ANNUAL REPORT 2007

VACON
DRIVEN BY DRIVES

AC DRIVE

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

CONTENT

Vacon was established in 1993 from a passion to develop and produce AC drives globally. It is a matter of honour for Vacon to offer customers efficient, reliable and easy to use means for improving process control and saving energy and costs. Vacon's solutions represent clean technology. They can be used to control the speed of electric motors used by industry and municipal engineering, and in power generation using renewable energy.

VACON IN BRIEF

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

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

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

Key figures

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

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

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

MISSION

Every AC motor deserves a Vacon drive.

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

VALUES

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

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

VISION

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

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

Vacon AC drives

are cleantech

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

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

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

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

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

Concern over climate warming has increased interest in the efficient use of energy and in AC drives. Electric motors consume about 30 per cent of the electricity used in the world. Almost a third of this could be saved by increasing the use of AC drives and energy-efficient electric motors. In this way it would be possible to achieve a 10 per cent saving in total global power consumption, which in turn would cut greenhouse gas emissions significantly. Vacon's mission "Every AC motor deserves a Vacon drive" unites all of us at Vacon with action that aims to improve the living environment of the future.

ENERGY EFFICIENCY REQUIREMENTS BOOST DEMAND

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

Firm foothold in America

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

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

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

The excellent market prospects and Vacon's strong growth also mean that investments are needed in production capacity. During the past year the company expanded its production premises in China and took the decision to expand its manufacturing plant in Finland. With these investments Vacon will be prepared to grow in the next few years at a much higher rate than market growth.

Strong prospects stimulate growth

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

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

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

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

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

February 2008

Vesa Laisi
President and CEO
Vacon Group

THE YEAR 2007

Major contracts during the year

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

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

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

Vacon and WWF Finland join forces to combat climate change

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

Vacon 10 – new era for micro drives

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

New service center opened in the Netherlands

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

Factory expansion in China and Finland

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

R&D unit established in China

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

Frost & Sullivan award for Vacon's new micro drive

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

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

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

The global AC drive market is in healthy shape. The market had a value of about USD 7.3 billion. The market grew 14 per cent from the previous year.*

EXPENSIVE ENERGY SUPPORTS GROWTH

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

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

Fastest growth in developing markets

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

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

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

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

Energy efficiency the most important sales argument

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

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

Small and easy to use

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

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

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

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

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

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

IMS: growth strongest in Asia

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

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

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

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

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

What regional differences are there in the AC drive markets?

The fastest growing area is the Asia-Pacific region, which grew by almost 20 per cent in 2006. The EMEA region (Europe, Middle East and Africa) grew by about 15 per cent. This was due in particular to the rapidly expanding engineering industry. The Americas region grew by 11 per cent. Growth in Japan is estimated to have been just five per cent. The rise in the price of energy has not had such a big impact in Japan, since energy prices have been high there for a long time and AC drives have been more common there than elsewhere in the world.

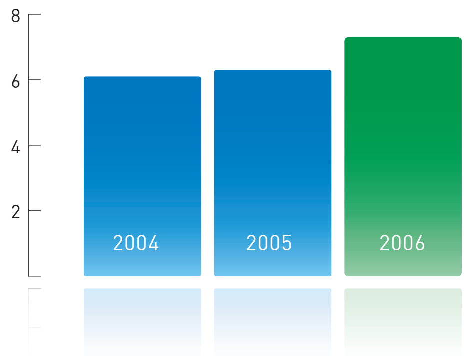
Can you name industrial sectors where demand for AC drives is growing most?

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

How is the AC drive market expected to develop?

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

Global AC drives market (billion $)



Vacon aims to grow profitably and considerably faster than average growth in the sector. Growth will mainly come organically. Factors that will help to achieve the operating profit target are expanding the product range to higher power drives, launching the new product generation, transferring the production of the components used in AC drives to countries with even lower costs, and reducing currency risk.

GLOBAL PRESENCE AND PRODUCT LEADERSHIP REINFORCE VACON

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

Global product leadership mindset sets direction for product development and production

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

A global network combined with local production makes Vacon a more attractive partner. Vacon is paying increasing attention to customer relationship management and is continuously looking for customized solutions. Mass customization gives customers exactly the right AC drives for their needs.

International expansion continues systematically

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

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

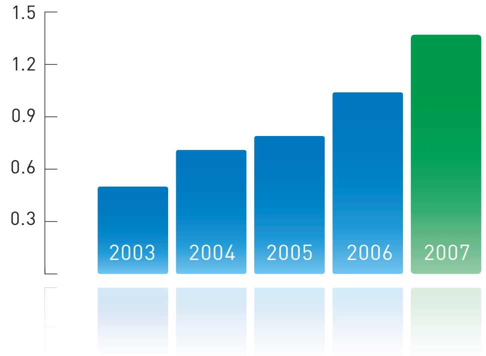
The Vacon brand is being strengthened. Vacon is continuously improving process management in the areas of logistics, customer satisfaction, production and support functions. The company's success is based on outstanding products and services, high quality and cost-efficiency, as well as on logistic speed, a customer-directed way of working, and a passionate attitude.

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

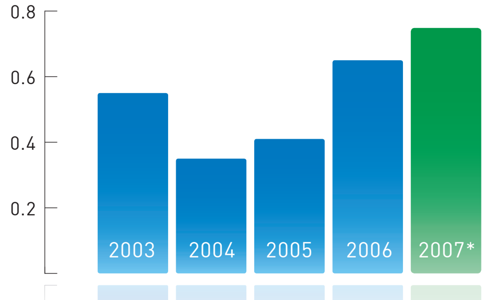
Financial targets by the end of the year 2012

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

Earnings per share, €

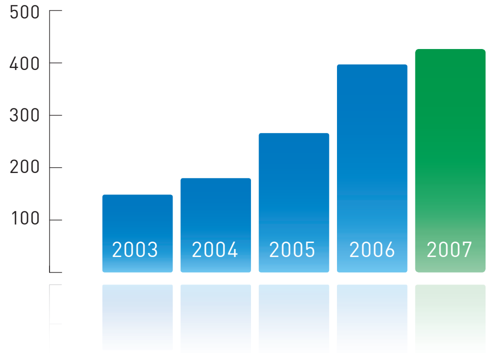


Dividend per share, €

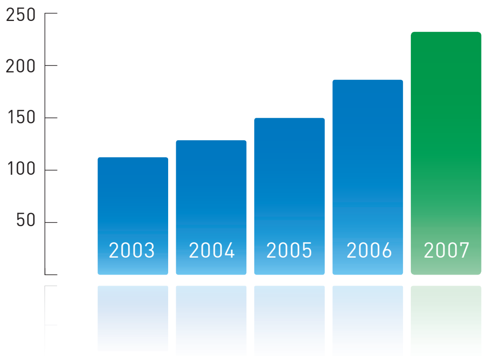


* The 2007 dividend is the Board of Directors´proposal to the Annual General Meeting.

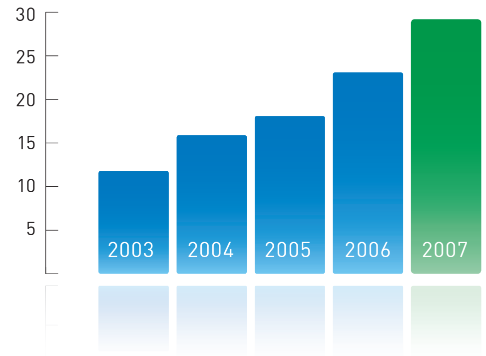
Market capitalization, M€



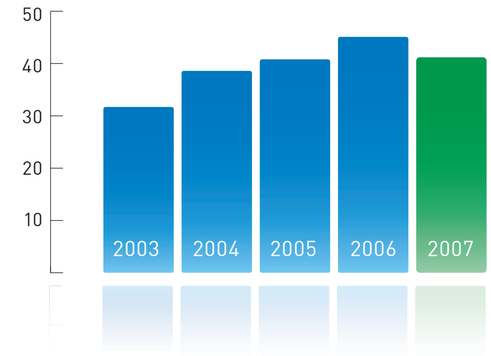
Revenues, M€



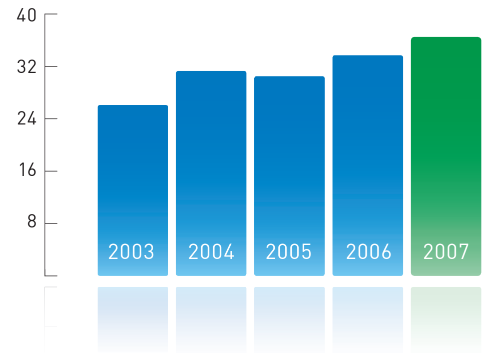
Operating profit, M€



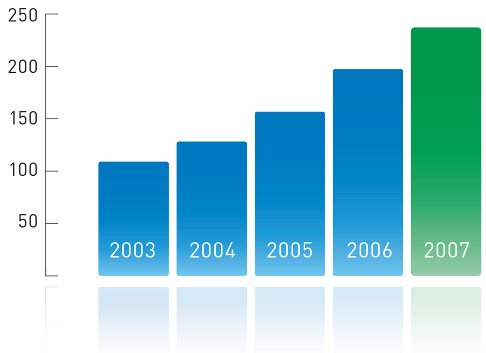
Return on investment, %



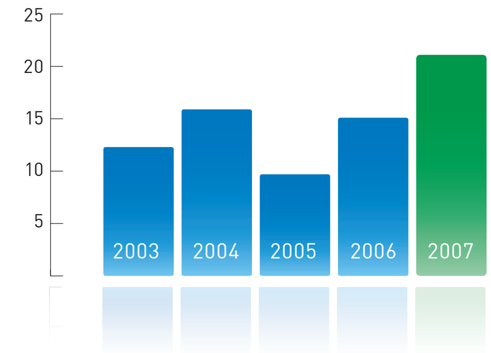
Return on equity, %



Orders received, M€



Cash flow from operations, M€



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

NEW GENERATION

OF PRODUCTS AIMS AT USER-FRIENDLINESS

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

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

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

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

Product leadership cannot be achieved by copying

Vacon is a supplier of AC drives that in all its business concentrates only on developing AC drives. Product leadership requires long-term R&D efforts. Vacon's R&D investments have for several years been about seven per cent of revenues. The number of R&D personnel has also grown significantly. This past year the number of employees working on R&D rose for the first time to over 100.

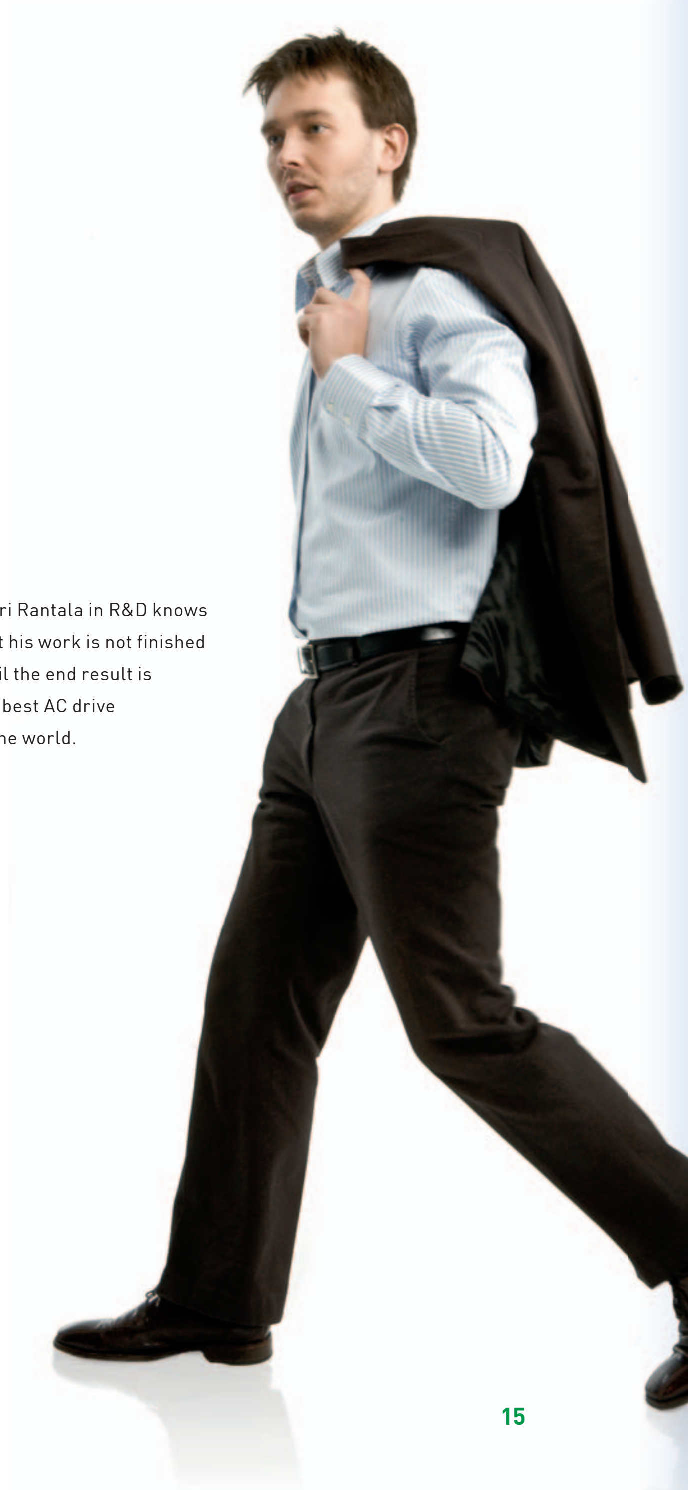
Vacon is aiming to make AC drives more suitable for different customer applications, so that more and more customers can enhance their energy usage with AC drives. Vacon is placing increasing emphasis on eco-friendly factors in the choice of raw materials for AC drives and in its production processes.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

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

Strengthening global presence

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

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



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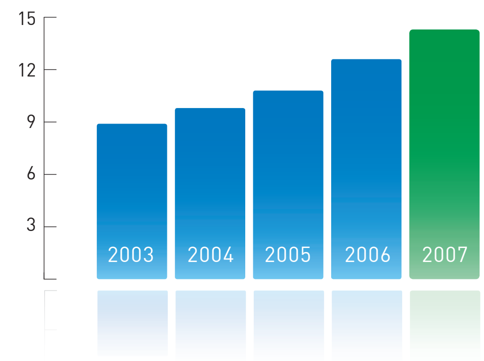
Petri Rantala in R&D knows that his work is not finished until the end result is the best AC drive in the world.

R&D costs, M€



The customer comes back,

the product does not

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

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

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

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

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

FLEXIBLE, EFFICIENT

PRODUCTION LIVES AND BREATHES IN TIME WITH THE CUSTOMER

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

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

Vacon currently manufactures AC drives in Finland and China. In addition to the main factories, Vacon also has a production line in Italy. This production line makes AC drives for the needs of customers in the vicinity. Some of these are global OEM customers. Adapting products as close as possible to the customer gives flexible production and short delivery times. Delivery times for the Italian production line are from one to two days from receipt of order. Following the purchase of the AC drive operations of TB Wood's, the number of production units will increase in 2008.

Major expansions to production

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

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

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

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

NEW CUSTOMERS

AND BUSINESS SECTORS

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

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

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

Growth in developing markets

The US market did not match Vacon's targets due to the weak dollar. The next step for Vacon is to strengthen its presence and identity in the important North American market through the purchase of the AC drive business of TB Wood's. Awareness of Vacon in South America increased according to plan. A new office was inaugurated in Brazil and it started operations in a favourable climate. Sales in the Middle East also increased well.

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

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

New micro drive a success

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

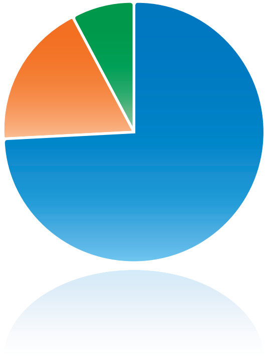
The product will raise Vacon's visibility profile, for the Vacon 10 drive belongs to the product group which is sold most in the world.

Strong performance by multichannel sales

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

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

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



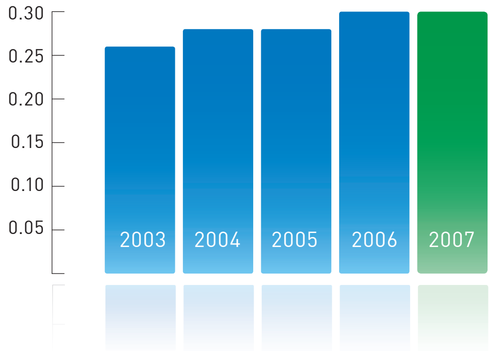
Revenues by market area 2007

Europe, Middle East and Africa	74.3 %
North and South America	18.1 %
Asia and Pacific	7.6 %

Revenues by distribution channel 2007

Direct sales	42.6 %
Distributors	13.5 %
OEM	24.3 %
Brand label	19.6 %

Average sales/personnel, M€



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

Vacon strengthened its position

in India, Australia and Brazil

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

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

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

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

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

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

THE WORLD NEEDS CLEAN TECHNOLOGY

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

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

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

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

Corporate responsibility governs all activities

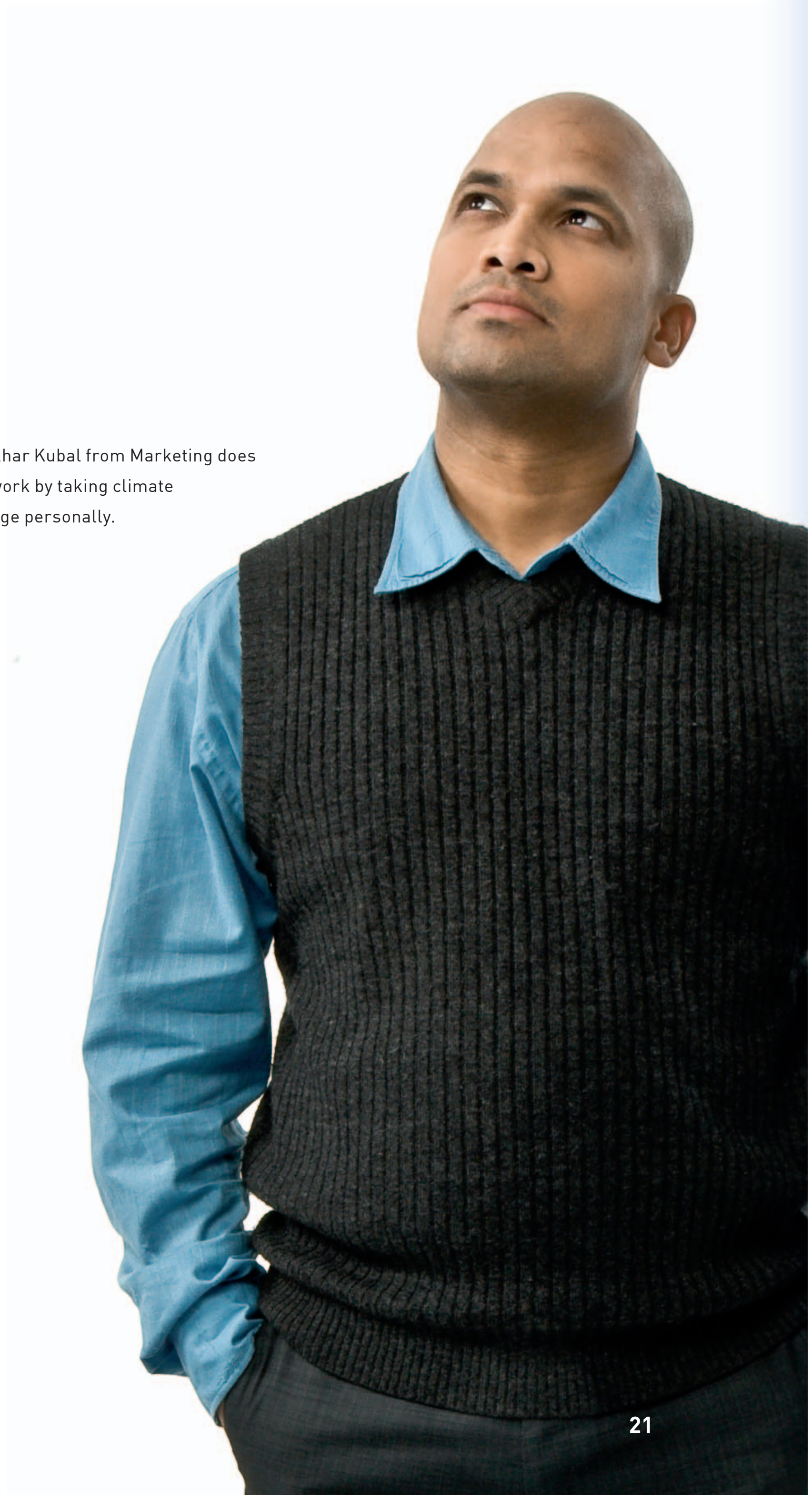
Responsible business operations comprise three interrelated areas: financial, social and environmental responsibility. Vacon's business operations are based on the company's mission, vision, strategy and values, as well as on the changing needs of stakeholders and of society.

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

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

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

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



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

Vacon and WWF Finland cooperate

to counter climate change

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

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

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

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

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

ENVIRONMENTAL
MATTERS ARE DEVELOPED AS PART OF BUSINESS OPERATIONS

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

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

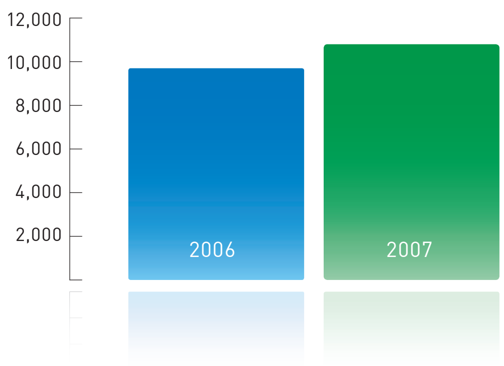
Lead-free

Vacon has committed itself to complying with environmental legislation and regulations. During 2007 Vacon undertook to comply with the EU's Restriction of Hazardous Substances Directive. With the new generation AC drives and in the production of the NX generation drives, Vacon started manufacturing completely lead-free products.

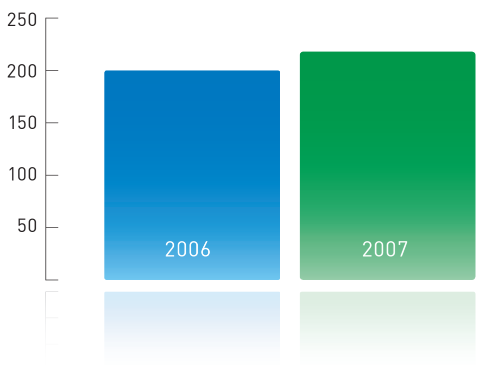
During the year 2007 no accidents were reported, nor were any cases of exceeding permit limits in any phase of production. No emissions were released from production into the air or the water system. In waste management the focus was on sorting and recycling materials. During the year 2007 particular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

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

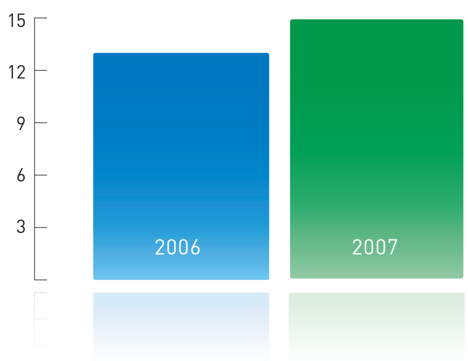
Energy consumption, MWh



Recycling of electronic waste, 1 000 kg



Other recyclable waste, 1 000 kg



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

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

ARE YOU AMBITIOUS ENOUGH TO MAKE THE DIFFERENCE?

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

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

Values form governing principles for human resources policy

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

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

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

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

Closer monitoring of occupational safety

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

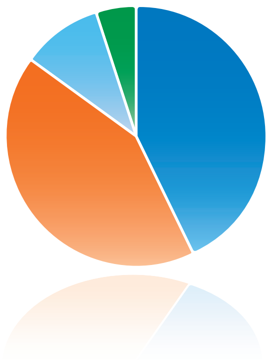
Vacon also requires suppliers and subcontractors to observe occupational health and safety regulations. The operations of partners are monitored regularly.

The personnel survey was carried out in September. Altogether 92 per cent of Vacon personnel answered the survey, which can be considered an excellent response. Overall employees considered the company's working environment to be good, and there were no significant changes in this during the year. The figures for efficiency and flexibility had improved. Personnel considered that promotion opportunities were good and also had confidence in the future success of the company.

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

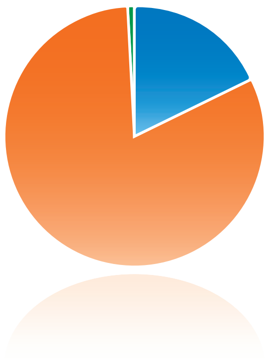
Personnel in figures 2007

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



Personnel by function in 2007

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



Personnel by region in 2007

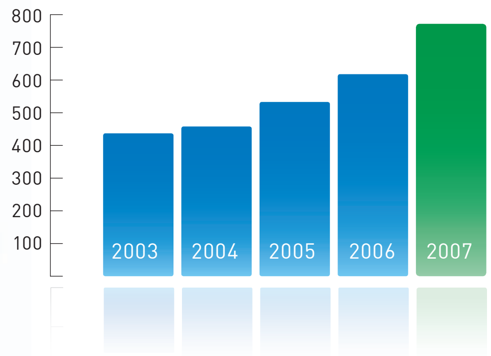
Europe, Middle East and Africa	81 %
Asia and Pacific	18 %
North and South America	1 %

Personnel by education in 2007

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

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

Number of employed on average



Vacon Group operates in accordance with the principles for good corporate governance. The Group applies best practices and observes current rules and regulations. Vacon Group's administration complies with the Finnish Companies Act and the Articles of Association of Vacon Plc. Vacon's shares are quoted on the OMX Nordic Exchange Helsinki. The Company complies with the regulations and guidelines issued by the Nordic Exchange and the Financial Supervision Authority for listed companies. In addition Vacon Plc complies with the Corporate Governance Recommendation for Listed Companies issued by Nordic Exchange Helsinki, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers.

CORPORATE GOVERNANCE

General Meeting of Shareholders

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

The main matters under the authority of General Meetings are:

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

Invitation to General Meetings

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

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

Attending the General Meetings

Those wishing to attend the General Meeting must inform the Company by the deadline stated in the notice of meeting. Shareholders may attend the meeting themselves or through an authorised representative. Each shareholder or representative may also have one assistant at the meeting. Minutes are taken at the General Meeting and are made available to shareholders for inspection two weeks after the meeting. The decisions taken by the General Meeting are also published in a stock exchange release immediately after the meeting.

Attendance at General Meetings of Board members and President

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

Decision-making

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

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

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

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

Risk management

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

Insider dealing

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

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

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

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

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

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

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

Audit

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

The scope and contents of the audit are defined so that they take into account the fact that the company does not have its own internal audit organization. Vacon Plc paid the auditors fees of EUR 115,000 for the 2007 audit. In addition, the authorized public accountants were paid fees of EUR 57,000 for services not related to audit.

Composition and term of office of Board of Directors

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

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

Duties of the Board of Directors

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

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

- confirms the Company's long-term goals and strategy
- approves the Group's operations plan, budget and financial plan, and monitors how these are implemented
- decides on individual major and strategically important investments and approves the investment programmes of Group companies
- monitors the Group's financial performance and how its goals are being met
- appoints the President, Executive Vice President and members of the Management Team, and decides on the composition of the boards of directors of Group companies
- decides on the principles for bonus and incentive schemes
- considers and approves interim reports, consolidated financial statements and the annual report

Evaluation of independence

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

Decision-making

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

Meeting practice and self-assessment

The Board of Directors meets about 10 times a year. The Board of Directors has not allocated special areas of focus for its members to monitor business operations. Matters are presented at meetings by the President of Vacon Plc or, at his request, by another member of the Management Team. According to the Board of Directors' rules of procedure, the President ensures that the Board obtains sufficient information to assess the operations and financial situation of the Group. The President also supervises the implementation of Board decisions and reports to the Board on any deficiencies or problems in implementation. The secretary to the Board of Directors is Stefan Wikman, attorney from Roschier Holmberg, Attorneys Ltd. The Board of Directors regularly assesses its operations and working procedures by carrying out a self-assessment once a year.

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

Board of Directors' fees and other benefits

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

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

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

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

Committees

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

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

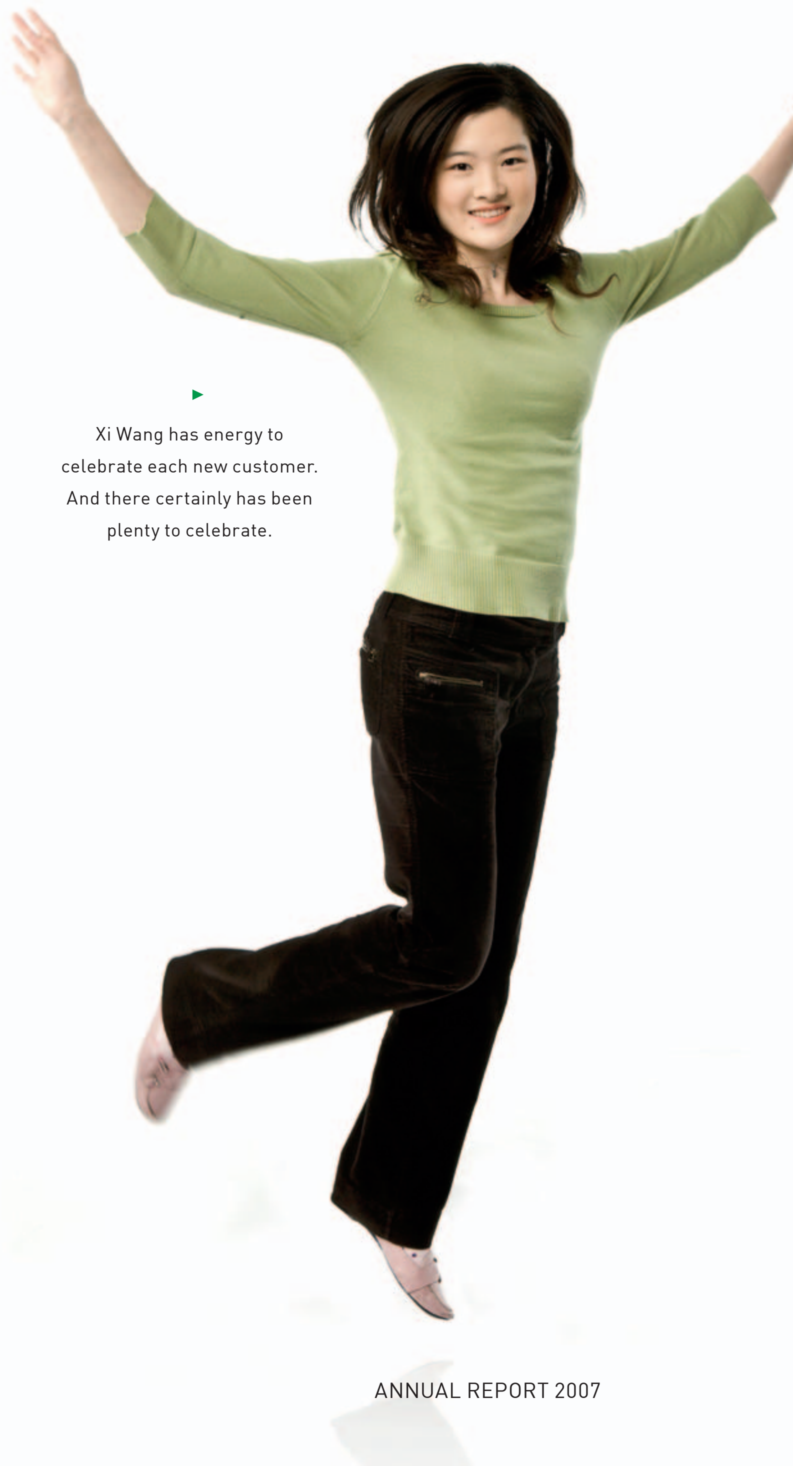
The President and Management Team

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

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

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

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



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

BOARD MEMBERS

Stefan Wikman, secretary of the board
Born 1956, LL.M. (Law)
Partner of Roschier Attorneys Ltd.
Delegation member at:
- Harry Schaumans Stiftelse
- Stiftelsen för Åbo Akademi
- Stiftelsen för Österbottens högskola.

No Vacon Plc shares.

Kalle Heikkinen, board member
Born 1956, MBA, M.Sc. (Social Sciences), M.A. (Communications)
Managing Partner, Nordic Adviser Group.
Board member since 2004.
Board member at:
- Longhorn Capital Oy (chair)
- Harvard Club ry. (chair).

Delegation member at:
- Finnish Cultural Foundation
- Harvard Fund (director of board).

No Vacon Plc shares.

Pekka Ahlqvist, board member
Born 1946, M.Sc. (Eng.), MBA
Board member since 2004.
No Vacon Plc shares.

Mauri Holma, board member
Born 1950, B.Sc. (Eng.)
President and CEO, Vaasa Engineering Ltd.
Board member since 1993.
Board member at:

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

347,171 Vacon Plc shares.

Jan Inborr, chairman
Born 1948, B.Sc. (Econ.)
President and CEO, Ahlström Capital Oy.
Board member since 2002.
Board member at:

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

No Vacon Plc shares.

Jari Eklund, board member
Born 1963, M.Sc. (Econ.)
Investment Director,
Tapiola Insurance Group.
Board member since 2001.
Board member at:

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

No Vacon Plc shares.

Veijo Karppinen, vice chairman
Born 1950, M.Sc. (Eng.)
President, VNT Management Ltd
until November 15, 2007
Board member since 1993.
Board member at:

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

209,349 Vacon Plc shares.

Ownership on December 31, 2007.

MANAGEMENT TEAM

1. Vesa Laisi
President and CEO
Born 1957, M.Sc. (Eng.), M.Sc. (Econ.)
Employed by the company since 2002.
Board member at: Finnfacts (chair) and Teknologiateollisuus ry.
6,656 Vacon Plc shares.

2. Heikki Hiltunen
Executive Vice President, Products and Markets
Born 1962, B.Sc. (Eng.)
Employed by the company since 2002.
5,120 Vacon Plc shares.

3. Tuula Hautamäki
Vice President, Human Resources, Information Technology and Process Development
Born 1964, M. Sc. (Eng.), M.Sc. (Econ.)
Employed by the company since 2000.
7,680 Vacon Plc shares.

4. Dan Isaksson
Vice President, Corporate Development and Solution Customers
President, Vacon Inc. as of 20 Dec, 2007
Born 1965, M.Sc. (Eng.), MBA
Employed by the company since 1999.
2,156 Vacon Plc shares.

5. Timo Kasi
Vice President, R&D
Born 1966, M.Sc. (Eng.)
Employed by the company since 1999.
5,037 Vacon Plc shares.

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

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

Extended Management Team

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

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

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

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

Ownership on December 31, 2007.

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

RISK MANAGEMENT

IS AN INTEGRAL PART OF MANAGEMENT

How does Vacon analyse risks?

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

How does Vacon monitor risks?

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

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

Each risk is analyzed separately on the basis of its seriousness and its probability. It is not possible to eliminate all risks; a risk can be consciously accepted. Sometimes a company has in fact to dare to take risks in order to succeed. It is also possible to try and limit, concentrate or diversify risks. Some risks can be prevented with technical solutions, such as fire protection equipment. And some risks can be passed on with insurance. An extremely important factor in risk management is training the entire personnel and keeping them informed.

Who is responsible for risk management?

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

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

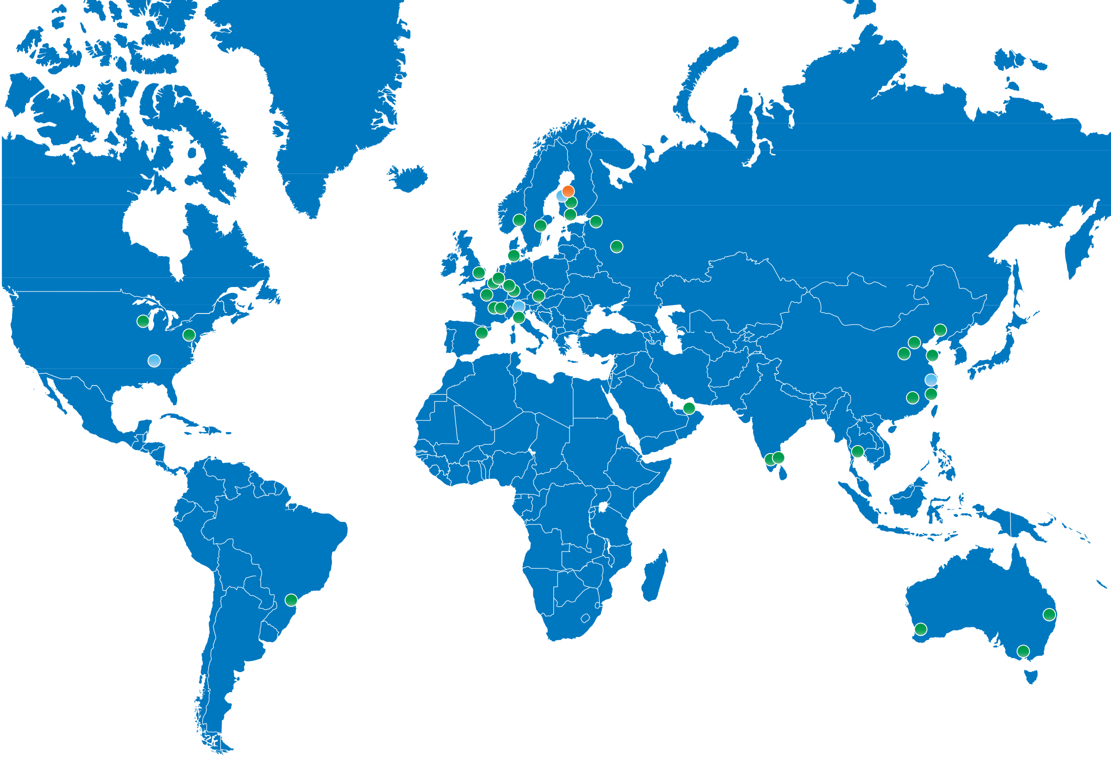
We consider that the most important matter which must not be compromised is ensuring the safety of employees, customers and partners, and we insist on this from all our subcontractors and partners. Ensuring the safety of people is first on our list.

Vice President, Finance and Control and CFO Mika Leppänen

What risks does Vacon face relating to financing?

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

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



VACON
DRIVEN BY DRIVES

Vacon Plc

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Internet address: **www.vacon.com**
Current addresses and telephone numbers for all our business locations can be found under: Contact -> Vacon worldwide.

Sales offices

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

Production

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

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

WWW.VACON.COM

DRIVEN BY DRIVES

FINANCIAL STATEMENTS 2007

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BOARD OF DIRECTORS' REPORT 1 JANUARY – 31 DECEMBER 2007

Year 2007

The clean technology market is growing strongly. The efficient use of energy and renewable energy sources will play an increasingly important role in the future. The AC drive is one of the key products in both areas.

Demand for AC drives remained strong during 2007 and Vacon grew by more than 20 per cent in line with its set target. The company's profitability improved slightly from the previous year despite the weakening of the US dollar, and the operating profit was 12.6 per cent of net sales. The earnings per share for the financial year was EUR 1.37.

According to market surveys, the AC drive market grew by about 9 % in 2007. The growth in the AC drive market derives from rising energy prices, the increase in the level of automation, and falling electronics prices. Worldwide market growth was fastest in Asia. The rapid developments in the economies of China and India in particular were reflected in demand for AC drives. Europe and North America retained their position as areas of stable growth. Market surveys show that during the past year the Asian market overtook in size the South and North American market. Demand for AC drives is brisk at the moment and the prospects for 2008 are positive.

In December Vacon announced that it was buying the AC drives business of US company TB Wood's. Following this acquisition Vacon has sales on all continents and R&D and production on three continents. The transaction comprised factories in the USA and Italy and sales companies in India and Germany. The acquisition significantly improves Vacon's growth potential and market position, since the products and customer bases of the two companies complement each other. The potential market for Vacon grew by USD 300 million due to the extended product portfolio.

As a product company Vacon's business operations are based on a wide product offering. Work on developing the new generation products continued on schedule. In November Vacon launched the new Vacon 10 micro drive family, some of the smallest drives on the market, which is extremely suitable for OEMs and is priced competitively.

During 2007 the factory in China was extended and work started on enlarging the Vaasa factory at the end of 2007.

Global position

In 2007, altogether 74.3 % of Vacon's revenues came from Europe, Middle East and Africa (71.6 % in 2006), 18.1 % (20.9 %) from North and South America, and 7.6 % (7.5 %) from the Asia and Pacific region.

Vacon's 2007 revenues by distribution channel were as follows: own direct sales 42.6 % (41.0 %), distributors 13.5 % (13.3 %), OEM 24.3 % (23.6 %) and brand label customers 19.6 % (22.2 %). Orders received by the Group in 2007 totalled EUR 237.2 (EUR 197.4) million. The Group's order book at the end of the year stood at EUR 34.8 (29.7) million.

Good profit and strong balance sheet

Consolidated revenues in 2007 rose 24.6 per cent to EUR 232.2 million (EUR 186.4 million in 2006). The parent company Vacon Plc had revenues of EUR 200.2 million. The consolidated operating profit was EUR 29.2 (23.1) million and the profit for the period was EUR 21.4 (16.1) million. Earnings per share (EPS) rose to EUR 1.37 (1.04). Key factors in the growth in revenues and profit were Vacon's extensive, competitive product offering and the strengthening of the Group's own sales network and of production operations.

The Group's cash flow from operations was EUR 21.1 (15.1) million positive. The Group financed its growth in 2007 from income. The consolidated balance sheet total was EUR 123.2 million. The loan taken at the end of December to finance the TB Wood's acquisition had an impact on the balance sheet total, since it was included in the Group's cash and cash equivalents at year end. Vacon's equity ratio remained strong at 52.9 % (61.7 %). Gearing was -17.1 % (-16.6 %). The return on investment was 41.2 % (45.1 %), and the return on equity was 36.5 % (33.7 %).

Key figures:

	2007	2006	2005
Revenues, MEUR	232.2	186.4	149.9
Operating profit, MEUR	29.2	23.1	18.1
Operating profit, % of revenues	12.6	12.4	12.1
Return on equity, %	36.5	33.7	30.5
Equity ratio, %	52.9	61.7	56.8

Business strategy

AC drives are a key product in increasing energy efficiency and in utilizing renewable energy sources. This creates a solid base for long-term growth in the AC drives business. By focusing one hundred per cent on AC drives, Vacon aims to grow profitably and much faster than the average growth rate in the sector.

The cornerstones of Vacon's strategy are systematic development of product leadership and international expansion to ensure growth. One of the widest range of products on the market, heavy investment in R&D, and flexible and cost-effective production support product leadership. The acquisition of the AC drives business of TB Wood's will enable Vacon to support its customers in all main market areas and with a broader product portfolio.

The company's financial goal is to achieve revenues of EUR 500 million and an operating profit (EBIT) of more than 14 % by 2012. Vacon has also set an annual target for return on equity (ROE) of more than 30 %. Most of this growth will be organic, but Vacon does not exclude the possibility of further acquisitions. Organic growth will be financed by cash flow from operations, and in the case of further acquisitions the gearing target is a maximum of 60 %. Factors that will help improve the operating profit are expanding the product selection into higher power drives, launching the new product generation, transferring production of the components used in AC drives to countries with even lower costs, and the reduction in the US dollar risk as a result of the acquisition of the TB Wood's AC drives business.

Vacon's success now and in the future is based on outstanding products and services, quality, a brand with a growing global presence, cost-efficiency and logistic speed, a customer-oriented way of working, and a passionate attitude. Vacon will continue its international expansion in 2008 in the areas of product development, sales, services and production.

It is the policy of Vacon's Board of Directors to propose for approval by the Annual General Meeting a dividend consistent with the company's financial performance. The goal is to pay a dividend of about 50 % of the profit for the period. The level of dividend takes into account the financing required to expand operations.

Changes in corporate structure

In December Vacon announced that it was purchasing the AC drives business of TB Wood's, part of US-based Altra Holdings Inc. The transaction included factories in the USA and Italy and sales companies in India and Germany. The sale was completed at the beginning of January 2008.

To integrate the AC drives business of TB Wood's, a new subsidiary was established in the USA in December. The new subsidiary Vacon Inc. is responsible for the North American AC drives business of Vacon Group and TB Wood's. Dan Isaksson, Vice President, Corporate Development at Vacon Group, was appointed president of the subsidiary.

After these changes Vacon's own sales network comprises 18 subsidiaries and branch offices in Brazil, the United Arab Emirates and Thailand.

Investments

Gross investments by the Group in 2007 totalled EUR 9.1 (8.5) million.

Expenditure focused on increasing and maintaining production capacity and on information systems.

As well as expanding production at the factory in China, Vacon published its plans to enlarge the production area at the Vaasa factory by altogether 9,000 square metres during 2008. Work on enlarging the Vaasa factory got underway at the end of 2007.

Research and development

R&D costs during the year were EUR 14.3 (12.6) million, and EUR 1.9 (0.6) million of this was capitalized as development costs. R&D costs accounted for 6.2 % (6.7 %) of the Group's revenues. Amortization of capitalized development costs totalled EUR 0.5 million in 2007.

During 2007 Vacon established a product development unit at the Suzhou factory. The unit's task is to ensure that Vacon's products are appropriate for customers in their market area.

In November Vacon launched the new Vacon 10 micro drive family, which is among the smallest drives on the market, is particularly suitable for OEMs and is competitively priced. Consulting company Frost & Sullivan named the new Vacon 10 micro drive as the 2008 Global Micro Drives Product of the Year for OEMs in the under 5.5 kW series.

Work on developing new products continues in accordance with the company's plans.

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

Personnel structure and changes in organization

The number of Vacon personnel increased by 194 during 2007. At the end of December the Group employed 869 (675) people of whom 555 (447) were in Finland and 314 (228) in other countries.

The number of personnel by function is as follows: sales and marketing 42 (44) %, production 41 (39) %, R&D 12 (13) % and administration 5 (4) %. The average age of personnel was 35 (35) years. The average length of employment was 3.7 (4.1) years. 28 (27) % of personnel were women and 72 (73) % men. Personnel turnover was 10 (7) %.

The table below contains key figures concerning personnel.

	2007	2006	2005
Average number in year	772	618	533
Salaries and wages during the year, MEUR	31,2	25,3	21,4

Human resources strategy

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

The availability of manpower in Finland and around the world has become a factor with a vital impact on the human resources strategy. Attracting the best workers and keeping them at Vacon is also essential for Vacon's growth. Vacon aims to ensure the availability of workers with systematic advance planning and recruitment. The main focus in 2008 will be on successful recruiting to support growth. Recruitment is expected to continue strongly both in Finland and in the subsidiaries.

To encourage permanence among its work force, Vacon is developing the work of supervisory staff and its incentive schemes.

Compensation

Vacon has created a bonus scheme to which the entire personnel belongs and which entitles employees to up to two months extra salary if given targets are met. The criteria used include both corporate targets and individual or team targets. The share bonus scheme to provide long-term motivation and commitment for the Group´s management and key personnel continued in the year 2007.

Personnel and skills development

The focus for training remains developing strategic skills and supporting the work of supervisory staff. During 2007 the company focused on developing skills and the work of supervisory staff. More training was given than ever before. The year 2008 has been called the year of physical fitness, an important aspect of total wellbeing.

Employee well-being

Vacon's human resources policy is based on supporting the total wellbeing of employees. The special theme for the past year at Vacon was mental wellbeing.

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

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

The personnel survey was carried out in September. Altogether 92 % of Vacon personnel answered the survey, which can be considered an excellent response. Overall employees considered the company's working environment to be good, and there were no significant changes in this during the year. The figures for efficiency and flexibility had improved. Personnel considered that promotion opportunities were good and also had confidence in the future success of the company.

Equal opportunities

The assessment of the situation regarding equal opportunities at the work place required by the Finnish Equal Opportunities Act was carried out as soon as the Act came into force. The assessment looked into how women and men were placed in different jobs and examined the differences in salaries between women and men. The equal opportunities plan is updated each year in the company.

Environment

Environmental matters are developed as part of business operations

The products manufactured by Vacon, AC drives, save energy and play a part in achieving the objectives of sustainable development. Vacon's goal is to improve the ecofriendliness of its products throughout their lifecycle.

The company is committed to identifying and complying with environmental legislation and regulations that affect its operations. Vacon has an environmental management system certified by SGS-FIMKO that meets the requirements of the ISO 14 001 standard. Vacon aims in all its activities to choose raw materials, working methods and processes that cause the minimum harm to the environment. AC drives are made of plastic, steel, aluminium, electronic components, cables and circuit boards. The company arranges regular training to maintain the environmental skills of personnel.

The company carries out annual assessments of environmental aspects to which attention should be paid. The development managers belonging to the working group are responsible for the action taken to meet these targets within their own business processes.

Major environmental aspects and improvements made

Vacon has committed itself to complying with environmental legislation and regulations. Vacon uses the Design for Environment check list in the concept phase of product design, which helps make more efficient use of materials and resources and minimize the use of substances that harm the environment. The check list also complies with the EU's ROHS directive (on the restriction of the use of certain hazardous substances in electrical and electronic equipment). With the new generation AC drives and in the production of the NX generation drives, Vacon started manufacturing completely lead-free products, in accordance with the EU's directive.

Vacon requires its sub-contractors, suppliers and partners to have responsible operations and comply with environmental regulations. It recommends that subcontractors obtain ISO 14001 environmental certification. Compliance with environmental regulations is monitored regularly in connection with supplier assessments.

Level of environmental protection considering the nature and scope of operations

The company's manufacturing operations hardly pollute the air, water or the soil. The part of the production process that consumes most energy is product testing. Some of the electricity taken from the power network in product testing is fed back into the network using Vacon's own AC drive technology. Vacon Group's production process consumed about 10,800 (9,700) MWh of energy in 2007. It does not use water.

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

In 2007 about 15 (13) tonnes of electronic waste from production were recycled, and about 218 (200) tonnes of other recyclable material such as paper and wood.

Board Report in relation to other environmental reporting

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

Company ownership and corporate governance

Shares and shareholders

Vacon has a share capital of EUR 3,059,000, and this is divided into 15,295,000 fully paid shares. According to its Articles of Association, Vacon has a minimum share capital of one million (1,000,000) euros and a maximum share capital of four million (4,000,000) euros. Vacon has one share series with the trading code VAC1V. The share has a nominal value of EUR 0.20, and each share entitles the holder to one vote at the general meeting of shareholders.

In April 2007 the parent company paid a dividend of EUR 9.9 million, or EUR 0.65 per share (62.6 % of the earnings per share in the 2006 financial year). During 2007 a total of 8,241,357 shares – 54 % of the share stock – with a value of EUR 245.1 million were traded on the stock exchange. The highest share price during the year was EUR 38.0 and the lowest EUR 24.6. The closing price on the last day in 2007 was EUR 28.0 and the company had a market capitalization of EUR 426.5 million. Vacon had 4,036 registered shareholders according to the shareholder register updated on 31 December 2007. The number of nominee registered shares and shares registered outside Finland totalled 32.1 % of the total share stock.

Own shares

On 31 December 2007 Vacon Plc held a total of 62,812 of its own shares which it had acquired at an average price of EUR 12.46. This is 0.4 % 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

The members of the Board of Directors until the Annual General Meeting on 28 March 2007 were Pekka Ahlqvist, Jari Eklund, Kalle Heikkinen, Mauri Holma, Jan Inborr and Veijo Karppinen. The AGM re-elected all the members of the old Board of Directors. The term of office for Board members continues until the end of the following Annual General Meeting of Shareholders. At its organization meeting after the AGM the Board re-elected Jan Inborr as its chairman and Veijo Karppinen as vice chairman. Stefan Wikman is secretary to the Board. Vacon's President throughout the financial year was Vesa Laisi.

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 Pekka Pajamo, APA.

Risk management

Potential risks, which may have an impact on future profitability and development, have been defined on Vacon's risk map. The most significant risks are listed here:

- The risk that Vacon's products or operations cause injury or damage to the personnel or property of customers or third parties and thus endanger the continuation of their business operations.
- The risk that Vacon's R&D fails or is delayed in its development projects for new products or that products are unable to meet new customer requirements in terms of a product's performance or price/quality ratio.
- The risk that an unexpected harmful event endangers the delivery capability of Vacon's factories.
- The risk that, due to an unexpected harmful event, their financial situation or their problems with capacity, Vacon's main suppliers or component and software suppliers are unable to supply their products on time and in accordance with agreed quality criteria.
- The risk that, during the production process and testing, a quality defect is not noticed in a product, its components or software, 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.
- Sharp changes in currency exchange rates.

Events after end of year

Vacon completed the acquisition of the AC drives business of TB Wood's. Vacon paid USD 29 million for the business. The calculations for allocating the purchasing price and goodwill have not been completed yet. The loan and funds for the acquisition were in the balance sheet at year end.

The purchased drives business will be included in Vacon's consolidated financial statements as from the beginning of January 2008. The acquisition is not expected to have a significant impact on Vacon Group's earnings per share in 2008.

Prospects for 2008

No significant changes have taken place in Vacon's market prospects. The state of the market is expected to remain favourable in 2008. The AC drive is one of the most important tools in enhancing energy usage and an important component in renewable energy power plants. High energy prices, increasing automation and measures to reduce emissions increase the market for AC drives. Based on market surveys Vacon estimates that the AC drive market is growing at an annual rate of about 9 %.

AC drive demand is forecast to increase in Europe by about 9 %, in North America by more than 6 % and in Asia by much more than 10 %, with China and India the engines of growth. Investments in the growing markets in North America, Asia and Russia will reinforce Vacon's global market position.

The purchase of the TB Wood's AC drive business announced in December 2007 gives a significant boost to Vacon's growth potential and market position. The combined wide product selection and cost-efficiency give a competitive edge, and the renewal of the product range over the next few years is expected to strengthen Vacon's market position.

Vacon considers that potential risks to its financial performance in 2008 are problems that material suppliers may have with capacity, increasing problems with the availability of key components and increases in their prices, and the weakening of the US dollar.

Revenues in 2008 are forecast to rise by more than 25 % (by more than 15 % on comparable figures) and profitability to weaken slightly from 2007 in consequence of integrating the TB Wood's AC drive business during the year. This is not, however, expected to have any material impact on Vacon Group's earnings per share in 2008. Earnings per share are forecast to exceed EUR 1.50 in 2008.

Board proposal for distribution of profit

At the end of the financial year the distributable equity of the parent company stands at EUR 44.2 million. The Board of Directors proposes to the Annual General Meeting of Shareholders to be held on 26 March 2008 that a dividend of EUR 0.75 per share be paid from the parent company's profit for the financial year 2007 of EUR 16.4 million and that the remainder of the profit for the year be transferred to retained earnings. According to this proposal, a total of EUR 11.4 million would be paid in dividend.

CONSOLIDATED FINANCIAL STATEMENTS

KEY FIGURES

	IFRS 2007	IFRS 2006	IFRS 2005	IFRS 2004	FAS 2003
Per share data					
Earnings per share, EUR	1.37	1.04	0.79	0.71	0.50
Equity per share, EUR	4.13	3.42	2.78	2.39	2.11
Dividend per share, EUR *)	0.75	0.65	0.41	0.35	0.55
Dividend payout ratio % *)	54.59	62.57	52.12	49.31	109.32
Effective dividend yield % *)	2.7	2.5	2.3	3.0	5.6
Price/earnings ratio	20.4	25.1	22.2	16.6	19.5
Share price development					
Lowest during the year, EUR	24.60	17.70	11.85	9.95	6.70
Highest during the year, EUR	38.00	26.99	17.50	11.99	10.65
Closing price at end of year, EUR	28.00	26.10	17.50	11.78	9.80
Average price for the year, EUR	30.01	22.60	14.68	11.00	8.95
Market capitalization, MEUR	426.50	397.10	266.00	180.00	148.50
Trading volume, share	8,241,357	4,439,458	5,693,881	3,427,027	4,231,544
Trading volume, %	54.1	29.2	37.5	22.6	27.9
Adjusted average number of shares during the financial year **)	15,226,997	15,209,303	15,203 147	15,186,805	15,150,000
Number of shares at end of year **)	15,232,188	15,213,428	15,199 740	15,282,200	15,150,000
Group's financial ratios					
Revenues, MEUR	232.2	186.4	149.9	128.6	112.3
Increase in revenues, %	24.6	24.3	16.6	14.5	15.2
Operating profit, MEUR	29.2	23.1	18.1	15.9	11.8
Increase in operating profit, %	26.4	27.6	13.8	N/A	19.2
Operating profit as % of revenues	12.6	12.4	12.1	12.4	10.5
Profit before taxes, MEUR	28.8	22.7	17.7	15.9	11.7
Profit before taxes as % of revenues	12.4	12.2	11.8	12.4	10.4
Return on equity, %	36.5	33.7	30.5	31.3	26.1
Return on investments, %	41.2	45.1	40.8	38.6	31.7
Interest-bearing net liabilities, MEUR	-11.0	-8.8	-7.9	-10.6	-6.2
Net gearing (%)	-17.1	-16.6	-18.3	-28.9	-19.1
Equity ratio (%)	52.9	61.7	56.8	56.2	55.8
Gross capital expenditure, MEUR	9.1	8.5	6.6	4.6	4.8
Gross capital expenditure as % of revenues	3.9	4.6	4.4	3.6	4.3
Research and development costs, MEUR	14.3	12.6	10.8	9.8	8.9
Research and development costs as % of revenues	6.2	6.7	7.2	7.6	7.9
Personnel at the end of the period	869	675	577	469	436
Order book, MEUR	34.8	29.7	18.8	12.0	12.3

*) The 2007 dividend is the Board of Directors' proposal to the Annual General Meeting.
**) The average number of shares during the year was 15,226,997. The total number of shares outstanding was 15,232,188.

CALCULATION OF KEY FIGURES

Earnings per share =	Profit for the financial year attributable to equity holders of the parent company / Adjusted average number of shares
Equity per share =	Equity attributable to the equity holders of the parent company / Adjusted number of shares at end of year
Dividend per share =	Dividend for the financial year / Adjusted number of shares at end of year
Dividend payout ratio =	Dividend for the financial year x 100 / Profit for the period attributable to equity holders of the parent company
Effective dividend yield =	Dividend per share x 100 / Adjusted closing share price at end of year
Price/earnings ratio =	Adjusted closing share price at end of year / Earnings per share
Return on equity =	Profit for the financial year x 100 / Shareholders' equity (incl. minority interest), average of the beginning and end of the year
Return on investment =	(Profit before taxes + interest and other financial expenses) x 100 / Balance sheet total - non-interest-bearing liabilities, average of the beginning and end of the year
Equity ratio =	Shareholders' equity (incl. minority interest) x 100 / Balance sheet total - advances received
Net gearing =	(Interest-bearing liabilities – cash, bank balances and financial assets) x 100 / Shareholders' equity (incl. minority interest)
Research and development costs =	Research and development 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-% =	Number of shares traded during the year x 100 / Adjusted average number of shares

CONSOLIDATED INCOME STATEMENT (IFRS)

EUR thousand	Note	Jan 1-Dec 31, 2007	%	Jan 1- Dec 31, 2006	%
Revenues	3, 4	**232,187**	**100,0**	**186,449**	**100,0**
Other operating income	5	177		250	
Change in inventories of finished goods and work in progress		1,379		1,469	
Materials and services		-123,048		-97,117	
Employee benefit costs	7	-38,928		-31,968	
Depreciation and amortization	8	-4,773		-4,213	
Other operating expenses	6	-37,746		-31,793	
Operating profit		**29,248**	**12.6**	**23,077**	**12.4**
Financial income	10	562		294	
Financial expenses	10	-1,049		-699	
Profit before taxes		**28,761**	**12.4**	**22,672**	**12.2**
Income taxes	11	-7,395		-6,557	
Profit for the financial year		**21,366**	**9.2**	**16,115**	**8.6**
Attributable to:					
Equity holders of the parent company	12	20,922		15,799	
Minority interest		444		316	
Earnings per share for profit attributable to the equity holders of the parent company:	12				
Basic earnings per share (EUR)		1.37		1.04	
Diluted earnings per share (EUR)		1.37		1.04	

CONSOLIDATED BALANCE SHEET (IFRS)

Assets

EUR thousand	Note	Dec 31, 2007	%	Dec 31, 2006	%
Non-current assets					
Goodwill	13	1,479		1,479	
Development costs	13	2,982		1,625	
Intangible assets	13	5,179		4,684	
Property, plant and equipment	14	14,696		13,261	
Financial receivables	17	158		566	
Deferred tax assets	11	1,547		1,099	
Other financial assets	18	2,176		1,597	
		28,217	22.9	24,311	28.0
Current assets					
Inventories	19	14,747		11,737	
Trade and other receivables	20	45,829		37,813	
Cash and cash equivalents	21	34,373		13,026	
		94,949	77.1	62,576	72.0
Total assets		**123,166**	**100.0**	**86,887**	**100.0**

Equity and liabilities

Equity attributable to equity holders of the parent company					
Share capital	22	3,059		3,059	
Share premium		4,966		4,966	
Other reserves		51		48	
Own shares		-1,171		-1,171	
Translation difference		-475		-117	
Fair value reserve	23	22		61	
Retained earnings		56,470		45,161	
		62,922	51.1	52,007	59.9
Minority interest		1,084	0.9	954	1.1
Total equity		**64,006**	**52.0**	**52,961**	**61.0**
Non-current liabilities					
Deferred tax liabilities	11	1,621		1,219	
Employee benefits	25	797		678	
Interest-bearing liabilities	26	19,143		1,828	
		21,561	17.5	3,725	4.3
Current liabilities					
Trade and other payables	27	30,887		25,610	
Income tax liabilities		1,614		1,509	
Provisions	28	838		652	
Interest-bearing liabilities	26	4,260		2,430	
		37,599	30.5	30,201	34.8
Total liabilities		**59,160**	**48.0**	**33,926**	**39.0**
Total equity and liabilities		**123,166**	**100.0**	**86,887**	**100.0**

CONSOLIDATED CASH FLOW STATEMENT (IFRS)

EUR thousand	Jan 1 - Dec 31, 2007	Jan 1 - Dec 31, 2006
Cash flow from operating activities		
Profit for the financial year	21,366	16,115
Adjustments:		
Depreciation	4,774	4,213
Financial income and expenses	487	405
Taxes	7,395	6,557
Other adjustments	70	-53
	34,092	27,237
Changes in working capital		
Change in inventories	-3,173	-2,629
Change in non-interest-bearing receivables	-8,375	-2,964
Change in non-interest-bearing liabilities	6,055	-78
	-5,493	-5,671
Interest received	453	240
Interest paid	-483	-348
Other financial items	-255	-195
Taxes paid	-7,220	-6,133
Cash flow from operating activities	**21,094**	**15,130**
Cash flow from investing activities		
Investments in tangible and intangible assets	-8,564	-6,942
Proceeds from the disposal of tangible and intangible assets	389	472
Loans granted	0	-1,365
Other investments	-579	-490
Change in long-term loan receivables	168	0
Proceeds from the disposal of other investments	0	270
Cash flow from investing activities	**-8,586**	**-8,055**
Cash flow from financing activities		
Share issue		143
Proceeds from long-term borrowings	21,892	437
Repayments on long-term loans	-188	-170
Proceeds from short-term borrowings	955	5,000
Repayments on short-term loans	-2,178	-4,251
Financial leasing payments	-252	-320
Dividends paid	-10,239	-6,337
Cash flow from financing activities	**9,990**	**-5,498**
Change in liquid funds	**22,498**	**1,577**
Liquid funds at beginning of period	13,026	11,560
Translation differences of liquid funds	-1,151	-111
Liquid funds at end of period	34,373	13,026

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of parent company									
	Share capital	Share premium	Other restricted reserves	Own shares	Translation difference	Revaluation fund	Retained earnings	Total	Minority interest	Total equity
EUR thousand										
Shareholders' equity on Dec 31, 2005	3 059	4 966	32	-1 171	-67	-106	35 601	42 314	499	42 813
Cash flow hedging:										
gains and losses entered in shareholders' equity						61		61		61
transferred as an adjustment to revenues						106		106		106
Translation difference					-104			-104		-104
Recognized taxes							6	6		6
Other changes			16				146	162	-11	151
Net income recorded directly in equity	0	0	16	0	-104	167	152	231	-11	220
Profit for the financial year							15,799	15,799	316	16,115
Total income and expenses recorded for the year	0	0	16	0	-104	167	15,951	16,030	305	16,335
Dividends paid							-6,337	-6,337		-6,337
Share repurchase								0	150	150
Equity on Dec 31, 2006	3,059	4,966	48	-1,171	-171	61	45,215	52,007	954	52,961
Cash flow hedging:										
gains and losses entered in shareholders' equity						22		22		22
transferred as an adjustment to revenues						-61		-61		-61
Translation difference					-304			-304		-304
Recognized taxes							-9	-9		-9
Other changes			3				245	248	-5	243
Net income recorded directly in equity	0	0	3	0	-304	-39	236	-104	-5	-109
Profit for the financial year							20,922	20,922	444	21,366
Total income and expenses recorded for the year	0	0	3	0	-304	-39	21,158	20,818	439	21,257
Dividends paid							-9,903	-9,903	-336	-10,239
Minority interest in new subsidiaries								0	27	27
Equity on Dec 31, 2007	3,059	4,966	51	-1,171	-475	22	56,470	62,922	1,084	64,006

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Vacon Plc is a Finnish public corporation that has been established in accordance with the laws of Finland. The company's domicile is in Vaasa. 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.

2. Accounting principles for the consolidated 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 31 December 2007 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 accounting and Community legislation.

Vacon adopted the IFRS standards on January 1, 2004 until which date the reporting was conducted in accordance with the Finnish Accounting Standards (FAS). For the transition, Vacon applied the First-Time Adoption of 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 thousand euros and it is based on the original acquisition cost unless otherwise stated in the accounting principles below.

The Group has applied as from 1 January 2007 the new standard IFRS 7 'Financial instruments: Disclosures in financial statements' and the amendment to IAS 1 'Presentation of financial statements – Information on equity to be presented in financial statements'. The changes mainly affect the notes to the financial statements,

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 period of useful economic life for tangible and intangible assets, the setting of provisions relating to the business operations, goodwill and deferred tax assets. 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. The identifiable assets and liabilities of acquired companies have been measured at fair value at the time of acquisition. The difference between the price paid for the company and its net assets measured 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.

Intra-group business transactions, receivables, liabilities, non-realized margins and intra-group profit distribution have been eliminated in the consolidation. Profit for the period is divided into the parent company owners' interest and minority interest. Minority interest is presented as an individual item under shareholders' 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 balance sheet, accumulated depreciation difference has been divided into deferred taxes and non-restricted equity.

Associated companies, in which Vacon has 20 to 50 % of the voting rights or in which Vacon exercises significant influence but has no controlling interest, are consolidated using the equity method. In accordance with this method, the Group's share of the associated companies' results is included in the consolidated income statement. In the consolidated balance sheet, the Group's share of the accumulated results since the acquisition of the company is presented as a part of the investment made in the associated company. If Vacon's share of the associated company's losses exceeds the carrying amount of the investment, the investment is recorded in the balance sheet at nil value and losses in excess of that value will be ignored unless the Group has obligations towards the associated companies. If the Group has other long-term investments that in fact are part of an investment company's net investment in the associated company, losses will be allocated to these investments after the share investment has been booked at nil value. The Group had no associated companies in 2007 nor at the end of 2006.

The joint venture Vacon Americas LLC has been consolidated according to the Group's ownership. During the financial period the joint venture had no personnel. Investments in other companies (Group's holding of shares and voting rights less than 20 %) are measured at fair value, apart from those cases where the fair value cannot be determined. They are then presented at acquisition cost.

Foreign currency items

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

Zao Vacon Drives, which operates in Russia, uses the euro as its business currency since goods purchases are made from the parent company mainly in euros. In addition a large part of the Russian subsidiary's costs are tied to the euro or the US dollar.

Transactions carried out in foreign currencies are recorded in the business currency at the exchange rate on 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 entered in sales and purchases translation differences, and translation differences from interest-bearing liabilities and receivables have been included 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 Group's shareholders' equity. 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 Group's shareholders' equity.

The cash flows of foreign subsidiaries have been translated into euros at the average monthly exchange rates.

Financial assets and liabilities

Financial assets

The Group's financial assets are classified in accordance with IAS 39 'Financial instruments – Recognition and measurement' in 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 when originally booked as recognized at fair value through profit and loss. Derivatives that do not fulfil 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 the Group does not hold them for trading purposes. They are valued at amortized acquisition cost. They are included in the balance sheet under current or long-term assets; under long-term assets if they mature in more than 12 months time.

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 long-term assets. Available-for-sale financial assets comprise shares and holdings in investment funds. They are measured at acquisition cost since the fair value cannot 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.

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 long-term 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 measured 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 in the balance sheet under short-term receivables or liabilities, and contracts with longer maturity under long-term 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 forward exchange contracts. 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 shareholders' equity, is recognized in the income statement 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 business acquisitions consists of the difference between acquisition cost and identifiable net assets measured 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 made 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 calculation is also defined before taxes. More information about the sensitivity of the amount of recoverable cash to changes in the assumptions used is given in Note 13.

As allowed by the 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.

Other intangible assets include software licenses, computer programs and subscription fees. These are measured at original acquisition cost and amortized on a straight-line basis over their economic life, which can range between three and eight 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.

Research and development costs

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

A product designed to replace an existing product remains in 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 in the balance sheet.

Expenses related to products developed for new product ranges 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. In the balance sheet these are measured 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 start of the agreement, these are entered in the balance sheet under assets in the amount that equals the fair value of the asset at the start of the agreement, or the fair value of minimum leases if lower. 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. Assets leased under a financial leasing agreement are depreciated according to plan over their economic life.

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

Inventories

Inventories are entered in the balance sheet at the lower of the acquisition cost or the net realizable value. As from 1 June 2006 the acquisition cost has been determined using the FIFO method. This change had a very small impact on the Group's result.

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.

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 measured 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 1 January 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. 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.

In accordance with IAS 11, 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 determined from the proportion of the costs to date of the estimated total costs of the project, i.e. 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 recognized as expenses immediately.

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 in items related to business operations; otherwise they are recorded under financial items.

Subsidies
Subsidies received from the State 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 in 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 2005, 2006 and 2007. The share bonus has been recorded as an expense and as an increase in shareholders' equity. The amount recorded as expenses during the earning period has been determined on the basis of market values on the day the shares have been awarded. The terms of the share bonus scheme are given in more detail in Note 24 'Share-based payments'.

Provision
Items related to contracts and other effective obligations that are likely to require financial resources are recorded in 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.

Income taxes
Taxes in the consolidated income statement include the Group companies' taxes paid and accrued corresponding to the financial result for the period based on 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 assets 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. The most significant tax assets and liabilities consist of tax losses carried forward, appropriations, fixed assets, 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.

Applying revised and amended IFRS standards and interpretations in 2008 or later
In 2009 the Group will adopt IFRS 8 Operating Segments issued in 2006. The Group is examining the impact of the standard on the figures presented in the financial statements. In 2009 the Group will also adopt the revised IAS 1 Presentation

of Financial Statements, which will mainly affect the presentation of the consolidated financial statements, and the revised IFRS 3 Business Combinations, which will affect accounting for business combinations that take place after 1 January 2009.

3. Segment information

Vacon Group's reporting is based primarily on business segments and secondarily on geographic segments.

Vacon has one business segment, which is AC drives. Figures for the primary segment are equal to the figures for the entire Group. Vacon's operations are organized in the following functions: Products and Markets, Production, Research & Development, Finance and Administration, Human Resources, and IT and Process Development. To ensure that the organisation is customer-oriented, operations are controlled by customer segments that are called business areas. These business areas are: Component Customers, Solutions Customers, OEM and Brand Label Customers, and Service and After-Market Services.

The secondary geographic segment is divided into three sales areas: EMEA (Europe, Middle East and Africa), Amercias (North and South America), and APAC (Asia and Pacific). Revenues are distributed by customers, assets and investment by geographic location.

Geographic segments in 2007

EUR thousand	EMEA	Americas	APAC	Group
Revenues	172,587	42,098	17,501	232,186
Segment assets	99,014	12,804	11,348	123,166
Investments	7,983	0	1,085	9,068

Geographic segments in 2006

EUR thousand	EMEA	Americas	APAC	Group
Revenues	133,556	38,923	13,970	186,449
Segment's assets	78,812	411	7,664	86,887
Investments	7,892	0	646	8,538

4. Long-term projects

Consolidated revenues include EUR 239,000 in income recognized from long-term projects in 2007 (EUR 1,320,000 in 2006).

The consolidated income statement includes EUR 476,000 in income from long-term projects in progress on 31 Dec 2007 (EUR 1,088,000 on 31 Dec 2006). The balance sheet includes advance payments of EUR 552,000 for long-term projects in progress on 31 Dec 2007 (EUR 1,027,000 on 31 Dec. 2006).

5. Other operating income

EUR thousand	2007	2006
Rental income	136	173
Proceeds from the disposal of assets	41	77
Total	177	250

6. Other operating expenses

EUR thousand	2007	2006
Delivery costs and commissions	6,603	6,024
Sales and marketing costs	7,629	6,276
Rental costs	5,326	4,532
Administrative costs	8,349	7,581
Other costs	9,839	7,380
Total	37,746	31,793

7. Employee benefit costs

EUR thousand	2007	2006
Salaries	30,239	24,705
Share bonuses granted paid in shares	204	120
Share bonuses granted paid in cash	780	439
Pensions		
Defined benefit plans	261	149
Contribution plans	4,342	3,902
Other indirect personnel costs	3,102	2,653
Total	38,928	31,968
Office personnel	512	424
Factory personnel	260	194
Average number of personnel	772	618

8. Depreciation, amortization and impairment charge

EUR thousand	2007	2006
Depreciation by asset		
Intangible assets		
Development costs	538	910
Intangible rights	1,295	580
Other intangible assets	110	101
Total	1,943	1,591
Property, plant and equipment		
Machinery and equipment	2,830	2,622
Total	2,830	2,622
Total depreciation, amortization and impairment charge	4,773	4,213

As of 1 January 2004, goodwill has not been amortized.

9. Research and development costs

The income statement includes research and development costs recorded as expenses of EUR 12,388,000 in 2007 (EUR 11,931,000 in 2006).

10. Financial income and expenses

EUR thousand	2007	2006
Interest income from loans and other receivables	335	228
Exchange rate gains on loans and other receivables	15	24
Exchange rate gains on financial loans measured at amortized acquisition cost	148	
Other financial income	64	42
Total	562	294
Interest expenses on financial loans measured at amortized acquisition cost	-511	-351
Exchange rate losses on loans and other receivables	-226	-193
Impairment loss on loans receivable	-239	-100
Other financial expenses	-73	-55
Total	-1,049	-699
Total financial income and expenses	-487	-405

Items above the operating profit include exchange rate differences of EUR 986,000 from hedge accounting derivative contracts and trade receivables of EUR 610,000 (in 2006 EUR 81,000 from derivative contracts and EUR 6,000 from trade receivables).

11. Income taxes

EUR thousand	2007	2006
Taxes based on the taxable income for the financial year	-7,421	-6,146
Taxes on the previous year	-2	-22
Deferred taxes	28	-389
Total	-7,395	-6,557
Profit before taxes	28,761	22,672
Taxes calculated in accordance with domestic tax rate	7,478	5,895
Impact of foreign subsidiaries´ differing tax rates	-254	481
Tax-free income	-63	-21
Non-deductible expenses	296	177
Unrecorded deferred tax assets from taxable losses	0	34
Taxes on previous year	-2	-22
Other items	-60	13
Taxes in the income statement	7,395	6,557

Deferred tax assets and liabilities

EUR thousand	2007	2006
Net deferred tax liability		
is allocated in the balance sheet as follows:		
Deferred tax assets	1,547	1,099
Deferred tax liability	-1,621	-1,219
	-74	-120
Gross change in deferred taxes recorded		
in balance sheet:		
Deferred taxes Jan 1	-120	305
Items entered in income statement	29	-389
Translation differences	3	-4
Items entered in shareholders' equity	14	-32
Deferred taxes Dec 31	-74	-120

Change in deferred tax assets and liabilities during financial year

2007	Jan 1	Items entered in income statement	Items entered in shareholders' equity	Translation differences	Dec 31
Deferred tax assets:					
Employee benefits	17	17			34
Provisions	0				0
Tax losses carried forward	316	116			432
Internal margin from inventories	726	317			1,043
Other temporary differences	99	-82	14		31
Total	1,158	368	14	0	1,540
Deferred tax liabilities:					
Property, plant and equipment	114	-22			92
Capitalized intangible assets	349	426			775
Accumulated depreciation difference	815	-65		-3	747
Total	1,278	339	0	-3	1,614
Deferred taxes, net	-120	29	14	3	-74

2006	Jan 1	Items entered in income statement	Items entered in shareholders' equity	Translation differences	Dec 31
Deferred tax assets					
Employee benefits	20	-3			17
Provisions	206	-206			0
Tax losses carried forward	407	-91			316
Internal margin from inventories	575	151			726
Other temporary differences	37	94	-32		99
Total	1,245	-55	-32	0	1,158
Deferred tax liabilities:					
Property, plant and equipment	86	28			114
Capitalized intangible assets	225	124			349
Accumulated depreciation difference	629	182		4	815
Total	940	334	0	4	1,278
Deferred taxes, net	305	-389	-32	-4	-120

12. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the equity holders of the parent by the weighted average number of shares outstanding during the year. At the end of financial years 2007 and 2006, the Group had no diluting instruments.

EUR thousand	2007	2006
Profit attributable to the equity holders of the parent company	20 922	15 799
Number of shares		
Weighted average number of shares during the year	15 226 997	15 209 303
Basic earnings per share (EUR/share)	1,37	1,04
Diluted earnings per share (EUR)	1,37	1,04

13. Intangible assets

EUR thousand	Goodwill	Development costs	Intangible rights	Other intangible assets	Total 2007	Total 2006
Acquisition cost Jan 1	1,479	6,568	6,344	557	14,948	12,119
Increases		1,895	1,702	191	3,788	4,204
Decreases			-12		-12	-1,446
Transfers between items			25		25	105
Translation differences			-7	-21	-28	-34
Acquisition cost Dec 31	1,479	8,463	8,052	727	18,721	14,948
Accumulated amortization Jan 1		-4,943	-1,973	-243	-7,159	-6,460
Accumulated amortization from decreases and transfers			12		12	885
Amortization for the financial year		-538	-1,296	-110	-1,944	-1,591
Translation differences			2	8	10	7
Accumulated amortization Dec 31		-5,481	-3,255	-345	-9,081	-7,159
Carrying amount Dec 31, 2007	1,479	2,982	4,797	382	9,640	
Carrying amount Dec 31, 2006	1,479	1,625	4,371	314		7,789

Impairment testing of goodwill in cash-generating units

Goodwill is tested annually in accordance with IFRS. Vacon Group goodwill has been allocated to five 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. The unit's recoverable amount is determined from its cash flow projections 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 take into account only the unit's organic growth. The basis used for calculating long-term growth is annual growth of two per cent.

The Group's goodwill is divided among five business units (the Netherlands, Spain, Italy, Sweden and Germany). 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

Decrease of 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 operating profit that would result in the recoverable of the European sales companies would correspond to the carrying amount of net assets, varies from unit to unit between -10 % and -42 %.

Rise in discount rate

The discount rate used in calculations also has a major impact when determining the recoverable amount. Calculations show that the European sales companies can withstand a rise of 5-18 % in the discount rate, depending on the unit, before their recoverable amount corresponds to the carrying amount.

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

EUR thousand	2007	2006
European sales companies	1,479	1,479

Main assumptions used in impairment testing:

EUR thousand	2007	2006
Growth in revenues (p.a., five year forecasts)	11-18 %	10-16 %
Pretax discount rate	12.1-17.04 %	10.0-13.4 %
Long-term growth	2%	2%
Goodwill allocated, 1000 EUR	1,479	1,479
Carrying value, 1000 EUR	22,438	17,778
Result of impairment test (recoverable amount vs. carrying value)	Exceeds clearly	Exceeds clearly

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 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.

14. Property, plant and equipment

EUR thousand	Land	Machinery and equipment	Advance payments and construction in progress	Other tangible assets	Total 2007	Total 2006
Acquisition cost Jan 1		26,850	1,062	68	27,980	25,997
Increases	132	2,397	4,369		6,898	3,507
Decreases		-716	-2,058		-2,774	-1,394
Transfers between items					0	0
Translation differences		-121	-7		-128	-130
Acquisition cost Dec 31	132	28,410	3,366	68	31,976	27,980
Accumulated depreciation Jan 1		-14,719	0	0	-14,719	-12,387
Accumulated depreciation from decreases and transfers		238			238	279
Depreciation for the financial year		-2,830		0	-2,830	-2,622
Translation differences		31			31	11
Accumulated depreciation Dec 31	0	-17,280	0	0	-17,280	-14,719
Carrying amount Dec 31, 2007	132	11,130	3,366	68	14,696	
Carrying amount Dec 31, 2006		12,131	1,062	68		13,261

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

EUR thousand	Machinery and equipment	Total
2007		
Acquisition cost	1,325	1,325
Decreases	-165	-165
Accumulated depreciation	-807	-807
Carrying amount	353	353
2006		
Acquisition cost	1,325	1,325
Accumulated depreciation	-634	-634
Carrying amount	691	691

15. Joint ventures

	Interest
Vacon Americas LLC, Milwaukee, United States	50 %

The consolidated financial statements include a share of the joint venture's assets, liabilities, income and expenses that matches the Group's ownership. The company had no operations in the financial years 2007 and 2006.

EUR thousand	2007	2006
Current assets (100 %)	746	822
Net assets	746	822
Income	11	2
Profit for the financial year	11	2

16. Breakdown of financial assets and liabilities by measurement category

2007	Assets/liabilities recognized at fair value through profit and loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities measured at amortized acquisition cost	Carrying amounts of balance sheet items	Fair value	Note
Long-term financial assets							
Financial receivables		158			158	158	17
Other financial assets		275	1 901		2,176	2,176	18
Current financial assets							
Trade and other receivables		43,448			43,448	43,448	20
Derivative contracts in hedge accounting	386				386	386	20
Cash and cash equivalents		34,373			34,373	34,373	20
Carrying amount by measurement category	386	78,254	1 901	0	80,541	80,541	
Long-term financial liabilities							
Interest-bearing liabilities				19,143	19,143	19,143	26
Current financial liabilities							
Interest-bearing liabilities				4,260	4,260	4,260	26
Derivative contracts in hedge accounting	6				6	6	27
Trade payables and other liabilities				18,633	18,633	18,633	27
Carrying amount by measurement category	6	0	0	42,036	42,042	42,042	

2006	Assets/liabilities recognized at fair value through profit and loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities measured at amortized acquisition cost	Carrying amounts of balance sheet items	Fair value	Note
Long-term financial assets							
Financial receivables		566			566	566	17
Other financial assets		238	1,359		1,597	1,597	18
Current financial assets							
Trade and other receivables		36,575			36,575	36,575	20
Derivative contracts in hedge accounting	156				156	156	20
Cash and cash eequivalents		13,026			13,026	13,026	20
Carrying amount by measurement category	156	50,405	1,359	0	51,920	51,920	
Long-term financial liabilities							
Interest-bearing liabilities				1,828	1,828	1,828	26
Current financial liabilities							
Interest-bearing liabilities				2,430	2,430	2,430	26
Derivative contracts in hedge accounting	19				19	19	27
Trade payables and other receivables				16,698	16,698	16,698	27
Carrying amount by measurement category	19	0	0	20,956	20,975	20,975	

The carrying amount of financial receivables corresponds to the maximum credit risk at the closing day.

17. Financial receivables

EUR thousand	2007	2006
Long-term loans receivables		
Jan 1	566	498
Increases	-168	168
Writedowns	-240	-100
Dec 31	158	566

18. Other financial assets

EUR thousand	2007	2006
Available-for-sale:		
Holdings in investment funds:		
Jan 1	1,002	816
Increases	542	186
Dec 31	1,544	1,002
Other unquoted holdings:		
Jan 1	357	254
Increases	0	103
Dec 31	357	357

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:		
Jan 1	238	168
Increases	37	70
Dec 31	275	238

19. Inventories

EUR thousand	2007	2006
Materials and consumables	6,108	4,478
Finished goods	8,639	7,259
Total	14,747	11,737

Inventories have been written down by EUR 291 thousand to accommodate for nonmarketable assets in 2007 (EUR 132 thousand in 2006). Nonmarketability deductions primarily cover spare parts and replacement units.

20. Trade and other receivables

EUR thousand	2007	2006
Loans and other receivables		
Trade receivables	40,078	33,497
Other loan receivables	1,197	1,197
Other receivables	2,173	1,881
Total	43,448	36,575
Financial assets recognized at fair value in profit and loss		
Derivative contracts in hedge accounting	386	156
Total	386	156
Prepaid expenses and accrued income	1,995	1,082
Total	1,995	1,082

21. Cash and cash equivalents

EUR thousand	2007	2006
Cash and bank	34,373	13,026
Total	34,373	13,026

22. 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, 2006	15,295,000	-95,260	3,059,000	-1,171,012	4,966,488	6,854,476
Shares issued as share bonus April 21, 2006		13,688				0
Dec 31, 2006	15,295,000	-81,572	3,059,000	-1,171,012	4,966,488	6,854,476
Shares issued as share bonus April 12, 2007		18,760				
Dec 31, 2007	15,295,000	-62,812	3,059,000	-1,171,012	4,966,488	6,854,476

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 one million (1,000,000) euro and maximum capital is four million (4,000,000) euro. Vacon has one share series. Each share has a nominal value of EUR 0.20 and each share confers one vote at the shareholders' meeting.

Under the authorization given at the shareholders' meeting on March 25, 2004, the company has repurchased 95,260 of its own shares. 13,688 shares were issued as a share bonus on 21 April 2006 and 18,760 on 12 April 2007, after which the company holds 62,812 of its own shares.

23. Fair value reserve

EUR thousand	Cash flow hedging
Jan 1, 2006	**106**
Cash flow hedging recorded in equity	82
Cash flow hedging carried from equity to the income statement	-106
Deferred taxes	-21
Dec 31, 2006	**61**
Cash flow hedging recorded in equity	29
Cash flow hedging carried from equity to the income statement	-61
Deferred taxes	-7
Dec 31, 2007	**22**

24. Share-based payments

At its meeting in January 2005, Vacon Plc's Board of Directors decided to introduce a share bonus scheme as a part of Vacon Group's key personnel incentive scheme. The purpose of the bonus scheme is to establish a shared set of objectives for shareholders and key personnel to increase the company's value, and to enhance key personnel commitment and offer them a competitive ownership-based bonus scheme.

The share bonus scheme offers key personnel the opportunity to receive company shares for three earning periods equalling one calendar year as a reward for achieving their personal targets. The earning periods are calendar years 2005, 2006 and 2007.

The Board of Directors makes decisions annually to determine the key personnel to be included in the scheme and their maximum bonuses. The maximum bonus is expressed in a number of shares. The maximum number of Vacon Plc shares to be disposed of under the incentive scheme is 80,400 shares for three earning periods. Additionally, the sum required to pay the taxes and other tax-like charges associated with the distributed shares at the time of distribution shall be provided in cash. Those included in the share bonus scheme are also entitled to any dividend accumulated during the earning period. The proportion of the maximum bonus to be distributed to key personnel depends on how well personal targets have been met during the earning period. These targets are linked to the group's strategic objective - namely, profitable growth - the indicators of which are revenue, operating profit and working capital to revenue ratio.

Any bonuses payable on the basis of the share bonus scheme will be paid as a combination of shares and cash in the year following the earning period. Shares distributed as a bonus must remain in the recipient's possession for two years after the earning period. If the recipient's employment is terminated during this two-year period, the shares must be returned to the group. An exception may be made subject to a decision of Vacon Plc's Board of Directors.

The target group comprises Vacon Group's key personnel as determined by the Board of Directors. Those included in the target group must have an employment contract with a Vacon Group company that is effective until further notice. Being included in the target group for the share bonus scheme does not affect the other terms and conditions of an employee's employment contract.

The share bonus scheme features three earning periods equalling one calendar year, beginning on 1 January 2005, 1 January 2006 or 1 January 2007, and ending on 31 December of the same year. The payable bonus will be determined by the end of April following the end of the earning period and it will depend on how well personal targets have been met. If the company's financial period is changed before 31 December 2007, the Board of Directors will be entitled to change the earning period correspondingly.

Nature of arrangement: Share bonus scheme	2007-2009 2007	2006-2008 2007	2005-2007 2007
Date of issue	Jan 28, 2005	Jan 28, 2005	Jan 28, 2005
Implementation	Shares and cash	Shares and cash	Shares and cash
Maximum number of shares offered as share bonus during the earning period, share	29,200	26,000	22,814
Share price at time of issue, EUR	12.25	12.25	12.25
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	28.00	29.91	23.52
Assumed participation	91%	100%	100%
Realisation of profit-based terms and conditions in the earning year	65%	70%	58%
No. of shares issued under the scheme	18,980	18,760	13,688
Value of shares being issued on valuation date, EUR thousand	531	561	322
Share to be paid in cash (for taxes) calculated with the value on balance sheet date and assumed dividend, EUR thousand	852	895	500
Total cost of shares issued based on value at the time of issue, EUR thousand	233	230	168
Total cost of the share bonus scheme, EUR thousand	1,084	1,124	668
Share value adjusted with anticipated participation, EUR thousand	212	230	168
Consolidated income statement includes 1/3 of the sum in employee benefits and increase in shareholders' equity, EUR thousand	71	77	56
Remaining amount to be recognized in future financial years after taking the anticipated participation into consideration, EUR thousand	142	77	0
Amount to be paid in cash adjusted with anticipated participation, EUR thousand	780	854	500
Consolidated income statement includes 1/3 of the sum in employee benefits and liabilities, EUR thousand	296	333	151
Remaining amount to be recognized in future financial years after taking the anticipated participation into consideration, EUR thousand	484	260	0
Costs from the share bonus system recorded during the period as employee benefits, EUR thousand	367	410	207

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 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.

25. 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. In some countries, supplementary pensions increase the pension security.

EUR thousand	2007	2006
Reconciliation of employee benefit-related assets and liabilities		
Current value of unfunded obligations	511	412
Current value of funded obligations	852	814
Fair value of assets	-544	-467
Non-recorded actuarial gains (-) or losses (+)	-22	-81
Net liabilities in the balance sheet	797	678
Distributed in the balance sheet as follows:		
Employee benefit assets	-521	-508
Employee benefit liabilities	1,318	1,186
Net liabilities in the balance sheet	797	678
Defined benefit pension costs in the income statement are determined as follows:		
Labour costs during the year	-225	-109
Interest expenses	-45	-36
Expected income from assets covered by the arrangements	8	6
Total	-262	-139
Changes in the current value of the liability are as follows:		
Liability at start of year	1,186	834
Current service cost	165	314
Interest cost	38	38
Actuarial gains (-) and losses (+)	-71	0
Total	1,318	1,186
Changes in the fair values of plan assets are as follows:		
Fair value of plan assets at start of year	-508	-243
Anticipated return	-8	-6
Actuarial gains (-) and losses (+)	25	-1
Payments by employer to scheme	-30	-258
Fair value of plan assets at end of year	-521	-508

Plan assets are invested in bonds.

Key actuarial assumptions

Dec 31	2007	2006
Discount rate, %	5.25 - 5.48	4.00 - 4.60
Expected return on assets, %	5	5
Assumed future payrise, %	2 - 3	2 - 3
Assumed increase in pensions, %	1 - 2	1 - 2

The Group forecasts that it will pay EUR 0.3 million to defined benefit pension plans in 2008.

26. Interest-bearing liabilities

Long-term liabilities measured at amortized acquisition cost

EUR thousand	2007	2006
Bank loans	19,143	1,828
Total	19,143	1,828

Interest-bearing long-term liabilities by currency:

EUR thousand	2007	2006
Euro	7,900	0
USD	11,243	1,594
GBP	0	234
Total	19,143	1,828
Current liabilities measured at amortized acquisition cost		
Repayment of bank loans in following year	3,305	178
Other loans	955	2,000
Finance lease liabilities, following year's instalments	0	252
Total	4,260	2,430

Interest-bearing current liabilities by currency:

EUR thousand	2007	2006
Euro	955	2,252
USD	3,091	0
GBP	214	178
Total	4,260	2,430

Finance lease liabilities

EUR thousand	2007	2006
Finance lease liabilities mature as follows:		
In less than a year	0	255
In more than one year but less that five years	0	0
In more than five years	0	0
Total minimum rents	0	255
Current value of minimum rents:		
In less than a year	0	252
In more than one year but less that five years	0	0
In more than five years	0	0
Total current value of minimum rents	0	252
Non-accrued financial expenses	0	3

27. Trade and other payables

EUR thousand	2007	2006
Financial liabilities measured at amortized acquisition cost		
Trade payables	15,898	14,675
Other current liabilities	2,735	2,023
Total	18,633	16,698
Financial liabilities recognized at fair value through profit and loss		
Derivative contracts in hedge accounting	6	19
Total	6	19
Advance payments received	2,168	1,018
Accrued expenses and deferred income	10,080	7,875
Total	12,248	8,893

28. Provisions

EUR thousand	Warranty provision
Jan 1, 2007	652
Increases in provisions	838
Used provisions	-652
Dec 31, 2007	838

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. Warranty provision is based on experience of faulty products in earlier years. The warranty provision is expected to be used in the year following its issue.

29. Risks and risk management

Risk management supports Vacon's growth

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.

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 the 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 is delayed in its development projects for new products or the products fail to meet new customer requirements in terms of a product's performance or price/quality ratio.
- The risk that an unexpected harmful event endangers the delivery capability of Vacon's factories.
- The risk that, due to an unexpected harmful event or their financial situation or their problems with capacity, Vacon's main suppliers, component and software suppliers, are unable to supply their products on time and in accordance with agreed quality criteria.
- The risk that, during the production process and testing, a quality defect is not noticed in a product, its components or software, 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 frequency converter 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.

Risk management is pro-active

Vacon Group's risk management is proactive and aims to take all possible risks into account. The underlying principle is that risk management is spread throughout all levels of the organization. Each employee is encouraged to look out for risks, to assess them and to tell about them. Employees are expected to report any risks either to their immediate superior or to the Group's Vice President, Finance and Control.

The company's risk policy is explained to the entire personnel and also forms part of the initial training for new employees. Employers are provided with more information about risk management for example on the Group's intranet site.

The objectives of risk management are safe products and operating methods

Vacon has defined six objectives in its risk management policy and all decision-making aims at these:

1. Ensuring the safety of the personnel of Vacon, its customers and third parties.
2. Ensuring the safety and high quality of the company's products and operating methods.
3. Complying with local and international law, regulations and recommendations.
4. Ensuring awareness of risks and that they are taken into account in decision-making.
5. Ensuring the continuity of business operations and sustainable growth.
6. Protecting Vacon's brand and reputation.

Risk management is assessed every year

Risk management processes are reviewed annually as part of the strategy process.

The company's Board of Directors approves the risk management operating policies to be used and is aware of the key risks to the company. Vacon's Management Team assesses risk management, revises if necessary risk reporting, and reports to the Board on the company's key risks. Three main criteria are used to assess risks: the seriousness of the risk, the probability of the risk, and the current level of risk management for each identified risk.

The company's VP, Finance and Control, monitors and develops risk management procedures. In addition he supports the introduction of risk management and monitors risk reporting. He is also responsible for ensuring that Vacon's risk management complies with the company's corporate governance principles.

Managing business risks

Administrative risk

Vacon has operations throughout the world, with subsidiaries or branch offices in 18 countries and production in Finland

and China. 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 agreed quality criteria. On average 57 % of the Group's total costs are for components and materials, see table 'Breakdown of costs and revenues'. Coupled with the ability of suppliers to expand their own capacity, this can form a risk for Vacon.

For the sake of efficient logistics and the investments made, it is essential that 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.

Costs and Revenues, 1 January - 31 December, 2007	% of total costs	% of revenues
Materials	57.47 %	50.23 %
Services	2.49 %	2.17 %
Delivery costs and commission	3.25 %	2.84 %
Employee benefit related costs	19.18 %	16.77 %
Sales and marketing costs	3.76 %	3.29 %
Leases	2.62 %	2.29 %
Administrative costs	4.11 %	3.60 %
Other income and costs	4.76 %	4.16 %
Depreciation	2.35 %	2.06 %
Total	100.00 %	87.40 %

Asset and liability risks

Vacon Plc aims to prevent damage with pro-active risk management action. 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 in financial markets on the Group's financial result. The Board of Directors 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 instruments 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 instruments that protect net investments.

Foreign exchange risk

The company has its own business operations in 18 countries. The group supplies its products and services 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 25 % of the Group's invoicing. The other invoicing currencies are the Swedish krona, the Norwegian krone, the British pound and the Australian dollar. Together these account for some 13 % of the Group's invoicing. Currency linked purchases in the Group account for some 15 % of revenues (all the above currencies).

In accordance with the Group's finance policy, money transactions between the Group's parent company and subsidiaries are made in the subsidiary's unit of accounting. This being the case, transaction risk focuses almost entirely on the Group's parent company, and 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, forecast 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 in the balance sheet, such as foreign currency loans, deposits in banks, trade receivables and payables, and cash flows in other currencies than the Group's unit of accounting. 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.

2007

EUR thousand	USD	GBP	SEK	NOK	AUD
Forecast items	5,166	1,096	2,243	407	206
Assets	5,434	1,624	553	268	192
Liabilities	-222	-24	0	0	0
Hedging	-6,997	-1,820	-2,150	-515	-218
Net position	3,381	876	646	160	168

2006

EUR thousand	USD	GBP	SEK	NOK	AUD
Forecast items	6,623	978	1,431	381	0
Assets	4,494	1,266	584	408	0
Liabilities	-71	-60	-48	0	0
Hedging	-10,858	-1,891	-1,670	-340	0
Net position	187	293	297	450	0

The tables below show the effect of the euro strengthening or weakening by 10 % against the US dollar, British pound, Swedish krona, Norwegian krone and Australian dollar when all other factors remain unchanged. The sensitivity analysis is based on the foreign currency denominated assets and liabilities 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 analysis has been made in the same way for 2006.

Transaction risk	Strengthening of euro, 10 %		Weakening of euro, 10 %	
31 Dec 2007, EUR thousand	Equity	Profit for period	Equity	Profit for period
USD	105	57	-128	-70
GBP	18	2	-22	-3
SEK	106	39	-129	-48
NOK	24	-2	-25	-2
AUD	0	3	0	-4

Transaction risk	Strengthening of euro, 10 %		Weakening of euro, 10 %	
31 Dec 2006, EUR thousand	Equity	Profit for period	Equity	Profit for period
USD	476	109	-579	-130
GBP	57	5	-69	-6
SEK	87	16	-107	-14
NOK	0	-6	0	12

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 subsidiary in China and of the subsidiary established in December 2007 in the USA.

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

	Translation position 31 Dec. 2007	Translation position 31 Dec. 2006
EUR thousand	USD	USD
Capital invested	17,288	3,834
Hedging, no hedge accounting	-14,333	-1,595
Net position	2,955	2,239

The table below shows the effect of the euro strengthening or weakening by 10 % against the US dollar when all other factors remain unchanged. The sensitivity analysis takes into account net investments and their hedging. The analysis has been made in the same way for 2006.

Translation risk

EUR thousand	USD, 31 Dec 2007	USD, 31 Dec 2006
Euro strengthening, 10 %		
Equity	-737	-197
Profit for period	469	7
Euro weakening, 10 %		
Equity	902	240
Profit for period	-573	-8

Interest rate risk

Changes in the level of market interest rates and margins can 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. The Group's Board of Directors decides on the hedging policy.

The total amount of credit on the balance sheet date was EUR 22.4 million, and this was 100 % variable interest rate (31 December 2006: EUR 4.2 million and 100 % variable interest rate). On the balance sheet date, the Group had open interest rate swaps to the value of EUR 18.3 million which are used for hedging purposes. The unhedged interest rate risk is not significant. There were no interest rate swaps in the previous year. Hedge accounting is not applied to interest rate swaps.

The average interest rate for the loans is 5.3 %. The loan agreements contain normal covenant terms.

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. The parent company's finance function is a centralized provider of services relating to customer finance and monitors payment terms and the security demanded to ensure they comply with the principles of the finance policy.

Country risk is continuously monitored and limits are set to grant credit in areas where the political or financial situation is unstable. The risk is also reduced by using letters of credit and payment in advance. Some 87 % of the Group's receivables are from OECD countries, which represent a low country risk. This figure is expected to fall by a few percentage points in the next few years as new sales companies are set up.

The Group has no major concentrations of credit risk for receivables since it has an extensive, globally distributed customer base, and no single customer or customer group is significant for the Group. During the financial year, credit losses recognized in the income statement totalled EUR 0.3 million (there were no credit losses in 2006). The credit losses were due to an unexpected change in a customer's financial environment.

Breakdown of trade receivables by due date

EUR thousand	2007	2006
Not yet due	34,178	25,543
1-90 days after due date	5,162	7,121
90-180 days after due date	538	368
181-270 days after due date	44	429
271-365 days after due date	95	35
Over 365 days after due date	61	1
Total	40,078	33,497

When the Group invests cash funds and enters into derivatives contracts, it only accepts as counterparty partner banks that are specified in the finance policy, meet credit-worthiness terms and are approved by the Board of Directors.

Liquidity risk

The Groups aims to continually assess and monitor 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 31 December 2007 was EUR 24.5 million. Surplus liquid funds are invested in partner banks. Liquid funds on 31 December 2007 totalled EUR 34.4 million. The exceptionally large liquid funds are due to the financing arrangements for a future acquisition.

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.

EUR thousand	Carrying amount	Cash flow	Less than 1 year	1-2 years	2-5 years
31 Dec 2007					
Bank loans	22,447	-26,385	-4,427	-4,038	-17,921
Cheque credit facility	955	-955	-955		
Foreign exchange forwards in hedge accounting					
- Payable cash flows	-12,297	-12,297			
- Receivable cash flows	12,660	12,660			
Interest rate swaps	38	383	69	56	71
Trade payables and other debts	18,633	-18,633	-18,633		
Financial commitments		-952	-250	-500	-202
31 Dec 2006					
Bank loans	2,007	-2,245	-286	-881	-1,077
Finance leasing	252	-255	-255		
Foreign exchange forwards in hedge accounting					
- Payable cash flows	-14,759	-14,759			
- Receivable cash flows	14,855	14,855			
Trade payables and other debt	16,698	-16,698	-16,698		
Financial commitments		-1,494	-542	-250	-702

Equity management

The objective of the Group's equity management is, through an optimal equity structure, to support business operations by ensuring normal operating conditions and to increase owner value with the goal of the best possible return. An optimal equity structure also ensures smaller equity costs. Organic growth will be financed by cash flow from operations, and in the case of further acquisition the gearing target is a maximum of 60 %.

The Group's equity structure is monitored continuously with the gearing, for which strategic target level has been set. The Group's interest-bearing net liabilities at the end of 2007 totalled EUR -11.0 million (31 Dec. 2006: EUR -8.8 million) and gearing was - 17.1 % (- 16.6 %). Gearing is calculated by dividing interest-bearing liabilities by shareholders' equity. Net liabilities include interest-bearing liabilities less cash in hand and at bank.

During 2007 the Group's goal was to keep gearing between – 20 % and 0 % and credit classification at an excellent level. Gearing was as follows.

EUR thousand	2007	2006
Interest-bearing liabilities	23,403	4,258
Cash assets	-34,373	-13,026
Net liabilities	-10,970	-8,767
Shareholders' equity, total	64,006	52,961
Net gearing, %	-17.1	-16.6

30. Operating leases

EUR thousand	2007	2006
Minimum rents for irrevocable operating leases:		
In one year	4,062	4,216
In more than one and less than five years	9,829	9,369
In more than five years	6,729	1,311
Total	20,620	14,896

31. Collateral and contingent liabilities

EUR thousand	2007	2006
For own debt/commitment		
Guarantees	1,111	1,075
Collateral given on behalf of others		
Guarantees	14	704

32. Other commitments

EUR thousand	2007	2006
Financial commitment in capital investment funds	952	1 494

33. 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 family, 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:

	Group holding (%)	Group votes (%)
Parent company Vacon Plc, Vaasa, Finland		
Vacon GmbH, Essen, Germany	100.00	100.00
Vacon Benelux B.V., Gorinchem, the Netherlands	100.00	100.00
Vacon SpA, Reggio Emilia, Italy	100.00	100.00
Vacon Drives Ibérica S.A., Manresa, Spain	100.00	100.00
Vacon Drives (UK) Ltd, Leicestershire, Great Britain	70.00	70.00
Vacon AB, Solna, Sweden	100.00	100.00
Vacon AT Antriebssysteme GmbH, Leobersdorf, Austria	70.00	70.00
Vacon Americas LLC, Milwaukee, United States	50.00	50.00
ZAO Vacon Drives, Moscow, Russia	100.00	100.00
Vacon France SAS, Saint Pierre du Perray, France	70.00	70.00
Vacon AS, Holmestrand, Norway	80.00	80.00
Vacon Benelux NV/Sa, Heverlee, Belgium	100.00	100.00
Vacon Suzhou Drives Co. Ltd., Suzhou, China	100.00	100.00
Vacon Drives & Control Pvt Ltd, Chennai, India	100.00	100.00
Vacon Pacific Pty Ltd, Melbourne, Australia	75.00	75.00
Vacon Inc., Chambersburg, United States	100.00	100.00

Management cash-based employment benefits:

EUR thousand	2007	2006
Salaries and other short-term benefits	2,046	1,899
Benefits to be paid on dismissal	983	894
Post-employment benefits	596	390
Share-based benefits	1,281	764
Total	4,906	3,947

Management salaries and fees

EUR thousand	2007	2006
Laisi Vesa, President and CEO	612	457
Hiltunen Heikki, Executive Vice President	491	393
Board members:		
Inborr Jan-Erik, Chairman	59	50
Ahlqvist Pekka	29	25
Eklund Jari	29	25
Heikkinen Kalle	29	25
Holma Mauri	29	25
Karppinen Veijo, Vice Chairman	29	25
Total	1,307	1,025

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

FINANCIAL STATEMENTS FOR THE PARENT COMPANY

INCOME STATEMENT FOR THE PARENT COMPANY (FAS)

EUR thousand	Note	Jan 1 - Dec 31, 2007	%	Jan 1 - Dec 31, 2006	%
Revenues	2	**200,151**	**100.0**	**159,936**	**100.0**
Change in inventories of finished goods and work in progress		410		794	
Other operating income		177		189	
Materials and services					
Materials and consumables					
Purchases during the financial year		-115,725		-88,077	
Change in inventories		743		706	
External services		-4,494		-4,012	
		-119,475	**-59.7**	**-91,382**	**-57.1**
Personnel expenses	3	-27,030		-21,415	
Depreciation and amortization	6	-3,604		-3,237	
Other operating expenses		-30,866		-27,025	
Operating profit		**19,763**	**9.9**	**17,860**	**11.2**
Financial income and expenses	7	1,447		-358	
Profit before appropriations and taxes		**21,209**	**10.6**	**17,501**	**10.9**
Appropriations	8	388		-712	
Income taxes	9	-5,221		-4,331	
Profit for the financial year		**16,377**	**8.2**	**12,458**	**7.8**

BALANCE SHEET FOR THE PARENT COMPANY (FAS)

Assets, EUR thousand	Note	Dec 31, 2007	%	Dec 31, 2006	%
Fixed assets					
Intangible assets	10				
Development costs				282	
Intangible rights		4,393		4,040	
Other long-term expenditure		50		49	
		4,442	4.3	4,371	5.9
Tangible assets	11				
Land and water areas		132			
Machinery and equipment		7,902		9,150	
Other tangible assets		42		42	
Construction in progress		3,218		930	
		11,293	10.9	10,122	13.6
Investments	12				
Investments in Group companies	13	12,435		5,868	
Receivables from Group companies		19,311		4,272	
Other investments		1,855		1,313	
Other receivables		226		610	
		33,827	32.7	12,063	16.2
Total fixed assets		49,562	47.9	26,556	35.8
Current assets					
Inventories					
Materials and consumables		3,863		3,120	
Finished goods		3,741		3,331	
		7,604	7.4	6,451	8.7
Short-term receivables	14				
Trade receivables		36,441		32,684	
Loan receivables		2,042		1,197	
Other receivables		1,720		1,540	
Prepaid expenses and accrued income	15	2,040		675	
		42,243	40.9	36,096	48.6
Cash and cash equivalents		3,979		5,148	
Total current assets		53,827	52.1	47,696	64.2
Assets		**103,388**	**100.0**	**74,252**	**100.0**
Liabilities, EUR thousand					
Equity	16,17				
Share capital		3,059		3,059	
Share premium		4,966		4,966	
Retained earnings		27,835		25,266	
Profit for the financial year		16,377		12,458	
		52,237	50.5	45,749	61.6
Accumulated appropriations					
Depreciation difference	18	2,510	2.4	2,899	3.9
Liabilities	19				
Long-term liabilities					
Loans from financial institutions		19,142		1,828	
		19,142	18.5	1,828	2.5
Short-term liabilities					
Loans from financial institutions		4,260		2,179	
Advances received		908		361	
Trade payables		14,916		13,799	
Other current liabilities		852		546	
Provisions		838		652	
Accrued expenses and deferred income	20	7,726		6,240	
		29,499	28.5	23,776	32.0
Total liabilities		48,641	47.0	25,604	34.5
Total equity and liabilities		**103,388**	**100.0**	**74,252**	**100.0**

CASH FLOW STATEMENT FOR THE PARENT COMPANY (FAS)

EUR thousand	Jan 1 - Dec 31, 2007	Jan 1 - Dec 31, 2006
Cash flow from operating activities		
Profit for the financial year	16,377	12,458
Adjustments:		
Depreciation	3,604	3,237
Financial income and expenses	-1,447	358
Appropriations	-388	712
Taxes	5,221	4,331
Other adjustments	-157	-204
	23,210	20,893
Changes in working capital		
Change in non-interest-bearing receivables	-5,122	-4,366
Change in inventories	-1,153	-1,501
Change in non-interest-bearing liabilities	3,318	-1,541
	-2,956	-7,408
Interest received	334	334
Interest paid	-392	-264
Dividends received	1,744	750
Other financial items	-4	-36
Taxes paid	-5,199	-4,554
Cash flow from operating activities	**16,737**	**9,715**
Cash flow from investing activities:		
Investments in tangible and intangible assets	-5,217	-4,923
Proceeds from the disposal of tangible and intangible assets	371	260
Loans granted	-17,018	-1,365
Other investments	-7,180	-801
Repayments on loan receivables	1,312	312
Proceeds from the divestiture of other investments		270
Cash flow from investing activities	**-27,732**	**-6,248**
Cash flow from financing activities		
Withdrawals (+) and instalments (-) of long-term loans	17,384	158
Increase (+) or decrease (-) in short-term financing	2,331	1,104
Increase (+) or decrease (-) in preferred capital notes		-290
Dividends paid	-9,889	-6,232
Cash flow from financing activities	**9,826**	**-5,260**
Change in liquid funds	**-1,169**	**-1,793**
Liquid funds at the beginning of the period	5,148	6,941
Liquid funds at the end of the period	3,979	5,148

NOTES TO THE PARENT COMPANY'S FINANCIAL STATEMENTS

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. with the cost-cost method. If it is likely that the overall costs of the project will exceed the overall income, the expected losses are recognized as expenses immediately.

Other operating revenues

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 measured 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 measured at fair value on the balance sheet date and recorded under sales adjustment items in the income statement. The accounting principles for the consolidated financial statements contain more details about the use of financial instruments.

Pension arrangements

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

Leasing and rental liabilities

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

Income taxes

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

Research and development costs

Research and development costs are recorded under expenses. R&D grants received are entered as deductions under the relevant items. Parent company R&D expenses capitalized before 2004 were amortized in their entirety during the financial year. The accounting principles for the consolidated financial statements have more details about capitalizing R&D expenses.

Fixed assets and depreciation

Fixed assets are measured in the balance sheet at their original acquisition cost less accumulated planned depreciation. Planned depreciation is calculated on a straight-line basis 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	3–8 years
Machinery and equipment	3–15 years
Other tangible assets	5–10 years

Investments

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

Investments in subsidiaries are measured at acquisition cost in the balance sheet. Investments in associated companies are presented as other long-term investments in 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 2007 financial year Vacon has no investments in associated companies.

Inventories

Inventories are measured at the acquisition cost or the net realizable value, whichever is lower. As from 1 June 2006 the acquisition cost has been determined using the FIFO method. Previously the acquisition cost was determined using the weighted average cost 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 in 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 direct purchase costs, is recorded as a decrease in shareholders' equity.

2. Revenues

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

EUR thousand	2007	2006
Revenues by market area		
EMEA	144,753	110,366
Americas	41,916	38,634
APAC	13,482	10,936
Total	200,151	159,936
Projects recognized using the percentage-of-completion method		
Revenue recognized as income	239	937
Accumulated revenue from uncompleted projects	476	818
Amount not recognized as income from uncompleted projects	136	316

3. Personnel costs

EUR thousand	2007	2006
Wages and salaries		
Salaries of President, his deputy and members of the Board of Directors	-1,309	-1,025
Other wages and salaries	-20,434	-16,036
Total	-21,743	-17,061
Other indirect personnel costs		
Pension costs	-3,424	-2,852
Other personnel costs	-1,862	-1,502
Total	-5,286	-4,354

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

4. Average number of personnel

	2007	2006
Office personnel	281	232
Factory personnel	221	174
Total	502	406

5. President's pension commitments

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

6. Depreciation and amortization

EUR thousand	2007	2006
Intangible assets	-1,511	-1,300
Tangible assets	-2,093	-1,938
Total planned depreciations	-3,604	-3,237

7. Financial income and expenses

EUR thousand	2007	2006
Dividend income		
From Group companies	1,744	745
Total	1,744	745
Interest income and other financial income		
From long-term investments in Group companies	188	210
From others	215	135
Total	404	344
Write-down of long-term investment		
Group companies	-38	-47
Associated companies		-1,098
Others	-239	-2
Total	-278	-1,146
Interest expenses and other financial expenses		
Group companies	-25	
From others	-399	-302
Total	-424	-302
Total financial income and expenses	1,447	-358

8. Appropriations

EUR thousand	2007	2006
The difference between planned depreciation and depreciation presented for taxation	388	-712

9. Income tax

EUR thousand	2007	2006
Direct taxes for current year	-5,262	-4,532
Direct taxes for previous years	42	206
Other taxes and similar payments	-1	-5
Total	-5,221	-4,331

10. Intangible assets

EUR thousand	Development costs	Intangible rights	Other long-term expenditure	Total 2007	Total 2006
Acquisition cost Jan 1	4,966	5,922	184	11,072	7,955
Increases		1,569	13	1,582	3,307
Decreases				0	-190
Acquisition cost Dec 31	4,966	7,490	198	12,655	11,072
Accumulated amortization Jan 1	-4,684	-1,882	-135	-6,701	-5,402
Amortization for the financial year	-282	-1,216	-13	-1,511	-1,300
Accumulated amortization Dec 31	-4,966	-3,098	-148	-8,212	-6,701
Carrying amount Dec 31, 2007	0	4,393	50	4,442	
Carrying amount Dec 31, 2006	282	4,040	49		4,371

11. Tangible assets

EUR thousand	Land and water areas	Machinery and equipment	Advance payments and construction in progress	Other tangible assets	Total 2007	Total 2006
Acquisition cost Jan 1		21,687	930	42	22,659	21,113
Increases	132	1,215	4,320		5,667	3,615
Decreases		-473	-2,032		-2,505	-2,069
Acquisition cost Dec 31	132	22,429	3,218	42	25,821	22,659
Accumulated depreciation Jan 1		-12,537			-12,537	-10,599
Accumulated depreciation on decreases		102			102	6
Depreciation for the financial year		-2,093			-2,093	-1,944
Accumulated depreciation Dec 31	0	-14,528	0	0	-14,528	-12,537
Carrying amount Dec 31, 2007	132	7,902	3,218	42	11,293	
Carrying amount Dec 31, 2006		9,150	930	42		10,122

12. Investments

EUR thousand	Shares in Group companies	Other shares and holdings	Total 2007	Total 2006
Shares Jan 1	5,868	1,313	7,181	7,458
Increases	6,634	542	7,176	870
Decreases	-68		-68	-1,098
Write-down			0	-48
Carrying amount Dec 31	12,435	1,855	14,290	7,181

EUR thousand	Shares in Group companies	Other receivables	Total 2007	Total 2006
Receivables Jan 1	4,272	610	4,881	5,362
Increases	16,173	34	16,207	663
Decreases and transfers between items	-1,133	-418	-1,551	-1,144
Carrying amount Dec 31	19,311	226	19,537	4,881
Total investments Dec 31			33,827	12,063

13. Shareholdings

	Parent votes %	Parent holding %
Group companies		
Vacon GmbH, Essen, Germany	100,00	100,00
Vacon Benelux B.V., Gorinchem, the Netherlands	100,00	100,00
Vacon SpA, Reggio Emilia, Italy	100,00	100,00
Vacon Drives Ibérica S.A., Manresa, Spain	100,00	100,00
Vacon Drives (UK) Ltd, Leicestershire, Great Britain	70,00	70,00
Vacon AB, Solna, Sweden	100,00	100,00
Vacon AT Antriebssysteme GmbH, Leobersdorf, Austria	70,00	70,00
Vacon Americas LLC, Milwaukee, United States	50,00	50,00
ZAO Vacon Drives, Moscow, Russia	100,00	100,00
Vacon France SAS, Saint Pierre du Perray, France	70,00	70,00
Vacon AS, Holmestrand, Norway	80,00	80,00
Vacon Benelux NV/Sa, Heverlee, Belgium	99,00	99,00
Vacon Suzhou Drives Co. Ltd., Suzhou, China	100,00	100,00
Vacon Drives & Control Pvt Ltd, Chennai, India	100,00	100,00
Vacon Pacific Pty Ltd, Melbourne, Australia	75,00	75,00
Vacon Inc., Chambersburg, United States	100,00	100,00

14. Short-term receivables

EUR thousand	2007	2006
Receivables from Group companies		
Trade receivables	18,049	16,761
Loan receivables	845	
Total	18,894	16,761
Receivables from others		
Trade receivables	18,392	15,923
Short-term loan receivables	1,197	1,197
Other receivables	1,720	1,540
Prepaid expenses and accrued income	2,040	675
Total	23,349	19,335
Total short-term receivables	42,243	36,096

15. Key items included in prepaid expenses and accrued income

EUR thousand	2007	2006
Projects recognized based on their percentage of completion		66
Foreign currency hedging	355	73
Subsidies	623	25
Share bonus receivables	260	153
Advances paid	537	350
Others	266	8
Total	2,040	675

16. Equity

EUR thousand	2007	2006
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	37,724	31,498
Dividends paid	-9,889	-6,232
Retained earnings Dec 31	27,835	25,266
Profit for the financial year	16,377	12,458
Total shareholders' equity	52,237	45,749

17. Distributable profit funds

EUR thousand	2007	2006
Retained earnings	27,835	25,266
Profit for the financial year	16,377	12,458
Total	44,212	37,724

18. Accumulated appropriations

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

19. Liabilities

EUR thousand	2007	2006
Long-term liabilities		
Interest-bearing		
Loans from financial institutions	19,142	1,828
Total	19,142	1,828
Total long-term liabilities	19,142	1,828
Short-term liabilities		
Interest-bearing		
Loans from financial institutions	4,260	2,179
Liabilities to Group companies	347	97
Total	4,606	2,276
Non-interest-bearing		
Advances received	908	361
Trade payables	14,233	13,235
Trade payables to Group companies	683	564
Other short-term liabilities	505	449
Warranty provisions	838	652
Accrued expenses and deferred income	7,678	6,080
Accrued debts to Group companies	49	160
Total	24,892	21,501
Total short-term liabilities	29,499	23,776
Interest-bearing liabilities	23,749	4,104
Non-interest-bearing liabilities	24,892	21,501
Total liabilities	48,641	25,604

20. Key items included in accrued expenses and deferred income

EUR thousand	2007	2006
Salaries including social security costs	5,219	4,016
Taxes	767	745
Interest	71	43
Materials and consumables allocated to period	1,212	840
Warranty allocated to period	339	357
Others	119	239
Total	7,726	6,240

21. Currency derivatives

EUR thousand	2007	2006
Forward contracts		
Fair value	379	137
Nominal value	12,660	14,855

Derivative contracts are used only for hedging against currency risks. The contracts mentioned above were open on the balance sheet date.

22. Collateral and contingent liabilities

EUR thousand	2007	2006
Guarantees		
On behalf of Group companies	746	702
On behalf of others	14	704
Total	761	1,406
Amounts payable under leasing agreements		
Payable in the following financial year	996	1,182
Payable later	1,075	1,218
Total	2,071	2,400
Payable amounts on rental agreements		
Payable in the following financial year	1,949	2,077
Payable later	12,352	6,077
Total	14,301	8,154
Other commitments		
Financial commitments	952	1,494
Total	952	1,494

SIGNATURES FOR THE BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Vaasa 7. february 2008

Jan Inborr
Chairman

Pekka Ahlqvist

Jari Eklund

Kalle Heikkinen

Mauri Holma

Veijo Karppinen

Vesa Laisi
President and CEO

AUDITORS' REPORT

To the shareholders of Vacon Plc

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Vacon Plc for the period January 1 – December 31, 2007. The Board of Directors and the President and CEO have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, containing the consolidated balance sheet, income statement, cash flow statement, statement on the changes in equity and notes to the financial statements, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the President and CEO of the parent company have complied with the rules of the Limited Liability Companies Act.

Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of profit is in compliance with the Limited Liability Companies Act.

Vaasa, February 7, 2008
KPMG OY AB

Pekka Pajamo
Authorized Public Accountant

SHARES AND SHAREHOLDERS

Share capital and shares

Vacon has a share capital of EUR 3,059,000 divided into 15,295,000 fully paid shares. According to the Articles of Association, the minimum share capital is EUR 1 million (1,000,000) and maximum share capital is EUR 4 million (4,000,000). Vacon has one share series. Each share has a nominal value of EUR 0.20, and each share entitles the holder to one vote at the general meeting of shareholders.

Redemption of shares

A shareholder whose holding of all company shares or of the voting rights conferred by the shares reaches or exceeds 33 1/3 % or 50 % is obliged on demand by other shareholders to redeem the shares of such shareholders in the manner prescribed in the Articles of Association.

Authorizations held by the Board of Directors

The Annual General Meeting held on March 28, 2007 authorized the Board of Directors to decide on the purchasing and disposal of the company's own shares. The authorization will be valid for eighteen (18) months as of the date of the decision of the Annual General Meeting of Shareholders. The number of shares that may be purchased and disposed of shall be no more than 1,529,500, which represents 10 % of the registered share capital and total voting rights at the time of the shareholders' meeting. 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 of potential corporate acquisitions or other transactions or for such other purposes as the Board of Directors decides. The purchase of own shares will reduce the company's distributable retained earnings. Cancellation of the shares requires a separate resolution by a shareholders' meeting to reduce the company's share capital.

The Annual General Meeting held on March 28, 2007 authorized the Board of Directors to resolve to dispose of shares in the company held by the same in one or several installments through share issue. The maximum amount of own shares to be disposed of based on the authorization is 1,529,500 shares. The authorization shall include the right for 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 as of the date of the decision of the Annual General Meeting of Shareholders.

Own shares

Under the authorization given at the Annual General Meeting of March 25, 2004, the Board of Directors decided to purchase a maximum of 200,000 company shares in public trading. The purchase of shares began on December 27, 2004. At the end of 2007, the company held a total of 62,812 of its own shares.

Shareholdings of the Board of Directors and Management Team

On December 31, 2007, members of the Board of Directors of Vacon Plc held a total of 557,420 shares, or 3.6 per cent of the company's share stock. The President and CEO and other members of the Management Team held a total of 472,720 shares, or 3.1 % of the company's share stock and voting rights.

Market capitalization and trading

The shares of Vacon Plc have been quoted on the Helsinki Exchanges since December 14, 2000. Vacon's company code on the Helsinki Exchanges is VAC and its trading code is VAC1V. Each share carries one vote. New shares entitle holders to dividend for the period during which they were subscribed. Other shareholder rights are applicable from the date the increase in share capital was registered in the Trade Register. The shares have been entered in the book-entry securities system. During 2007, a total of 8,241,257 company shares with a value of EUR 245.1 million were traded on the stock exchange. The highest share price during the year was EUR 38.00 and the lowest EUR 24.60. The closing price on the last day of 2007 was EUR 28.00 and the company's market capitalization was EUR 426.5 million.

Incentive schemes

Vacon has an incentive scheme for all personnel. In January 2005, Vacon's Board of Directors decided to set up a 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. The Board of Directors will set annually the revenue, 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.

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 per cent 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 26, 2008 that a dividend of EUR 0.75, or 55 per cent of the Group's earnings per share, be paid for 2007.

Shareholders

At the end of 2007, Vacon had 4,036 registered shareholders. The largest shareholder was Ahlström Capital Oy, which held 15.0 % of the shares. The number of nominee registered shares and those registered by foreigners totaled 32.1 % of the shares.

Private persons owned 31.6 % of the shares. Up-to-date information on Vacon's share price and ownership structure is available on Vacon's website at www.investors.vacon.com.

Distribution of shareholding

By number of shares held

Number of shares	Holdings	%	Number of shares	%
1-500	3,206	79.4	635,769	4.2
501-1,000	402	10.0	322,323	2.1
1,001-5,000	284	7.0	646,342	4.3
5,001-10,000	55	1.4	421,212	2.8
10,001-50,000	50	1.2	1,053,889	6.9
Over 50,000	39	1.0	12,215,465	79.9
Total	4,036	100.0	15,295,000	100.0

By shareholder group

Corporations	3,163,232	20.7
Banks and insurance companies	1,108,169	7.2
Nominee-registered and foreign shareholders	4,903,419	32.1
Non-profit and public sector institutions	1,283,822	8.4
Households	4,836,358	31.6
Total	15,295,000	100.0

Major shareholders Dec 31, 2007

	No. of shares	% of shares
Ahlström Capital Oy	2,297,996	15.0
Tapiola Mutual Pension Insurance Company	584,500	3.8
Vaasa Engineering Oy	424,433	2.8
Koskinen Jari	358,590	2.3
Holma Mauri	347,171	2.3
Ehrnrooth Martti	328,500	2.1
Tapiola Group companies	325,300	2.1
Niemelä Harri	309,840	2.0
Karppinen Veijo	209,349	1.4
Mutual Insurance Company Pension Fennia	185,000	1.2
Nominee registered and in foreign ownership	4,903,419	32.1
Others	5,020,902	32.8
Total	15,295,000	100.0
Vacon Plc's own shares	-62,812	
Number of shares outstanding	15,232,188	

STOCK EXCHANGE RELEASES AND PRESS RELEASES PUBLISHED IN 2007

January

Jan 3, 2007	Press release: Vacon wins a major contract in the mining industry in Greece
Jan 13, 2007	Press release: Vacon opens subsidiary in Chennai, India

February

Feb 8, 2007	Stock exchange release: Vacon Plc Financial Bulletin 1 January - 31 December 2006
Feb 12, 2007	Press release: Vacon strengthens distributi on in Russia
Feb 26, 2007	Press release: Vacon wins contract in sugar industry in Brazil

March

March 14, 2007	Press release: Vacon opens subsidiary in Melbourne, Australia
March 16, 2007	Stock exchange announcement: Vacon´s Annual Report 2006 published
March 28, 2007	Stock exchange release: Vacon Plc´s Annual General Meeting of Shareholders

April

Apr 16, 2007	Stock exchange announcement: Vacon Plc conveyance of own shares
Apr 25, 2007	Stock exchange release: Vacon Plc Interim Report January-March 2007

June

Jun 4, 2007	Press release: Vacon and WWF Finland cooperate to prevent climate change
Jun 5, 2007	Press release: Vacon exhibits complete portfolio at PulPaper in Helsinki
Jun 12, 2007	Press release: Vacon exhibits the widest range of liquid-cooled AC drives at NorShipping
Jun 14, 2007	Press release: Vacon 10 - the new era of tailor-made micro drives

August

Aug 2, 2007	Stock exchange release: Vacon Plc Financial Bulletin 1 January - 30 June 2007

September

Sept 3, 2007	Press release: Vacon strengthening its foothold in mining and minerals
Sept 13, 2007	Press release: Vacon strengthens service operations in Europe
Sept 18, 2007	Press release: Vacon expands and takes on new workers at its Vaasa factory

October

Oct 11, 2007	Stock exchange release: Vacon delivers AC drives to hundreds of wind turbines
Oct 25, 2007	Stock exchange release: Vacon Plc Financial Bulletin 1 January - 30 September 2007

November

Nov 2, 2007	Press release: Vacon inaugurates office in Brazil
Nov 6, 2007	Press release: Vacon receives type approvals for marine use from DNV and BV
Nov 21, 2007	Press release: Vacon delivers more than 300 AC drives to Talvivaara
Nov 27, 2007	Press release: Vacon receives Frost & Sullivan's Global Micro Drives Product of the Year Award

December

Dec 19, 2007	Stock exchange release: Vacon to acquire AC drives business of TB Wood's
Dec 20, 2007	Press release: Vacon to establish subsidiary in USA

INFORMATION FOR INVESTORS

Annual General Meeting

The Annual General Meeting of Vacon Plc will be held at 3.00 pm on Wednesday, 26 March 2008 at the company's head office at Runsorintie 7, Vaasa, Finland.

Shareholders wishing to attend the Annual General Meeting must be registered on 16 March 2008 in the company's list of shareholders maintained by the Finnish Central Securities Depository and shall notify the company not later than 4.00 pm (Finnish time) on 19 March 2008. Shareholders are requested to give their name, address, telephone number and date of birth when informing the company of their attendance. This can be done by telephone to Johanna Koskinen on +358 201 212 528, by fax +358 201 212 208, by e-mail johanna.koskinen@vacon.com or by mail to Vacon Plc, Johanna Koskinen, Runsorintie 7, 65380 Vaasa, Finland. Any letters of authorization should be sent to the above address by the date for notification.

Share register

Shareholders are requested to inform the book-entry securities register where they have their book-entry securities account of any changes in address, name or holdings.

Payment of dividends

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.75 per share be paid for the 2007 financial year. The dividend approved by the AGM will be paid to shareholders who are registered on the record date in the company's list of shareholders maintained by the Finnish Central Securities Depository. The record date for the dividend payment is 31 March 2008 and the proposed payment date for the dividend is 7 April 2008.

Financial reports in 2008

Vacon is publishing three interim reports in 2008 as follows:

– January-March: 24 April 2008 at 9.00 am
– January-June: 7 August 2008 at 9.00 am
– January-September: 23 October 2008 at 9.00 am

The reports can be seen immediately after publication on Vacon's website at www.investors.vacon.com. The website also contains other material for investors.

Investor relations

The objective of Vacon's investor communications is to provide the fi nancial markets with information about Vacon's strategies, operations and business environment so as to form as accurate a picture as possible of Vacon as an object for investment.

Responsibility for investor relations at Vacon:

Vesa Laisi, President and CEO
Tel. +358 (0)201 212 510
Fax. +358 (0)201 212 208
vesa.laisi@vacon.com

Mika Leppänen, CFO
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Fax. +358 (0)201 212 208
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Johanna Koskinen, Investor Relations
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Fax. +358 (0)201 212 208
johanna.koskinen@vacon.com

Analyst coverage

To our knowledge at least the following brokers and financial analysts are following Vacon's development. They have analysed Vacon and drawn up reports and comments, and they are able to evaluate the company as an investment target. Vacon takes no responsibility for the opinions expressed by these analysts.

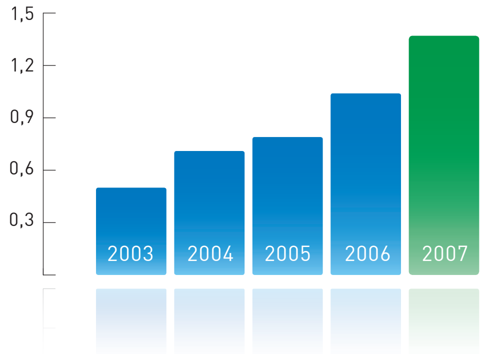
Name	Company	Telephone
Jan Brännback	ABN AMRO	+358 (0)9 228 732
Silja Varmola	Carnegie Investment Bank AB	+358 (0)9 61 871 234
Umulinga Karangwa	Cazenove Equities	+44 (0) 207 155 6138
Tomi Tiilola	eQ Bank	+358 (0)9 2312 3311
Svante Krokfors	Evli Bank	+358 (0)400 436 665
Teemu Saari	Glitnir	+358 (0)9 6134 6514
Malcolm Monteiro	Goldman Sachs	+44 (0) 20 7774 1363
Tom Skogman	Handelsbanken Securities	+358 (0)10 444 2752
Jeff Roberts	Impivaara Securities Limited	+44 20 7284 3937
Robin Johansson	Mandatum Stockbrokers Ltd	+358 (0)10 236 4828
Antti Karessuo	OKO Bank	+358 (0)10 252 2973
Michael Schröder	Kaupthing Bank	+358 (0)9 478 40 287

SHARE INFORMATION

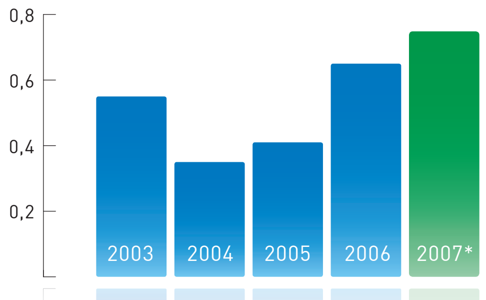
Share information

Trading code:	VAC1V	**Sector:**	Industrials
ISIN code:	F10009009567	**Industry group:**	Production commodities
Listed:	14 December 2000	**Industry:**	Electrical equipment
Nominal value:	0.20 €		
Number of shares:	15,295,000		
Stock exchange:	OMX Helsinki		

Earnings per share, €

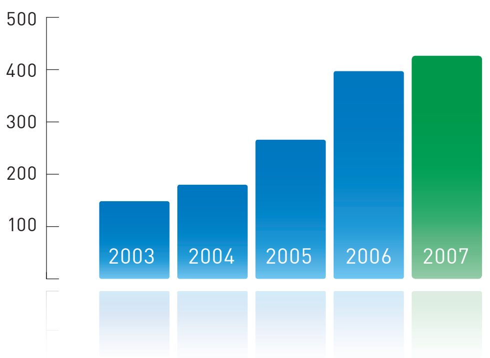


Dividend per share, €

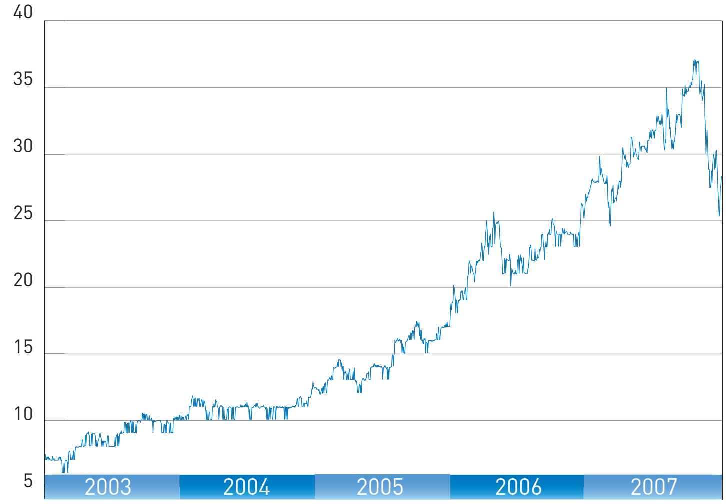


* The 2007 dividend is the Board of Directors´proposal to the Annual General Meeting.

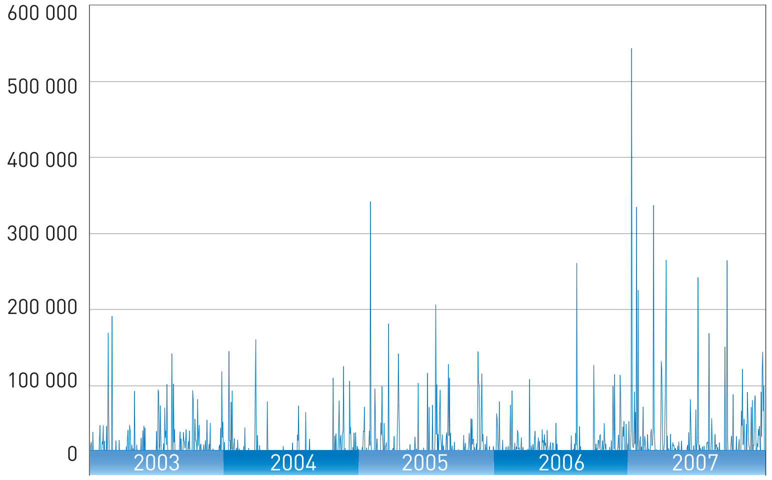
Market capitalization, M€



Vacon share development 2003-2007, €



Stock´s trading volume 2003-2007, units



WWW.VACON.COM