liabilities recognized at fair value through profit and loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities valued at amortized acquisition cost	Carrying amounts of balance sheet items	Fair value	Note
<b>Non-current financial assets</b>							
Other financial assets		393	3,444		3,837	3,837	21
<b>Current financial assets</b>							
Trade and other receivables		87,518			87,518	87,518	23
Derivative contracts in hedge accounting	328				328	328	23
Cash and cash equivalents		18,392			18,392	18,392	24
<b>Carrying amount by measurement category</b>	328	106,303	3,444	0	110,075	110,075	
<b>Non-current financial liabilities</b>							
Interest-bearing liabilities				9,852	9,852	9,852	28
<b>Current financial liabilities</b>							
Interest-bearing liabilities				18,309	18,309	18,309	28
Derivative contracts in hedge accounting	503				503	503	29
Trade and other payables				39,126	39,126	39,126	29
<b>Carrying amount by measurement category</b>	503	0	0	67,287	67,790	67,790	
2009, EUR thousand							
<b>Non-current financial assets</b>							
Financial receivables		173			173	173	20
Other financial assets		1,935	3,372		5,307	5,307	21
<b>Current financial assets</b>							
Trade and other receivables		49,213			49,213	49,213	23
Derivative contracts in hedge accounting	43				43	43	23
Cash and cash equivalents		17,172			17,172	17,172	24
<b>Carrying amount by measurement category</b>	43	68,493	3,372	0	71,908	71,908	
<b>Non-current financial liabilities</b>							
Interest-bearing liabilities				12,408	12,408	12,408	28
<b>Current financial liabilities</b>							
Interest-bearing liabilities				6,384	6,384	6,384	28
Derivative contracts in hedge accounting	292				292	292	29
Trade and other payables				22,884	22,884	22,884	29
<b>Carrying amount by measurement category</b>	292	0	0	41,676	41,968	41,968	

The carrying amount of the financial receivables correspond to the maximum credit risk on the balance sheet date.

## 19. Fair value hierarchy of financial assets and liabilities valued at fair value

EUR thousand	Fair values at the end of the financial period			
	Dec 31, 2010	Level 1	Level 2	Level 3
<b>Financial assets recognized at fair value through profit and loss</b>				
Forward exchange contracts	362		362	
of which in cash flow hedge accounting	328		328	
<b>Available-for-sale financial assets</b>				
Share investments	3,444			3,444
Total	4,134	0	690	3,444
<b>Liabilities valued at fair value</b>				
Interest rate swaps	222		222	
Forward exchange contracts	628		628	
of which in cash flow hedge accounting	503		503	
Total	1,353	0	1,353	0

EUR thousand	Fair values at the end of the financial period			
	Dec 31, 2009	Level 1	Level 2	Level 3
<b>Financial assets recognized at fair value through profit and loss</b>				
Forward exchange contracts	49		49	
of which in cash flow hedge accounting	43		43	
<b>Available-for-sale financial assets</b>				
Share investments	3,372			3,372
Total	3,464	0	92	3,372
<b>Liabilities valued at fair value</b>				
Interest rate swaps	479		479	
Forward exchange contracts	333		333	
of which in cash flow hedge accounting	292		292	
Total	1,104	0	1,104	0

Fair values at hierarchy level 1 are based on the quoted prices of completely identical asset items or liabilities in an active market.

The fair values of level 2 instruments are to a significant extent based on inputs other than quoted prices included in level 1; however, they are based on information that is observable for the asset item either directly or indirectly.

The Group uses market value reports compiled by Nordea Bank and Sampo Bank in determining the fair value of these instruments.

The fair values of level 3 instruments are based on acquisition cost since their fair value cannot be reliably determined.

## 20. Financial receivables

EUR thousand	2010	2009
<b>Long-term loans receivables</b>		
At the beginning of period, Jan 1	173	158
Increases	0	580
Decreases	-173	-565
At the end of period, Dec 31	0	173

## 21. Reconciliation of other financial assets valued at fair value in accordance with level 3

EUR thousand	2010	2009
<b>Available-for-sale</b>		
Investment funds:		
At the beginning of period, Jan 1	1,700	1,441
Increases	148	259
At the end of period, Dec 31	1,848	1,700
Other unquoted holdings:		
At the beginning of period, Jan 1	1,672	1,654
Increases	0	18
Decreases	-76	0
At the end of period, Dec 31	1,596	1,672

Available-for-sale financial assets are investments in unquoted shares and they are measured at acquisition cost, since their fair value cannot be determined reliably.

### Other receivables

At the beginning of period, Jan 1	1,935	245
Increases / decreases	-1,542	1,690
At the end of period, Dec 31	393	1,935

## 22. Inventories

EUR thousand	2010	2009
Materials and consumables	14,068	8,483
Finished goods	17,813	10,804
Total	31,881	19,287

Inventories were written down by EUR 563,000 to accommodate for non-marketable assets in 2010 (2009: EUR 173,000). Non-marketable deductions primarily cover spare parts and replacement units.

## 23. Trade and other receivables

EUR thousand	2010	2009
Loans and other receivables		
Trade receivables	77,574	45,460
Other loan receivables	2,174	1,097
Other receivables	7,770	2,656
Total	87,518	49,213

### Financial assets recognized at fair value through profit and loss

Derivative contracts in hedge accounting	328	43
Total	328	43
Accrued income and prepayments	2,974	2,030
Total	2,974	2,030

## 24. Cash and cash equivalents

EUR thousand	2010	2009
Cash and cash equivalents	18,392	17,172
Total	18,392	17,172

## 25. Notes relating to shareholders' equity

	Number of shares	Number of own shares	Share capital, EUR	Own shares, EUR	Share premium reserve, EUR	Total, EUR
Jan 1, 2009	15,295,000	-101,812	3,059,000	-2,646,015	4,966,488	5,379,473
Shares issued as share bonuses Apr 22, 2009		15,801				
Shares issued as share bonuses Dec 3, 2009		1,000				
Dec 31, 2009	15,295,000	-85,011	3,059,000	-2,646,015	4,966,488	5,379,473
Shares issued as share bonuses Apr 22, 2010		4,446				
Dec 31, 2010	15,295,000	-80,565	3,059,000	-2,646,015	4,966,488	5,379,473

Vacon's share capital is EUR 3,059,000, divided into 15,295,000 fully paid shares. As stated in the Articles of Association, the minimum capital is EUR one million (1,000,000) and maximum capital is EUR four million (4,000,000). Vacon has one share series. Each share has a nominal value of EUR 0.20 and each share confers one vote at the Annual General Meeting.

Under the authorization given at the Annual General Meeting on March 25, 2004, the company repurchased 95,260 of its own shares, and under the authorization given at the Annual General Meeting on March 26, 2008, it repurchased 60,000 of its own shares. 13,688 shares were issued as a share bonus on April 21, 2006; 18,760 shares on April 12, 2007; 19,500 shares on April 8, 2008, 1,500 shares on December 23, 2008; 15,801 shares on April 22, 2009; 1,000 shares on December 3, 2009; and 4,446 shares on April 22, 2010, after which the company holds 80,565 shares.

The Board of Directors' valid authorizations are presented in the section Shares and shareholders on page 105.

## 26. Share-based payments

### Share bonus scheme 2008, 2009, and 2010

The Board of Directors of Vacon Plc decided at its meeting in February 2008 on a new share bonus scheme as part of the incentive scheme for Vacon Group key personnel. The goals of the bonus scheme are to bring together the goals of owners and key personnel to raise the value of the company, to commit key personnel to the company, and to offer them a competitive bonus system based on ownership.

The share bonus scheme offers the target group the opportunity to receive a bonus of company shares for three earnings periods of one calendar year by achieving targets set for these periods. The earnings periods are the calendar years 2008, 2009, and 2010.

The Board of Directors decides each year on which key personnel belong to the target group and on their maximum bonus. The maximum bonus is stated as a number of shares. The number of Vacon Plc shares to be given under the incentive scheme is altogether a maximum of 135,000 shares for the three earnings periods and, in addition, an amount will be paid in cash that is required

for taxes and similar expenses on the shares when the shares are given. The recipients of the share bonus are also entitled to any dividends accumulated during the earnings period. The extent to which the targets set for the earnings period are met determines how much of the maximum bonus is paid to the key personnel. The targets set are linked to indicators for the Group's strategic goal of profitable growth, which are revenues, operating profit, and working capital in proportion to revenues.

Any bonuses paid under the share bonus scheme are paid by the end of April in the year after the end of the earnings period as a combination of shares and cash. Shares paid as a bonus must be held for two years after the end of the earnings period. If the employment relationship of the recipient of the bonus ends during this two-year period, the shares must be returned to the Group. An exception may be made to this rule by a decision of the Board of Directors of Vacon Plc. If a bonus of shares is paid under the scheme, members of the Management Team must hold half of the shares earned under the scheme until the holding equals the value of their gross annual salary. This number of shares must be held until the employment relationship ends.

All key personnel belonging to the target group and decided on by the Vacon Group Board of Directors must have a current ongoing employment relationship at a company belonging to Vacon Group. Belonging to the target group for the share bonus scheme does not affect other terms of employment.

The share bonus scheme has three earnings periods of one calendar year, which begin on January 1, 2008, January 1, 2009, and January 1, 2010, and end on December 31, in the respective year. The amount of the bonus to be paid is determined after the end of the earnings period by the end of April based on the extent to which the targets have been met. If the fiscal year for the company had changed before December 31, 2010, the Board would have had the right to change the earnings period correspondingly.

## Nature of arrangement: Share bonus scheme

	2010-2012 2010 Feb 19, 2008	2009-2011 2010 Feb 19, 2008	2008-2010 2010 Feb 19, 2008
Date of issue			
Implementation	Shares and cash	Shares and cash	Shares and cash
Maximum number of shares offered as share bonus during the earning period, share	50,963	44,100	35,100
Share price at time of issue, EUR	26.01	26.01	26.01
Agreed earning period (no. of years)	1	1	1
Agreed period (years) for prohibition on transfer after the earning period	2	1	0
Share price on valuation date, EUR	39.00	32.01	20.30
Assumed participation	91%	100%	100%
Realization of profit-based terms and conditions in the earning year	96%	10%	45%
No. of shares issued under the scheme	48,669	4,502	15,801
Value of shares being issued on valuation date, EUR thousand	1,898	144	321
Share to be paid in cash (for taxes) calculated with the value on balance sheet date and assumed dividend, EUR thousand	2,454	188	425
Total cost of shares issued based on value at the time of issue, EUR thousand	1,266	117	411
Total cost of the share bonus scheme, EUR thousand	3,720	305	836
Share value adjusted with anticipated participation, EUR thousand	1,152	117	411
Consolidated income statement includes 1/3 of the sum in employee benefits and increase in equity, EUR thousand	384	39	137
Remaining amount to be recognized in future financial years after taking the anticipated participation into consideration, EUR thousand	768	39	0
Amount to be paid in cash adjusted with anticipated participation, EUR thousand	2,246	189	425
Consolidated income statement includes 1/3 of the sum in employee benefits and liabilities, EUR thousand	853	72	130
Remaining amount to be recognized in future financial years after taking the anticipated participation into consideration, EUR thousand	1,402	59	0
Costs from the share bonus system recorded during the period as employee benefits, EUR thousand	1,237	111	267

The amount recognized as cost from the share bonus scheme during the financial year was based on real financial profit and the probability at which the conditions based on the result will be met. During the year, these conditions were met. The amount payable in cash changes until the handover of the shares, after which the allocations on remaining years will be final.

## 27. Employee benefits

The Group has different pension arrangements to cover employee pension security in different parts of the world. Pension security is based on each country's local legislation and standard practices. In Finland, pension security is largely provided in accordance with the Employees' Pensions Act (TyEL). In some countries, supplementary pensions increase the pension security.

EUR thousand	2010	2009
<b>Reconciliation of employee benefit-related assets and liabilities</b>		
Current value of unfunded obligations	1,233	1,155
Current value of funded obligations	1,326	1,157
Fair value of assets	-940	-800
Non-recorded actuarial gains (-) or losses (+)	-16	-17
Net liabilities on the balance sheet	1,603	1,495
<b>Distributed on the balance sheet as follows:</b>		
Employee benefit assets	-956	-817
Employee benefit liabilities	2,559	2,312
Net liabilities on the balance sheet	1,603	1,495
<b>Defined benefit pension costs in the income statement are determined as follows:</b>		
Labor costs during the year	-515	-286
Interest expenses	-100	-84
Expected income from assets covered by the arrangements	13	20
Total	-602	-350
<b>Changes in the current value of the liability are as follows:</b>		
Liability at start of year	2,312	1,985
Current service cost	157	170
Interest expenses	100	68
Actuarial gains (-) and losses (+)	-10	89
Total	2,559	2,312

<b>Changes in the fair values of plan assets are as follows:</b>	2010	2009
Fair value of plan assets at start of year	-817	-576
Anticipated return	-13	-19
Actuarial gains (-) and losses (+)	10	-89
Payments by employer to scheme	-136	-133
Fair value of plan assets at end of year	-956	-817

Plan assets are invested in bonds.

<b>Key actuarial assumptions, Dec 31</b>	2010	2009
Discount rate, %	4.42-8.15	4.25-5.25
Expected return on assets, %	4.75	5
Assumed future pay raise, %	3-6	2-3.5
Assumed increase in pensions, %	0.25-2	0.25-2

The Group forecasts that it will pay EUR 0.7 million to defined benefit pension plans in 2011.

## 28. Interest-bearing liabilities

<b>Long-term liabilities measured at amortized acquisition cost</b>		
EUR thousand	2010	2009
Bank loans	9,852	12,408
Total	9,852	12,408

<b>Interest-bearing non-current liabilities by currency:</b>		
EUR thousand	2010	2009
Euro-denominated	7,956	8,012
USD-denominated	1,896	4,396
Total	9,852	12,408

<b>Current financial liabilities measured at amortized acquisition cost</b>		
EUR thousand	2010	2009
Repayment of bank loans in following year	2,844	3,054
Other loans	15,465	3,330
Total	18,309	6,384

<b>Interest-bearing current liabilities by currency:</b>		
EUR thousand	2010	2009
Euro-denominated	13,765	1,838
USD-denominated	2,844	3,016
CNY-denominated	1,700	1,525
CZK-denominated	0	5
Total	18,309	6,384

## 29. Trade and other payables

EUR thousand	2010	2009
Financial liabilities valued at amortized acquisition cost		
Trade payables	35,110	20,771
Other current liabilities	4,016	2,113
Total	39,126	22,884
Financial liabilities recognized at fair value through profit and loss		
Derivative contracts in hedge accounting	503	292
Total	503	292
Advance payments received	4,757	1,695
Salary and personnel expenses	12,751	6,453
Other accrued expenses	5,278	4,768
Total	22,786	12,916

## 30. Provisions

EUR thousand	Warranty provision	Other provisions	Total 2010
Jan 1, 2010	1,920	0	1,920
Increase in provisions	4,430	3,427	7,857
Used provisions	-1,920	0	-1,920
Dec 31, 2010	4,430	3,427	7,857
	Warranty provision		
Jan 1, 2009			1,555
Increase in provisions			1,920
Used provisions			-1,555
Dec 31, 2009			1,920

The Group issues a warranty for its products. Any defects discovered during the warranty period will be repaired at the company's expense or the customer will be provided with a corresponding product. The warranty provision is based on experience of faulty products in earlier years. The warranty provision is expected to be used during the following year. The provision resulting from the lawsuit pending against the subsidiary in China is EUR 3.4 million.

## 31. Risks and risk management

### Risk management supports Vacon's growth

Vacon's risk management is governed by the risk management policy approved by the Board of Directors, defining the objectives, principles, roles and responsibilities of risk management. The company's risk management aims to ensure that business objectives are met and the continuity of business operations is secured. Risk management is part of the management of the Group's business operations, it is proactive and aims to take all fundamental risks into account.

Identifying and assessing risks are important parts of the risk management process. Risks are identified at two year intervals at a highly detailed level, and action plans are created for the most important risks which are monitored monthly.

The underlying principle is that risk management is spread throughout all levels of the organization. Every employee is encouraged to identify risks, assess them, and report them. Employees are expected to report any risks either to their immediate superior or to Vacon Plc's CFO who is in charge of the development of risk management methods, implementation of risk management, risk reporting, and insurance programs. Vacon Group's Management Team assesses risks regularly, revises risk reporting, if necessary, and reports to the Board of the parent company on the company's key risks.

Vacon has defined the following objectives in its risk management policy and all decision-making is aimed at these:

- ensuring the safety of Vacon's personnel, its customers, and third parties;
- ensuring the safety and high quality of Vacon's products and operating methods;
- complying with local and international laws, regulations, and recommendations;
- ensuring that risks are identified and taken into account in decision-making;
- ensuring the continuity of business operations and sustainable growth; and
- protecting Vacon's brand and reputation.

A thorough risk survey was completed in 2010 in collaboration with Aon. The greatest risks identified were the risks associated with suppliers and interruptions in the operations. In addition, the availability of components was ranked high in the risk survey due to the current market situation. Detailed knowledge of guidelines in different countries was also identified. Vacon updated its own continuity plan for the Vaasa plant and strives to update the continuity plans for the plants in China and the USA in 2011.

Vacon Group's risk policy is explained to all personnel and it is also included in the orientation of new employees. More information about risk management is available to employees, for example, on the Group's intranet. Vacon Plc describes the significant near-term risks and uncertainties associated with business operations in its Interim Reports and Board of Directors' report.

Vacon has defined several potential risks that may have an impact on future profitability and development. The most significant of these are:

- The risk that Vacon's products or operations cause injury to its personnel or damage to the property of customers or third parties and thus endanger the continuation of their business operations.

- The risk that Vacon's R&D fails or development projects for new products are delayed or products fail to meet customer requirements in terms of performance or price/quality ratio.
- The risk that an unexpected accident endangers the delivery capability of Vacon's factories.
- The risk that, due to an unexpected accident, financial situation or problems with capacity, Vacon's main suppliers, component and software suppliers are unable to deliver their products on time and in accordance with the agreed quality criteria.
- The risk that, during the manufacturing process and testing of a product, its components or software, a quality defect is not noticed, resulting in a major increase in quality costs or the recall of all the supplied products.
- The risk that continuous competition and R&D investments by competitors in the AC drive market cause greater selling price erosion than anticipated or even the loss of key Vacon customer accounts.
- The risk that as demand rises, the global market prices for certain materials and components rise more sharply than expected.
- The risk that exchange rates change strongly in relation to each other.

A few risks are examined and analyzed separately below.

### Management of business risks

#### Administrative risk

Vacon has operations worldwide. It has subsidiaries, branch offices, or representatives in 27 countries and manufacturing operations in Finland, China, the USA, and Italy. For this reason, it is important that the Group has clear administrative guidelines. The company has defined the Group's administrative guidelines with different functions that have different tasks and duties.

The objective of these is to ensure that all major matters and decisions are consistent and in line with the company's objectives.

### Risks relating to business operations, sales, and result

The risks relating to markets, products, customers, goods suppliers, and components are monitored regularly as part of normal business processes. These risks are also assessed and monitored as part of the Group's strategy processes.

#### Supplier risk

Vacon is dependent for its materials and components on its suppliers and their ability to supply products at the right time and in accordance with the agreed quality criteria. On average, 56% of the Group's total costs are for components and materials: see the table 'Breakdown of costs and revenues'. This and the ability of suppliers to expand their own capacity may create a risk for Vacon.

It is essential that, in terms of efficient logistics and investments, suppliers are able to meet quality and environmental requirements and supply goods at the right time. For this reason, suppliers, their products, and other services are monitored regularly. All the company's suppliers are audited at least once every two years.

#### Breakdown of costs and revenues Jan 1 – Dec 31, 2010

	% of total costs	% of revenues
Materials	56.40%	51.63%
Services	1.77%	1.62%
Delivery costs and commissions	2.76%	2.53%
Employee benefit related expenses	20.96%	19.19%
Sales and marketing expenses	3.31%	3.03%
Rents	2.59%	2.37%
Administrative expenses	4.91%	4.50%
Other income and expenses	3.70%	3.39%
Depreciation/amortization	3.58%	3.28%
Total	100.00%	91.54%

### Asset and liability risks

Vacon Plc aims to prevent damage with proactive risk management actions. It is particularly important to protect production plants. Vacon Plc has taken out global insurance schemes against property, business interruption, transport, and liability risks. The Group's parent company administers all the global insurance schemes relating to the company's operations. Management of other insurance is spread among the different companies.

### Management of financial risks

The Group is exposed to several financial risks in its normal business operations. The objective of risk management in the Group is to minimize the harmful impact of changes on the Group's financial result. The Board of Directors of the parent company approves the Group's general principles for risk management, and the finance function at the Group's parent company is responsible for their practical implementation. The finance function identifies and assesses risks and obtains the instruments required to protect against the risks. Hedging transactions are carried out in accordance with the written risk management principles approved by Group management. The Group uses foreign exchange forwards, foreign currency loans, and interest rate swaps in its risk management. Derivative contracts are signed for hedging purposes, and hedge accounting, as defined in IFRS, is applied to them when they hedge the cash flow from operations. Hedge accounting is not applied to derivative contracts that protect net investments.

### Foreign exchange risk

The company has business operations in 27 countries. The Group supplies its products and services directly and through partners to a total of more than 100 countries.

This means that the Group is exposed to foreign exchange risks arising from exports and imports, from internal transactions, financing for non-Finnish subsidiaries, and currency-denominated shareholders' equity.

The Group's biggest currency risks, however, arise from exports and imports. The Group's biggest invoicing currency, apart from the euro, is the US dollar, which accounts directly or indirectly for some 17.6% (17.0%) of the Group's invoicing. The other invoicing currencies are the Swedish krona, the Norwegian krone, the Danish krone, the British pound, the Russian ruble, the Czech koruna, the Chinese renminbi, the Indian rupee, the Australian dollar, the Canadian dollar, the Mexican peso, the Arab Emirates dirham, and the South Korean won. Of these, the Asian currencies account for approximately 14.9% (12.8%) of the Group's invoicing and the European non-euro currencies for 10.1% (11.4%). Invoicing directly related to euro accounted for 57.4% (58.8%) in 2010. Currency-linked purchases in the Group account for approximately 16.1% (12.9%) of revenues.

In accordance with the Group's finance policy, money transactions between the Group's parent company and subsidiaries are made in the subsidiary's business currency. This being the case, the transaction risk focuses almost entirely on the Group's parent company, and thus the Group's non-Finnish subsidiaries are not exposed to any significant transaction risk. In accordance with the Group's finance policy, binding delivery and purchase contracts are hedged in full. In addition, forecasted currency-denominated cash flows in the parent company are hedged for six months for about 70% of the estimated cash flow. Vacon has foreign currency denominated assets and liabilities on the balance sheet, such as foreign currency loans, trade receivables and payables, and cash flows in currencies other than the Group's business currency. The main principle is to hedge in full against this balance sheet risk. The hedging instruments used are foreign exchange forwards.

The tables below show the transaction positions in the Group's main currencies.

2010, EUR thousand	USD	GBP	SEK	NOK	AUD	CZK	DKK	CNY
Forecasted items	9,656	1,292	3,096	571	609	785	1,826	-485
Assets	28,072	1,293	1,149	228	2,676	11,976	1,381	-3,838
Liabilities	-5,923	-52	-43	-46	-14	-12	0	6,676
Hedging	-26,867	-1,933	-2,844	-513	-3,176	-5,024	-2,147	0
Net position	4,938	599	1,358	240	94	7,726	1,061	2,354

2009, EUR thousand	USD	GBP	SEK	NOK	AUD	CZK	DKK	CNY
Forecasted items	6,688	1,016	2,033	458	214	664	1,189	-353
Assets	15,887	1,203	750	307	2,188	1,467	593	-3,160
Liabilities	-7,217	-7	-34	-2	-3	-5	-0	2,337
Hedging	-9,093	-1,782	-1,853	-506	-2,280	-1,858	-1,209	0
Net position	6,264	429	896	258	119	268	573	-1,176

The table below shows the effect of the euro strengthening or weakening by 10% against the US dollar, British pound, Swedish krona, Norwegian krone, Australian dollar, Czech koruna, Danish krone, and Chinese renminbi when all other factors remain unchanged. The sensitivity analysis is based on the foreign currency denominated

assets, liabilities, and forecast items on the balance sheet date. The sensitivity analysis also takes into account the effect of foreign currency derivatives that net the impact of changes in exchange rates. The tax impact has not been accounted for.

Transaction risk Dec 31, 2010, EUR thousand	Strengthening of euro, 10%		Weakening of euro, 10%	
	Equity (other comprehensive income)	Profit for period	Equity (other comprehensive income)	Profit for period
USD	409	-779	-500	952
GBP	58	5	-71	-6
SEK	122	36	-149	-44
NOK	26	4	-32	-5
AUD	45	1	-56	-2
CZK	0	-631	0	771
DKK	70	0	-85	0
CNY	0	-258	0	315

Transaction risk Dec 31, 2009, EUR thousand	Strengthening of euro, 10%		Weakening of euro, 10%	
	Equity (other comprehensive income)	Profit for period	Equity (other comprehensive income)	Profit for period
USD	72	-33	-87	40
GBP	53	19	-64	-1
SEK	89	15	-108	-18
NOK	18	0	-22	0
AUD	8	0	-10	0
CZK	36	0	-43	-1
DKK	49	7	-60	-9
CNY	0	75	0	-91

The translation position consists of investments in non-Finnish subsidiaries. The general principle is not to hedge the translation position, but Vacon may try to reduce the variation in the amount of the Group's shareholders' equity as a result of the translation risk with hedging transactions. The Group's Board of Directors decides on the hedging policy. The most significant exchange rate risks relating to foreign net investments come from the equity of the subsidiaries in the USA and China.

The table below shows the Group's most significant translation position.

EUR thousand	Translation position Dec 31, 2010	Translation position Dec 31, 2009
	USD	USD
Capital invested	8,382	7,774

### Interest rate risk

Changes in the level of market interest rates may affect the Group's financing costs, the revenue from financial investments, and the valuation of financial derivative instruments. The Group's gearing and balance sheet structure are such that interest rate risk is low. The Group hedges against interest rate risks through its choice of interest rate periods for loans. Some of the loans have been hedged to fixed rates. The Group's Board of Directors decides on the hedging policy and this is implemented by the finance function.

The total amount of credit on the balance sheet date was EUR 12.7 million, and this was 100% variable interest rate (EUR 17.0 million on December 31, 2009, with 100% variable interest rate). On the balance sheet date, the Group had outstanding interest rate swaps worth EUR 5.7 (11.9) million. Hedge accounting is not applied to interest rate swaps.

The average interest rate of loans was 1.0% (0.8%). The loan agreements contain normal covenant terms.

The table below shows the impact on the result of a one percentage point change in interest rates.

Interest rate sensitivity, EUR thousand	Dec 31, 2010	Dec 31, 2009
Interest rate rises, 1 percentage point		
Variable interest loans	-126	-154
Interest rate swaps	57	119
Net impact on result	-70	-35
Interest rate decreases, 1 percentage point		
Variable interest loans	75	59
Interest rate swaps	-16	-38
Net impact on result	59	21

### Customer credit risks

Credit risks relating to commercial operations are primarily the responsibility of the operative units. A credit policy has been defined for the sales organization that governs the delivery and payment terms granted to customers, how these are monitored, and the collection of payment.

Country risk is continuously monitored and limits are set for granting credit in areas where the political or financial situation is unstable. The risk is also reduced by using letters of credit and payments in advance. Some 86% (87%) of the Group's receivables are from OECD countries, which represent a low country risk.

During the financial year, credit losses recognized in the income statement totaled EUR 0.3 million (EUR 0.9 million in 2009). The credit losses were due to an unexpected change in a customer's financial environment. The Group monitors the liquidity of its customers on an ongoing basis and is active in collection.

Breakdown of trade receivables by due date, EUR thousand	2010	2009
Not yet due	63,054	36,186
1-90 days after due date	13,037	8,569
91-180 days after due date	1,033	569
181-270 days after due date	381	71
271-365 days after due date	69	65
Over 365 days after due date	0	0
Total	77,574	45,460

When the Group invests cash funds and enters into derivative contracts, it only accepts as counterparty such partner banks that are approved by the Board of Directors.

### Liquidity risk

The Group continually assesses and monitors the amount of financing required by operations so that the Group has sufficient liquid funds to finance operations and to repay loans as they mature. The Group maintains immediate liquidity with cash management solutions such as Group accounts and bank credit facilities. The amount of unused credit facilities on December 31, 2010, was EUR 28.1 (EUR 27.9) million, of which the amount of committed credit facilities was EUR 2.2 million, the amount of open-ended credit facilities EUR 16.5 million and the amount of facilities to be renewed annually EUR 9.4 million. Surplus liquid funds are invested in partner banks. Liquid funds on December 31, 2010, totaled EUR 18.4 (17.2) million.

The following table shows a maturity analysis based on the contracts made. The figures are not discounted and include interest payments and repayment of capital.

Dec 31, 2010, EUR thousand	Carrying amount	Cash flow	Less than 1 year	1-2 years	2-5 years
Bank loans	12,696	-12,910	-3,017	-9,894	
Trade payables and other short-term debts	39,126	-39,126	-39,126		
Financial commitments		-118	-118		
Check credit facility	13,695	-13,695	-13,695		
Total	65,517	-65,849	-55,956	-9,894	
Foreign exchange forwards in hedge accounting					
- Payable cash flows		-47,368	-47,368		
- Receivable cash flows		47,022	47,022		
Interest rate swaps	222	-240	-176	-64	
Total	222	-586	-522	-64	
Contracts of suretyship, maximum		-10,569	-8,643	-392	-1,534

Dec 31, 2009, EUR thousand	Carrying amount	Cash flow	Less than 1 year	1-2 years	2-5 years
Bank loans	17,042	-17,317	-4,746	-2,783	-9,788
Trade payables and other short-term debts	22,884	-22,884	-22,884		
Financial commitments		-266	-150	-116	
Check credit facility	1,750	-1,750	-1,750		
Total	41,676	-42,217	-29,530	-2,899	-9,788
Foreign exchange forwards in hedge accounting					
- Payable cash flows		-18,583	-14,284		
- Receivable cash flows		18,260	-18,583		
Interest rate swaps	479	-641	-416	-165	-60
Total	479	-964	-739	-165	-60
Contracts of suretyship, maximum		-7,102	-6,396	-348	-357

## Equity management

The objective of the Group's equity management is to support business operations through an optimal equity structure by ensuring normal operating conditions and to increase shareholder value. The goal is to obtain the best possible profit. The optimal equity structure also ensures the small cost of capital. Most of the Group's growth is organic, but Vacon does not exclude the possibility of acquisitions. Organic growth will be financed by cash flow from operations and, in the case of further acquisitions, gearing can be increased to a maximum of 60%.

The Group's interest-bearing net liabilities at the end of 2010 amounted to EUR 9.8 million (EUR 1.6 million on Dec 31, 2009) and gearing was 10.7% (2.0%). Gearing is calculated by dividing interest-bearing liabilities by total equity. Net liabilities include interest-bearing liabilities less cash and cash equivalents.

Gearing was as follows:

EUR thousand	2010	2009
Interest-bearing liabilities	28,161	18,792
Cash and cash equivalents	-18,392	-17,172
Net liabilities	9,769	1,620
Total equity	91,261	81,343
Gearing, %	10.7	2.0

## 32. Operating leases

### Minimum rents for irrevocable operating leases:

EUR thousand	2010	2009
In one year	7,419	7,096
In more than one and less than five years	23,062	23,164
In more than five years	13,860	18,898
Total	44,341	49,158

## 33. Contingent liabilities and assets

EUR thousand	2010	2009
Collateral and contingencies given on one's own behalf		
Contract guarantees	7,830	4,446
Financial commitment in capital investment funds	118	266
Total	7,948	4,712
Collateral and contingencies given on behalf of others		
Contract guarantees	275	828
Guarantees	3,712	2,442
Total	3,987	3,270

An agreement has been reached on EUR 20 million credit facilities on which the Group companies have jointly provided a contingency. The parent company has a pending tax proceeding regarding the tax inspection of transfer pricing.

## 34. Related party transactions

Vacon Group has a related party relationship with its associated companies, Board members, the parent company's President and CEO, the Management Team and their immediate families, and companies in which the said persons have a controlling interest or in which they exercise significant control.

The Group's control in its parent company and subsidiaries is as follows:

The Group's parent company is Vacon Plc, Vaasa, Finland	Parent company holding %	Group votes (%)
Group subsidiaries:		
Vacon GmbH, Essen, Germany	100	100
Vacon Benelux B.V., Gorinchem, the Netherlands	100	100
Vacon SpA, Reggio Emilia, Italy	100	100
Vacon Drives Ibérica S.A., Terrassa, Spain	100	100
Vacon Drives (UK) Ltd, Leicestershire, UK	70	70
Vacon AB, Solna, Sweden	100	100
Vacon AT Antriebssysteme GmbH, Leobersdorf, Austria	70	70
ZAO Vacon Drives, Moscow, Russia	100	100
Vacon France SAS, Saint Pierre du Perray, France	70	70
Vacon AS, Holmestrand, Norway	80	80
Vacon Benelux NV/Sa, Heverlee, Belgium	100	100
Vacon Suzhou Drives Co. Ltd., Suzhou, China	100	100
Vacon Drives & Control Pvt Ltd, Chennai, India	100	100
Vacon Pacific Pty Ltd, Melbourne, Australia	93	93
Vacon Inc., Chambersburg, PA, USA	100	100
Vacon s.r.l., Naturns, Italy	100	100
TB Wood's (India) Pvt. Ltd., Bangalore, India	100	100
Vacon s.r.o., Prague, Czech Republic	100	100
Vaasa Control de Mexico, Mexico City, Mexico	100	100
Vacon Drives A/S, Sønderborg, Denmark	100	100
Vacon Korea Ltd, Seoul, South Korea	100	100
Vacon Canada Inc, Stratford, Ontario, Canada	100	100
Vacon America Latina Ltda, São Paulo, Brazil	100	100
Vacon Solar S.L., Manresa, Spain	85	85

## Management cash-based employment benefits:

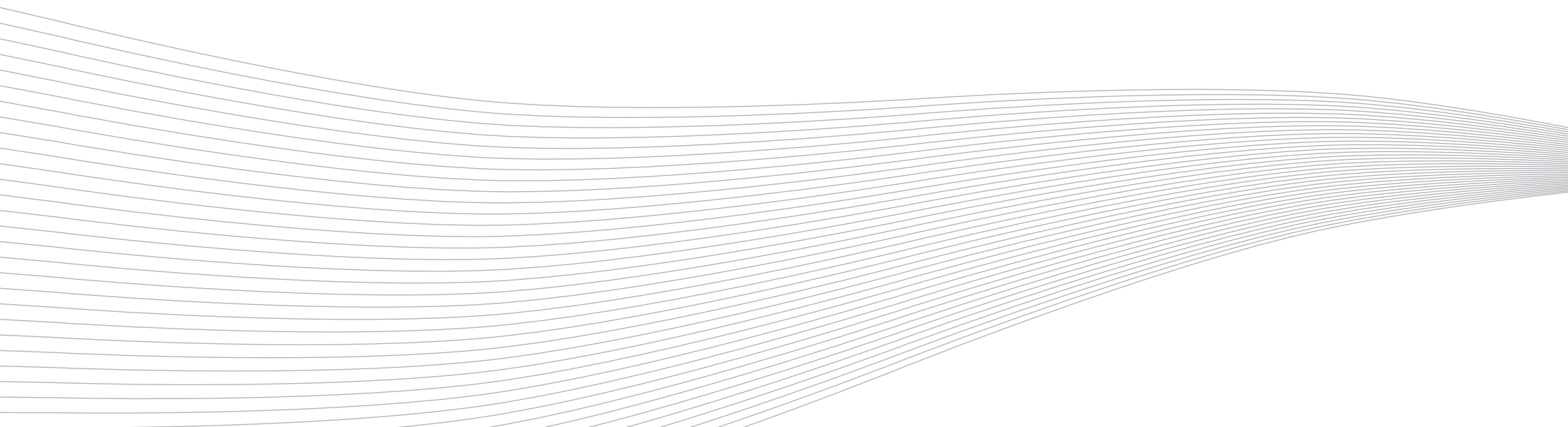
EUR thousand	2010	2009
Salaries and other short-term benefits	1,342	2,059
Benefits to be paid on dismissal	1,606	1,538
Post-employment benefits	990	598
Share-based benefits	154	566
Total	4,092	4,761

## Management salaries and fees:

EUR thousand	2010	2009
Vesa Laisi, President and CEO	337	479
Heikki Hiltunen, Executive Vice President	277	388
Board members:		
Jan Inbarr, Chairman	30	57
Pekka Ahlqvist	15	28
Jari Eklund	15	28
Juha Kytölä	11	
Panu Routila	11	
Mika Vehviläinen, vice-chairman	15	11
Riitta Viitala	15	28
Mauri Holma	4	28
Veijo Karppinen	4	28
Kalle Heikkinen		17
Total	734	1,092

The retirement age of the parent company's President and CEO is 60 years. The company has taken out pension insurance for the President and CEO, on the basis of which the pension to be paid is 60% of the salary that the pension is based on. The pension ends when the President and CEO turns 65. The salary that the pension is determined on is based on the average monthly salary calculated from the TyEL employee pension earnings basis from the last four years. The members of the Management Team have an equivalent pension age and pension insurance.

# PARENT COMPANY'S FINANCIAL STATEMENTS



## INCOME STATEMENT OF THE PARENT COMPANY (FAS)

EUR thousand	Note	Jan 1–Dec 31, 2010	%	Jan 1–Dec 31, 2009	%
<b>Revenues</b>	2	<b>260,409</b>	<b>100.0</b>	<b>206,272</b>	<b>100.0</b>
Change in inventories of finished goods and work in progress		722		-738	
Other operating income	3	228		264	
Materials and services					
Materials and consumables					
Purchases during the financial year		-151,251		-115,424	
Change in inventories		2,658		-1,110	
External services		-4,781		-2,097	
		<b>-153,373</b>	<b>-58.9</b>	<b>-118,631</b>	<b>-57.5</b>
Personnel expenses	4	-39,769		-32,238	
Depreciation/amortization	7	-5,560		-4,988	
Other operating expenses		-39,041		-38,063	
<b>Operating profit</b>		<b>23,616</b>	<b>9.1</b>	<b>11,879</b>	<b>5.8</b>
Financial income and expenses	9	3,061		3,907	
<b>Profit before appropriations and taxes</b>		<b>26,676</b>	<b>10.2</b>	<b>15,786</b>	<b>7.7</b>
Appropriations	10	-240		-998	
Income taxes	11	-6,362		-2,998	
<b>Profit for the period</b>		<b>20,074</b>	<b>7.7</b>	<b>11,790</b>	<b>5.7</b>

## BALANCE SHEET FOR THE PARENT COMPANY (FAS)

Assets, EUR thousand	Note	Dec 31, 2010	%	Dec 31, 2009	%
<b>Non-current assets</b>					
Intangible assets	12				
Intangible rights		4,540		5,310	
Other long-term expenditure		1,240		1,008	
		5,779	3.9	6,318	5.7
Tangible assets	13				
Land and water areas		132		132	
Machinery and equipment		9,131		10,396	
Other tangible assets		42		42	
Construction in progress		1,724		1,178	
		11,029	7.4	11,748	10.7
Investments	14				
Investments in Group companies	15	15,799		14,655	
Receivables from Group companies		19,926		18,067	
Other shares and investments		3,352		3,280	
Other receivables		13		196	
		39,090	26.1	36,197	32.9
<b>Total non-current assets</b>		<b>55,898</b>	<b>37.3</b>	<b>54,263</b>	<b>49.3</b>
<b>Current assets</b>					
Inventories					
Materials and consumables		6,569		3,911	
Finished goods		3,753		3,031	
		10,323	6.9	6,942	6.3
Current receivables	16				
Trade receivables		71,530		37,899	
Loan receivables		2,363		1,612	
Other receivables		3,234		1,813	
Prepaid expenses and accrued income	17	1,741		991	
		78,868	52.6	42,315	38.4
Cash and cash equivalents		4,792		6,654	
<b>Total current assets</b>		<b>93,982</b>	<b>62.7</b>	<b>55,911</b>	<b>50.7</b>
<b>Total assets</b>		<b>149,880</b>	<b>100.0</b>	<b>110,174</b>	<b>100.0</b>

Equity and liabilities, EUR thousand	Note	Dec 31, 2010	%	Dec 31, 2009	%
<b>Equity</b>	18,19				
Share capital		3,059		3,059	
Share premium		4,966		4,966	
Retained earnings		39,829		38,686	
Profit for period		20,074		11,790	
<b>Shareholders' equity, total</b>		<b>67,928</b>	<b>45.3</b>	<b>58,502</b>	<b>53.1</b>
<b>Accumulated appropriations</b>					
Depreciation difference	20	4,601	3.1	4,361	4.0
<b>Liabilities</b>	21				
Non-current liabilities					
Loans from financial institutions		9,796		12,296	
Other non-current liabilities		173		0	
		9,969	6.7	12,296	11.2
Current liabilities					
Loans from financial institutions		16,539		4,553	
Advance payments received		0		1	
Trade payables		28,101		17,365	
Other current liabilities		3,445		4,433	
Provisions		3,104		1,609	
Accrued expenses and deferred income	22	16,192		7,054	
		67,381	45.0	35,015	31.8
<b>Total liabilities</b>		<b>77,351</b>	<b>51.6</b>	<b>47,312</b>	<b>42.9</b>
<b>Total equity and liabilities</b>		<b>149,880</b>	<b>100.0</b>	<b>110,174</b>	<b>100.0</b>

## CASH FLOW STATEMENT FOR THE PARENT COMPANY (FAS)

EUR thousand	Jan 1–Dec 31, 2010	Jan 1–Dec 31, 2009
<b>Cash flow from operating activities</b>		
Profit for period	20,074	11,790
Adjustments:		
Depreciation/amortization	5,560	4,988
Financial income and expenses	-3,061	-3,907
Appropriations	240	998
Taxes	6,362	2,998
Other adjustments	-30	317
	29,146	17,184
Changes in working capital:		
Change in current receivables	-35,752	7,881
Change in inventories	-3,381	1,848
Change in non-interest-bearing liabilities	18,230	-717
	-20,903	9,013
Interest received	446	475
Interest paid	-652	-835
Dividends received	3,312	3,647
Other financial items	-1,041	108
Taxes paid	-2,868	-3,187
<b>Cash flow from operating activities</b>	<b>7,440</b>	<b>26,406</b>
<b>Cash flow from investing activities</b>		
Investments in tangible and intangible assets	-4,303	-5,596
Loans granted	-2,159	-1,492
Other investments	-1,554	-1,139
Repayments on loan receivables	1,138	2,209
Sold shares in subsidiaries	0	14
Purchased shares in subsidiaries	-1,144	-1,052
Proceeds from the divestiture of other investments	281	565
<b>Cash flow from investing activities</b>	<b>-7,741</b>	<b>-6,492</b>
<b>Cash flow from financing activities</b>		
Proceeds from long-term borrowings	173	0
Repayments on long-term loans	-1,969	-3,076
Proceeds from short-term borrowings	14,005	2,990
Repayments on short-term loans	-3,123	-6,551
Dividends paid	-10,647	-9,876
<b>Cash flow from financing activities</b>	<b>-1,561</b>	<b>-16,514</b>
<b>Change in liquid funds</b>	<b>-1,862</b>	<b>3,400</b>
Liquid funds at the beginning of the period	6,654	3,253
Liquid funds at the end of the period	4,792	6,654

## 1. Accounting principles for financial statements

### General accounting principles

The financial statements of Vacon Plc have been prepared and presented in accordance with the Finnish Accounting Standards (FAS) and other laws and regulations in force in Finland.

When preparing the financial statements, the company's management is required by the regulations in force and good accounting practice to make assessments and assumptions that affect the valuation and allocation of the financial statement items. Although the assessments are based on the latest available information, the final figures may differ from these assessments.

### Revenues

Sales are recognized in connection with the transfer of ownership-related risks and benefits to the buyer. Usually, sales are recognized at the date of delivery. Sales adjustment items include cash discounts as well as exchange rate profits and losses on sales.

Long-term projects are partially recognized as income for the financial period in cases that involve fixed-price contracts the outcome of which can be reliably assessed. The percentage-of-completion required in long-term projects is measured from the share of the to-date costs of the estimated total costs of the project, i.e. using the cost-to-cost method. If it is likely that the overall costs of the project will exceed the overall income, the expected losses are immediately recognized as expenses.

### Other operating income

Items booked as other operating revenues are gains on the sale of assets, subsidies received and other regular revenues not related to sales of goods or services such as rents.

### Foreign currency items

Business transactions in foreign currencies are recorded at the exchange rates on the transaction date. Receivables and payables on the balance sheet date are valued at the average exchange rate on the balance sheet date. Exchange rate differences associated with sales and purchases are recorded as adjustments to these items. Exchange rate gains and losses related to financial operations are recorded under financial income and expenses.

### Derivative contracts

Foreign currency items are hedged with forward contracts. Open hedging instruments for foreign currency items are valued at fair value on the balance sheet date and recorded under sales adjustment items or financial items, based on the item to be hedged, in the income statement. Interest rate derivatives are used to manage interest rate exposure. Interest swaps are measured on the basis of the interest rates of the balance sheet date. The accounting principles for the consolidated financial statements contain more details about the use of financial instruments.

### Pension arrangements

Statutory and any supplementary pension obligations are covered through payments to pension insurance companies and recorded as determined by periodic actuarial calculations prepared by those institutions.

### Leasing and rental liabilities

Leasing payments are treated as rent expenses. Unpaid leasing and rental fees are recorded under leasing and rental liabilities in the notes to the parent company financial statements.

### Collateral and contingent liabilities

The presentation method for collateral and contingent liabilities has been harmonized and thus the comparison data from 2009 has been reviewed.

### Income taxes

The company's taxes include taxes paid and accrued corresponding to the financial result for the period on the basis of taxable income calculated in accordance with Finnish tax regulations, and adjustments to taxes from previous financial periods.

### R&D costs

R&D costs are recorded under expenses. R&D grants received are entered as deductions under the relevant items. The accounting principles for the consolidated financial statements have more details about capitalizing R&D expenses.

### Fixed assets and depreciation

Fixed assets are measured on the balance sheet at their original acquisition cost less accumulated planned depreciation. Planned depreciation is calculated on a straight-line basis for the items on the original acquisition cost, based on the estimated useful economic life. The depreciation schedule in accordance with the consolidated accounting principles is as follows:

Intangible assets .....	3–5 years
Machinery and equipment .....	3–15 years
Other tangible assets .....	5–10 years

### Investments

Long-term investments are valued at acquisition cost. When disposing of a non-current investment, the difference between sales price and current balance sheet value is recognized as an expense or income.

Investments in subsidiaries are valued at acquisition cost on the balance sheet. Investments in associated companies are presented as other long-term investments on the balance sheet. Associated companies are companies in which Vacon has 20–50% of the voting rights or in which Vacon has a significant but not controlling interest. During the 2010 financial year, Vacon had no investments in associated companies.

## Inventories

Inventories are valued at the acquisition cost or the net realizable value, whichever is lower. The acquisition cost has been determined using the FIFO method. The acquisition cost of finished goods and work in progress includes raw materials, direct salaries, and other direct expenses as well as the appropriate share of indirect production costs, excluding interest expenses. When applying the lowest value principle, the value is based on the estimated sales price in ordinary activities less the costs associated with the sale of products.

## Provisions

Items related to contracts and other effective obligations that are likely to require financial resources are recorded on the balance sheet as provisions, if their amount can be reliably assessed. These items currently include only warranty provisions and any negative project margins. The anticipated future warranty costs of delivered products are recorded as warranty provisions. Realized warranty costs, with changes in warranty liability taken into account, are recorded in the income statement in the period during which they are incurred.

## Dividends and own shares

Dividends proposed by the Board of Directors are not recorded in the financial statements until they have been approved by the Annual General Meeting.

When purchasing the company's own shares, the amount paid for them, including the direct purchase costs, is recorded as a decrease in shareholders' equity.

## 2. Revenues

Revenues are divided into three geographical market areas: EMEA (Europe, the Middle East, and Africa), Americas (North and South America) and APAC (Asia Pacific region). Revenues are divided according to the location of customers.

EUR thousand	2010	2009
<b>Revenues by market area</b>		
EMEA	181,677	149,223
Americas	51,915	37,152
APAC	26,818	19,897
Total	260,409	206,272

### Projects recognized using the percentage-of-completion method

Revenue recognized as income	0	45
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## 3. Other operating income

EUR thousand	2010	2009
Rental income	192	252
Other	36	12
Total	228	264

## 4. Personnel expenses

EUR thousand	2010	2009
Wages, salaries, and bonuses	32,770	26,182
Pension costs	5,249	4,266
Other personnel costs	1,751	1,789
Total	39,769	32,238

### Management salaries and fees

President and CEO and his deputy	614	867
Members of the Board of Directors	120	227
Total	734	1,095

Salaries and fees of the President and CEO, his deputy and Board members are presented in note 34 to the Consolidated Financial Statements.

## 5. Average number of personnel

	2010	2009
Office personnel	346	326
Factory personnel	340	340
Total	686	666

## 6. President and CEO's pension commitments

The retirement age of the parent company's President and CEO is 60 years.

## 7. Depreciation and amortization

EUR thousand	2010	2009
Intangible assets	2,532	2,246
Tangible assets	3,028	2,743
Total planned depreciation	5,560	4,988

## 8. Auditor's fees

EUR thousand	2010	2009
Audit fees	35	35
Tax consulting	21	16
Other services	68	14
Total	124	65

## 9. Financial income and expenses

EUR thousand	2010	2009
Dividend income from Group companies	3,312	3,647
Interest income from Group companies	396	436
Interest income and financial income from others	787	278
Total	4,495	4,362
Reversal of impairment loss of long-term investments	0	579
Interest income and financial income, total	4,495	4,941
Interest expenses and financial expenses to others	-1,434	-1,034
Financial income and expenses, total	3,061	3,907
The item 'Interest and financial income from others' includes unrealized exchange rate gains	531	240

## 10. Appropriations

EUR thousand	2010	2009
The difference between planned depreciation and depreciation presented for taxation	-240	-998

## 11. Income taxes

EUR thousand	2010	2009
Direct taxes for current year	-6,443	-2,762
Direct taxes for previous years	94	-162
Other taxes and similar payments	-13	-74
Total	-6,362	-2,998

## 12. Intangible assets

EUR thousand	Intangible rights	Other long-term expenditure	Total 2010	Total 2009
Acquisition cost, Jan 1	11,929	1,306	13,234	11,294
Increases	1,586	408	1,994	1,940
Acquisition cost, Dec 31	13,514	1,714	15,228	13,234
Accumulated amortization, Jan 1	-6,619	-298	-6,917	-4,671
Amortization for the financial year	-2,356	-176	-2,532	-2,246
Accumulated amortization, Dec 31	-8,975	-474	-9,449	-6,917
Carrying amount, Dec 31, 2010	4,540	1,240	5,779	
Carrying amount, Dec 31, 2009	5,310	1,008		6,318

## 13. Tangible assets

EUR thousand	Land and water areas	Machinery and equipment	Advance payments and construction in progress	Other tangible assets	Total 2010	Total 2009
Acquisition cost, Jan 1	132	29,792	1,178	42	31,144	27,488
Increases		1,763	1,685		3,448	4,533
Decreases			-1,139		-1,139	-877
Acquisition cost, Dec 31	132	31,555	1,724	42	33,453	31,144
Accumulated depreciation, Jan 1	0	-19,396	0	0	-19,396	-16,654
Depreciation for the financial year		-3,028			-3,028	-2,743
Accumulated depreciation, Dec 31	0	-22,424	0	0	-22,424	-19,396
Carrying amount, Dec 31, 2010	132	9,131	1,724	42	11,029	
Carrying amount, Dec 31, 2009	132	10,396	1,178	42		11,748
Carrying amount of production machinery and equipment Dec 31, 2010		8,652				
Carrying amount of production machinery and equipment Dec 31, 2009		9,954				

## 14. Investments

EUR thousand	Investments in Group companies	Other shares and investments	Total 2010	Total 2009
Shares, Jan 1	14,655	3,280	17,935	16,637
Increases	1,144	148	1,292	1,311
Decreases	0	-76	-76	-14
Carrying amount, Dec 31	15,799	3,352	19,151	17,935

EUR thousand	Receivables from Group companies	Other receivables	Total 2010	Total 2009
Receivables, Jan 1	18,067	196	18,263	18,697
Increases	2,159	5	2,165	2,072
Decreases and transfers between items	-300	-188	-488	-2,506
Carrying amount, Dec 31	19,926	13	19,939	18,263
Total investments, Dec 31			39,090	36,197

## 15. Shareholdings

	Parent company votes %	Parent company holding %
Group companies:		
Vacon GmbH, Essen, Germany	100	100
Vacon Benelux B.V., Gorinchem, the Netherlands	100	100
Vacon SpA, Reggio Emilia, Italy	100	100
Vacon Drives Ibérica S.A., Terrassa, Spain	100	100
Vacon Drives (UK) Ltd, Leicestershire, UK	70	70
Vacon AB, Solna, Sweden	100	100
Vacon AT Antriebssysteme GmbH, Leobersdorf, Austria	70	70
ZAO Vacon Drives, Moscow, Russia	100	100
Vacon France SAS, Saint Pierre du Perray, France	70	70
Vacon AS, Holmestrand, Norway	80	80
Vacon Benelux NV/Sa, Heverlee, Belgium	99	99
Vacon Suzhou Drives Co. Ltd., Suzhou, China	100	100
Vacon Drives & Control Pvt Ltd, Chennai, India	100	100
Vacon Pacific Pty Ltd, Melbourne, Australia	93	93
Vacon Inc., Chambersburg, PA, USA	100	100
TB Wood's (India) Pvt. Ltd., Bangalore, India	100	100
Vacon s.r.o., Prague, Czech Republic	100	100
Vaasa Control de Mexico, Mexico City, Mexico	100	100
Vacon Drives A/S, Sønderborg, Denmark	100	100
Vacon Korea Ltd, Seoul, South Korea	100	100
Vacon Canada Inc, Stratford, Ontario, Canada	100	100
Vacon America Latina Ltda, São Paulo, Brazil	100	100
Vacon Solar S.L., Manresa, Spain	85	85

## 16. Current receivables

EUR thousand	2010	2009
<b>Receivables from Group companies</b>		
Trade receivables	49,060	18,033
Loan receivables	1,916	515
Total	50,976	18,548
<b>Receivables from others</b>		
Trade receivables	22,470	19,866
Short-term loan receivables	447	1,097
Other receivables	3,234	1,813
Prepaid expenses and accrued income	1,741	991
Total	27,892	23,768
Current receivables, total	78,868	42,315

## 17. Key items included in prepaid expenses and accrued income

EUR thousand	2010	2009
Foreign currency hedging	328	43
Subsidies	327	156
Share bonus receivables	59	130
Advances paid	554	654
Other	473	8
Total	1,741	991

## 18. Equity

EUR thousand	2010	2009
Share capital, Jan 1	3,059	3,059
Share capital, Dec 31	3,059	3,059
Share premium, Jan 1	4,966	4,966
Share premium, Dec 31	4,966	4,966
Retained earnings, Jan 1	50,476	48,562
Dividends paid	-10,647	-9,876
Retained earnings, Dec 31	39,829	38,686
Profit for the period	20,074	11,790
Shareholders' equity, total	67,928	58,502

## 19. Calculation of distributable funds

EUR thousand	2010	2009
Retained earnings	39,829	38,686
Profit for the period	20,074	11,790
Total	59,903	50,476

## 20. Accumulated appropriations

In the parent company, accumulated depreciation difference accounts for the accumulated appropriations.

## 21. Liabilities

EUR thousand	2010	2009
<b>Non-current liabilities</b>		
Interest-bearing loans from financial institutions	9,796	12,296
Non-interest-bearing other liabilities	173	0
Non-current liabilities, total	9,969	12,296
<b>Current liabilities</b>		
Interest-bearing		
Loans from financial institutions	16,539	4,553
Loans to Group companies	2,611	3,870
Total	19,150	8,424
The unused facility of checking accounts in the parent company amounts to EUR 13.9 million.		
<b>Non-interest-bearing</b>		
Advance payments received	0	1
Trade payables	25,553	15,157
Trade payables to Group companies	2,548	2,208
Other current liabilities	835	562
Warranty provisions	3,104	1,609
Accrued expenses and deferred income	15,982	6,987
Accrued debts to Group companies	210	67
Total	48,231	26,591
Current liabilities, total	67,381	35,015
Interest-bearing liabilities	28,946	20,720
Non-interest-bearing liabilities	48,405	26,591
Total liabilities	77,351	47,312

## 22. Key items included in accrued expenses and deferred income

EUR thousand	2010	2009
Salaries including social security costs	9,703	4,248
Taxes	3,401	43
Interest	226	485
Materials and consumables allocated to period	2,346	1,977
Foreign currency hedging	503	292
Others	13	9
Total	16,192	7,054

## 23. Currency derivatives

EUR thousand	2010	2009
<b>Forward contracts</b>		
Changes in value entered in income statement	-175	-249
Nominal amount	47,022	18,260
<b>Interest rate swaps</b>		
Changes in value entered in income statement	-222	-479

Derivative contracts are used for hedging against currency and interest risks. The contracts mentioned above were open on the balance sheet date and mature during the financial period starting on January 1, 2011.

## 24. Collateral and contingent liabilities

EUR thousand	2010	2009
<b>Contract guarantees</b>		
On behalf of Group companies	7,830	4,446
On behalf of others	275	828
Total	8,105	5,274
<b>Other commitments</b>		
Commitment on a subsidiary's debts	1,352	1,352
Financial commitments	118	266
Total	1,471	1,619
The parent company has a pending tax proceeding regarding the tax inspection of transfer pricing.		
<b>Amounts payable under leasing agreements</b>		
Payable in the following financial year	704	720
Payable later	796	856
Total	1,500	1,576
<b>Payable amounts on rental agreements</b>		
Payable in the following financial year	3,292	2,814
Payable later	18,497	21,684
Total	21,789	24,498

SIGNATURE FOR THE BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Vaasa, February 1, 2011

Jan Inbarr  
Chairman

Pekka Ahlqvist

Jari Eklund

Juha Kytölä

Panu Routila

Mika Vehviläinen

Riitta Viitala

Vesa Laisi  
President and CEO

## AUDITOR'S REPORT

### To the Annual General Meeting of Vacon Plc

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Vacon Plc for the year ended 31 December, 2010. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

### Responsibility of the Board of Directors and the President and CEO

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

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

### Opinion on the consolidated financial statements

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

### Opinion on the company's financial statements and the report of the Board of Directors

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

Vaasa, February 1, 2011  
KPMG OY AB

Petri Kettunen  
Authorized Public Accountant

## SHARES AND SHAREHOLDERS

### Listing, trading, and share capital

Vacon has one share series. The share is listed on the Mid Cap list of NASDAQ OMX Helsinki in its sector Industrials. At the end of 2010, Vacon Plc's market value was EUR 593.4 million excluding own shares owned by the company.

During 2010, a total of 2,670,146 company shares with a value of EUR 86.4 million were traded on the stock exchange. The highest share price during the year was EUR 39.75 and the lowest EUR 24.90. The closing price on December 31, 2010, was EUR 39.00.

Vacon's share capital is EUR 3,059,000, divided into 15,295,000 fully paid shares. As stated in the Articles of Association, the minimum capital is EUR one million (1,000,000) and the maximum capital is EUR four million (4,000,000). Each share has a nominal value of EUR 0.20, and each share entitles the holder to one vote at the Annual General Meeting.

### Authorizations held by the Board of Directors

The Annual General Meeting held on March 23, 2010, authorized the Board of Directors to decide on the purchase of the company's own shares. The number of shares that may be purchased and disposed of shall be no more than 1,529,500, which corresponds to 10% of the total number of shares in the company. The shares will be repurchased in deviation from the shareholders' pre-emptive rights (directed repurchase of shares) as the repurchase of shares is executed by purchasing shares through public trading. Shares can be repurchased by the company at the market price prevailing at the time of the purchase through such public trading. Shares may be purchased for the purpose of developing the capital structure of the company, implementing incentive programs for the company's key personnel, paying salaries or fees, financing potential corporate acquisitions or other transactions, or for such other purposes as the Board of Directors decides. The Board of Directors shall be authorized to decide on the manner and other conditions for the purchase of the

company's own shares. The authorization will be valid for eighteen (18) months from the date of the decision of the Annual General Meeting.

The Annual General Meeting held on March 28, 2007, authorized the Board of Directors to decide on the disposal of the company's own shares held by the company in one or several installments through the issuance of shares. The maximum amount of own shares to be disposed of on the basis of the authorization is 1,529,500 shares. The authorization shall include the right of the Board of Directors to decide on all terms and conditions on which the shares shall be disposed of and the shares can, thus, be disposed of by derogation from the pre-emptive rights of the shareholders (directed share issue). The authorization will be valid for five (5) years from the date of the decision of the Annual General Meeting.

### Treasury shares

At the end of 2010, the Vacon Group held a total of 80,565 treasury shares (85,011 at the end of 2009), corresponding to 0.5% of the total number of shares. At the end of 2010, the market value of these treasury shares was EUR 3.1 million.

### Notices of changes

Vacon Plc did not receive notices of changes in shareholding in 2010.

### Incentive schemes

Vacon's Board of Directors decided in January 2005 to introduce a share bonus scheme as part of the Group's program to motivate and commit key personnel. The scheme was divided into three separate one-year earnings periods, which were the calendar years 2005, 2006, and 2007. The metrics chosen were revenues, operating profit (EBIT), and turnover of working capital. The earnings periods of the share bonus scheme have ended and the last two-year long holding period ended at the end

of 2009. Based on the incentive scheme, a total number of 80,400 Vacon Plc shares were handed out during the three earning periods.

In February 2008, Vacon's Board of Directors decided to set up a new share bonus scheme to ensure the long-term motivation and commitment of the Group's management and key personnel. The duration of the share bonus scheme is three years, from 2008 to 2010. The Board of Directors will annually set the revenues, profit, and working capital turnover objectives that will determine the amount of the reward in accordance with the terms and conditions of the stock option scheme.

Additionally, Vacon has a bonus scheme for all personnel.

### Dividend policy

The dividend policy adopted by Vacon's Board of Directors is to propose a dividend that is in line with the company's financial performance. The goal is to distribute approximately 50% of the period's net profit in dividends. When determining the dividend, the financing required for the growth of operations is taken into consideration. Vacon's Board of Directors has decided to propose to the Annual General Meeting to be held on March 22, 2011, that a dividend of EUR 1.00, or 82.1% of the Group's earnings per share, be paid for 2010.

### Shareholders

On December 31, 2010, Vacon had a total of 4,687 shareholders. The number of shares owned by nominee registered investors increased by 5.8 percentage points during the period under review. At the end of 2010, 34.7% of the company's shares was owned by nominee registered and foreign shareholders. Private persons owned 28.7% of the shares. Up-to-date information on Vacon's share price and ownership structure is available on Vacon's website at [www.vacon.com](http://www.vacon.com).

## Distribution of shareholding

### Share distribution

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of shares
1 - 50	866	18.5	26,064	0.2
51 - 100	876	18.7	79,957	0.5
101 - 500	2,140	45.7	553,283	3.6
501 - 1000	373	8.0	293,530	1.9
1001 - 5000	310	6.6	701,366	4.6
5001 - 10000	45	1.0	343,939	2.2
10001 - 50000	51	1.1	983,567	6.4
50001 -	26	0.6	12,313,294	80.5
<b>Total</b>	<b>4,687</b>	<b>100.0</b>	<b>15,295,000</b>	<b>100.0</b>

### By shareholder category

Corporations	3,716,331	24.3
Banks and insurance companies	324,592	2.1
Nominee-registered and foreign shareholders	5,305,498	34.7
Non-profit and public sector institutions	1,563,386	10.2
Households	4,385,193	28.7
<b>Total</b>	<b>15,295,000</b>	<b>100.0</b>

## Major shareholders on December 31, 2010

	Number of shares	% of shares
Ahlström Capital Oy Group	3,061,215	20.0
Ilmarinen Mutual Pension Insurance Company	699,877	4.6
Tapiola Mutual Pension Insurance Company	584,500	3.8
Vaasa Engineering Oy	389,514	2.5
Jari Koskinen	362,403	2.4
Martti Ehrnrooth	325,070	2.1
Mauri Holma	302,171	2.0
Tapiola Group Companies	245,300	1.6
Veijo Karppinen	143,249	0.9
Heikki Autio	139,213	0.9
Nominee-registered and other foreign shareholders	5,305,498	34.7
Own shares	80,565	0.5
Other	3,656,425	23.9
<b>Total</b>	<b>15,295,000</b>	<b>100.0</b>
Number of shares outstanding	15,214,435	

## Shareholdings of the Board of Directors and Management Team

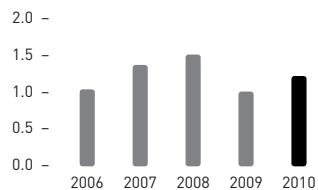
Vacon Plc's Board members did not own the company's shares on December 31, 2010. The President and CEO and other members of the Management Team held a total of 460,512 shares, or 3.0% of the company's share stock and voting rights.

## Share information

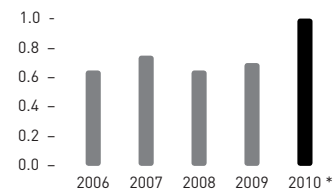
### Share information

<b>Listing</b>	NASDAQ OMX Helsinki
<b>Listing start date:</b>	Dec 14, 2000
<b>List:</b>	Mid Cap
<b>Sector:</b>	Industrials
<b>ISIN code:</b>	FI0009009567
<b>Trading code:</b>	VAC1V

Earnings per share, EUR

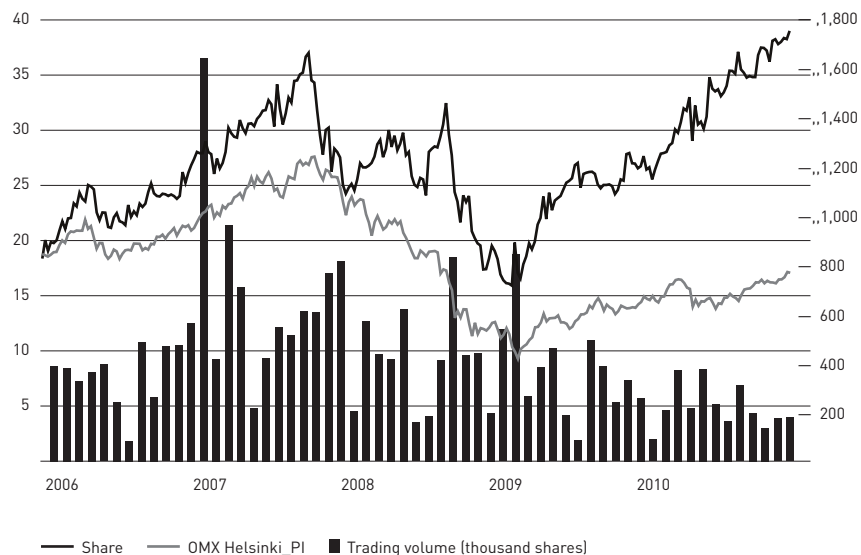
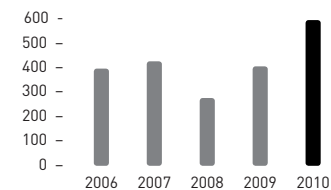


Dividend per share, EUR



\*] The 2010 dividend is the Board of Directors' proposal to the Annual General Meeting.

Market capitalization, MEUR



## STOCK EXCHANGE RELEASES IN 2010

### January

Jan 29 Invitation to a briefing and teleconference

### February

Feb 3 Vacon Plc Financial Bulletin  
1 January – 31 December 2009

Feb 3 Publication of Vacon's Financial Bulletin  
delayed

Feb 19 Vacon's summary of year 2009 releases  
published

Feb 22 Notice to the Annual General Meeting

### March

Mar 2 Vacon's Annual Report 2009 published

Mar 19 China Customs doing audit at Vacon's  
China factory

Mar 23 Vacon Plc's Annual General Meeting

Mar 24 Assignment of Vacon's own shares  
– share bonus scheme 2008–2010

### April

Apr 21 Invitation to a briefing and teleconference

Apr 27 Vacon Plc Interim Report  
1 January – 31 March 2010

### May

May 24 Vacon reforms its organization

May 25 Vacon invests in solar energy products

### July

Jul 28 Invitation to a briefing and teleconference

### August

Aug 4 Vacon Plc Interim Report  
1 January – 30 June 2010

### September

Sep 16 Vacon donates EUR 100,000  
to Finnish universities

### October

Oct 16 Invitation to a briefing and teleconference

Oct 27 Vacon Plc Interim Report  
1 January – 30 September 2010

### November

Nov 23 Vacon signs supplier contract with KONE

Nov 30 Vacon Plc's Financial Calendar for 2011

## INVESTOR INFORMATION

### Annual General Meeting

The Annual General Meeting of Vacon Plc will be held at 3:00 pm on Tuesday, March 22, 2011, at the Åbo Akademi premises at Academill, Rantakatu 2, Vaasa, Finland. Shareholders wishing to attend the Annual General Meeting must be registered no later than March 10, 2011, in the company's shareholder register maintained by Euroclear Finland Oy and shall notify the company of their attendance no later than 10:00 am (GMT+2) on March 17, 2011.

Shareholders are requested to give their name, address, telephone number, and date of birth when informing the company of their attendance. If a shareholder wishes to attend the Annual General Meeting by proxy, he or she should provide this information when notifying the company of their attendance. Any letters of authorization should be sent to the above address by the date for notification.

This can be done at the company website at [www.vacon.com/agm2011](http://www.vacon.com/agm2011), by telephone +358 40 8371 278 or by mail to Vacon Plc, Maija Suutarinen, Runsorintie 7, 65380 Vaasa, Finland.

### Share register

The company's shares are entered in a book-entry securities system. A shareholder must notify the party maintaining his or her book entry account of address changes, changes to bank information provided for dividend payments, and other matters relevant to shareholding.

### Payment of dividends

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.00 per share be paid for the 2010 financial year. The dividend approved by the Annual General Meeting will be paid to those shareholders who are registered on the record date in the company's share register maintained by Euroclear Finland Oy.

Reconciliation date:.....March 25, 2011

Dividend payment date:.....April 4, 2011

### Financial overviews and reports in 2011

Financial Statements Bulletin:.....February 2, 2011  
Annual Report 2010:.....week 8/2011  
Interim Report January–March:..... April 27, 2011  
Interim Report January–June:..... August 3, 2011  
Interim Report January–September:.....October 25, 2011

Vacon's Annual Report and Interim Reports are published in English and Finnish. The Annual Report is available in PDF format on the company's website and also as a hard copy. The hard copy is sent to shareholders upon request (please submit your order through the company's website or by sending e-mail to [annualreport@vacom.com](mailto:annualreport@vacom.com)).

All stock exchange releases and press releases are available on the company's website. You may also subscribe to Vacon's bulletins to your e-mail address by registering as a subscriber at [www.vacon.com](http://www.vacon.com). You may also order the Annual Report by mail from:

Vacon Plc  
Corporate Communications  
Runsorintie 7  
65380 Vaasa, Finland  
Telephone: +358 201 2121  
Fax: +358 201 212 208  
E-mail: [annualreport@vacom.com](mailto:annualreport@vacom.com)  
Internet: [www.vacon.com](http://www.vacon.com)

### Investor relations

The objective of Vacon's investor communications is to provide the financial markets with information about the company's strategies, operations, and business environment so as to form as accurate a picture as possible of Vacon as an object for investment. Vacon follows the principle of transparent, reliable, and up-to-date communications. The goal is to provide accurate and consistent information on a regular basis and objectively to all parties in the market.

### Responsibility for investor relations at Vacon:

Vesa Laisi, President and CEO  
Tel. +358 201 212 510  
Fax +358 201 212 208  
[vesa.laisi@vacom.com](mailto:vesa.laisi@vacom.com)

Eriikka Söderström, CFO  
Tel. +358 201 212 445  
Fax +358 201 212 208  
[eriikka.soderstrom@vacom.com](mailto:eriikka.soderstrom@vacom.com)

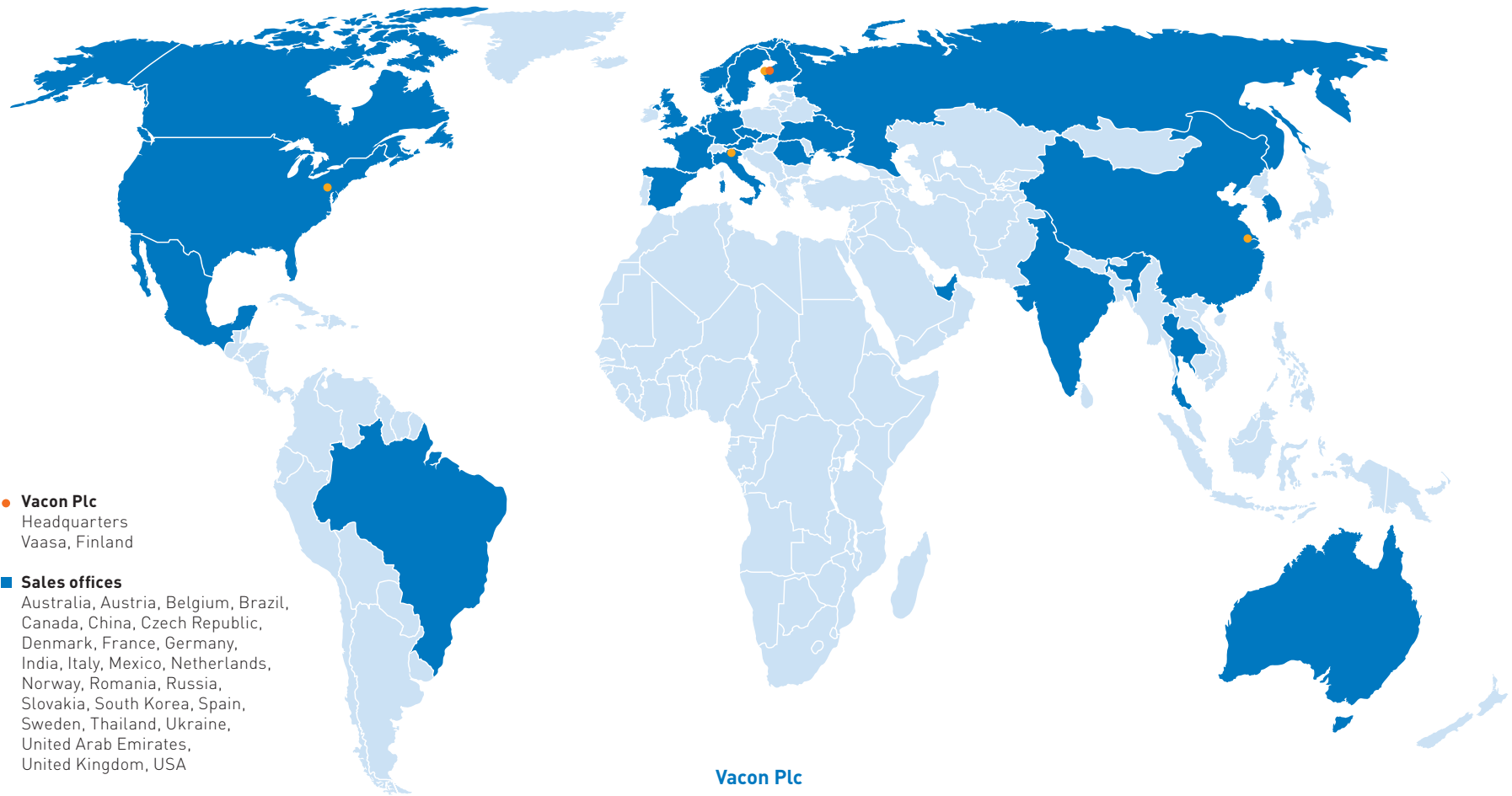
Johanna Koskinen, Investor Relations  
Tel. +358 201 212 528  
Fax +358 201 212 208  
[johanna.koskinen@vacom.com](mailto:johanna.koskinen@vacom.com)

### Analyst coverage

To Vacon's knowledge, at least the following brokers and financial analysts monitor Vacon's development. They have analyzed Vacon and drawn up reports and comments on their own initiative, and they are able to evaluate the company as an investment. Vacon takes no responsibility for the opinions expressed in the analyses.

Name	Company	Telephone
Timo Heinonen	Carnegie Investment Bank AB	+358 9 6187 1234
Karan Khemani	Cazenove Equities	+44 (0)20 7155 6209
Jyri Tuomola	Danske Markets Equities	+358 10 236 4782
Artem Beletski	Enskilda Securities AB Helsinki	+358 9 616 28 729
Antti Kansanen	Evli Pankki Ltd	+358 9 4766 9149
Michael Schröder	FIM	+358 50 551 4351
Malcolm Monteiro	Goldman Sachs	+44 20 7774 1363
Tom Skogman	Handelsbanken Securities	+358 10 444 2752
Pasi Väisänen	Nordea Bank Ab	+358 9 165 59 943
Hannu Rauhala	Pohjola	+358 10 252 4392
Tomi Tiilola	Swedbank	+358 40 721 2245
Ville Lähde	Ålandsbanken Equities	+358 204 293 769





● **Vacon Plc**  
Headquarters  
Vaasa, Finland

■ **Sales offices**  
Australia, Austria, Belgium, Brazil,  
Canada, China, Czech Republic,  
Denmark, France, Germany,  
India, Italy, Mexico, Netherlands,  
Norway, Romania, Russia,  
Slovakia, South Korea, Spain,  
Sweden, Thailand, Ukraine,  
United Arab Emirates,  
United Kingdom, USA

● **Production plants**  
China, Finland, Italy, USA

**Vacon Plc**  
Headquarters  
Runsorintie 7, 65380 Vaasa, Finland  
Tel. +358 (0)201 2121  
Fax +358 (0)201 212 205  
firstname.lastname@vacon.com

Worldwide contact information is available at [www.vacon.com](http://www.vacon.com)

[www.vacon.com](http://www.vacon.com)