Vacon Plc, Stock Exchange Release, 4 August 2010 at 9.30 am

Vacon Plc Interim Report 1 January – 30 June 2010

April-June summary:
- Order intake totalled MEUR 92.1, growth of 38.7 % from the corresponding period in the previous year (MEUR 66.4).
- Revenues totalled MEUR 80.2, increase of 6.0 % (MEUR 75.7).
- Operating profit was MEUR 6.6, down 15.4 % (MEUR 7.8).
- Cash flow from operations was MEUR 5.8, a decline of 26.7 % (MEUR 7.9).
- Earnings per share were EUR 0.27 (EUR 0.35), a decline from the previous year of 22.9 %.

January-June summary:
- Order intake totalled MEUR 164.8, growth of 21.7 % from the corresponding period in the previous year (MEUR 135.4).
- Revenues totalled MEUR 145.5, a decline of 0.1 % (MEUR 145.7).
- Operating profit was MEUR 11.2, down 24.6 % (MEUR 14.9).
- Cash flow from operations was MEUR 7.7, down 45.7 % (MEUR 14.2).
- Earnings per share were EUR 0.44 (EUR 0.64), a decline from the previous year of 31.3 %.

January – June result

MEUR	4-6/ 2010	4-6/ 2009	1-6/ 2010	1-6/ 2009	Change, %	1-12/ 2009
Revenues	80.2	75.7	145.5	145.7	-0.1	272.0
EBITDA	9.3	10.1	16.6	19.5	-14.8	32.1
Depreciation – tangibles	-1.2	-1.0	-2.4	-2.1	16.6	-4.3
EBITA	8.1	9.1	14.2	17.4	-18.5	27.8
Amortization – intangibles	-1.5	-1.3	-3.0	-2.5	16.7	-5.3
Operating profit	6.6	7.8	11.2	14.9	-24.6	22.5
Profit before tax	6.4	7.5	10.8	14.0	-23.2	22.0
Profit for period	4.3	5.5	7.0	10.1	-29.9	16.1

General review

During the second quarter of 2010 the AC drive market picked up.

The impact of improved demand and the company's sales efforts could be seen in the sharp increase in the order intake in all market areas. Revenues also started to pick up in the second quarter. Demand especially for low-power products grew strongly. In contrast, demand for AC drives in major industrial projects and the ship building industry has not returned to growth after the recession. These projects usually require a large number of high-power AC drives. The growth in market demand has impeded the availability of certain components and materials, and this has affected delivery times to a certain extent.

The company has passed the levels for the order intake and revenues that it had before the recession. The operating profit improved from the beginning of the year, but the growth in the operating profit was slowed by the focus in sales on low-power products with a lower sales margin.

Vacon is keeping its market guidelines for 2010 unchanged.

Order intake and order book
Orders received increased 38.7 % during the second quarter from the corresponding period in the previous year. The order intake totalled EUR 92.1 million, which represents growth of 26.7 % from the previous quarter. The volume of orders increased in all geographical regions: in North and South America 59.6 %, in Asia 27.5 % and in Europe 36.8 %. The Group's order book stood at EUR 51.3 (37.7) million at the end of June. This was an increase of EUR 19.3 million from the beginning of the year.

Revenues
Revenues in the second quarter totalled EUR 80.2 million, growth of 22.8 % from the previous quarter. Revenues increased 6.0 % from the corresponding period in the previous year. Revenues in the first half of the year rose to the same level as in the previous year.

Operating profit
Operating profit as a percentage of revenues in the second quarter was 8.2 %, compared to 10.3 % for the corresponding period in the previous year. The operating profit percentage improved from the previous quarter (7.0 %). Growth in the operating profit was slowed down as sales focused on lower power products with a lower sales margin. The operating profit percentage in the first half of the year declined from 10.2 % in the previous year to 7.7 %. Earnings per share for the January-June period were EUR 0.44, a decline of EUR 0.20 from the previous year.

Balance sheet and cash flow
The balance sheet remained strong. Cash flow in the second quarter totalled EUR 5.8 million, a decline from the previous year of EUR 2.1 million. The growth in business operations meant that working capital was some EUR 1 million more than at the end of the previous quarter.

The balance sheet total stood at EUR 169.2 (148.5) million. The equity ratio was 48.1 % (51.4 %). The consolidated cash flow in the January – June period was EUR 7.7 (14.2) million. The reduction in the cash flow is due to the increase in working capital and the decline in the operating profit.

The Group's equity structure and liquidity remained strong. Interest-bearing net debt at the end of the period totalled EUR 11.4 (15.8) million, and gearing was 14.3 % (21.0 %).

Market position

Vacon Group revenues by market area were as follows:

MEUR	4-6/ 2010	%	4-6/ 2009	%	1-6/ 2010	%	1-6/ 2009	%	1-12/ 2009	%
Europe, Middle East, Africa	54.0	67.3	55.6	73.4	98.9	68.0	106.0	72.8	190.8	70.1
North and South America	14.0	17.5	11.6	15.3	25.8	17.7	23.8	16.3	46.3	17.0
Asia and Pacific	12.2	15.2	8.4	11.1	20.8	14.3	15.9	10.9	34.9	12.8
Total	80.2	100.0	75.7	100.0	145.5	100.0	145.7	100.0	272.0	100.0

During the second quarter of 2010 Vacon strengthened its global position. Based on market surveys, the company estimates that it has about five per cent of the global market.

Developments in Vacon’s revenues by market region during the first half of the year were as follows: Europe, Middle East and Africa in total -6.7 %, North and South America +8.5 % and Asia and Pacific +30.3 %, from the corresponding period in the previous year.

Breakdown of Vacon Group revenues by distribution channel:

MEUR	4-6/ 2010	%	4-6/ 2009	%	1-6/ 2010	%	1-6/ 2009	%	1-12/ 2009	%
Direct sales	6.8	8.5	5.3	7.0	13.8	9.5	14.2	9.7	26.5	9.8
Dist-ributors	10.7	13.4	8.2	10.8	19.8	13.6	16.6	11.4	35.3	13.0
OEM	20.7	25.8	15.3	20.2	38.6	26.5	31.3	21.5	68.0	25.0
Brand label customers	16.8	21.0	14.5	19.2	30.0	20.6	26.0	17.8	52.6	19.3
System integ-rators	25.2	31.4	32.3	42.7	43.3	29.7	57.7	39.6	89.6	32.9
Total	80.2	100.0	75.7	100.0	145.5	100.0	145.7	100.0	272.0	100.0

Sales through several of Vacon’s distribution channels rose in the first half of the year: OEM +23.5 %, distributors +19.3 % and brand label customers +15.5 %. Sales to system integrators declined -25.0 % and direct sales –2.6 %.

Vacon Group structure
Vacon revised the organization of the Group's parent company Vacon Plc as from 1 June 2010. The parent company was split into two functional entities: the Vacon Drives Finland profit unit and global group management. At the same time the company renewed its Products and Markets organization structure.

Research and development
R&D expenditure during the first half of the year totalled EUR 9.3 (9.0) million, and EUR 2.3 (2.2) million of this was capitalized as development costs. R&D costs accounted for 6.4 % of the Group's revenues (6.2 %).

Vacon's goal is to launch several new products by the end of 2010.

Investments
Gross investments by the Group during the first six months totalled EUR 6.3 (7.4) million. Expenditure focused mainly on R&D and on raising production and testing capacity.

Organization and personnel
The number of Vacon Group personnel has increased by 118 since the beginning of the year, mainly because of seasonal labour for the summer. At the end of June, the Group employed 1,346 (1,282) people, of whom 742 (711) were in Finland and 604 (571) in other countries. The table below shows the average number of Vacon employees during the review period:

	1-6/2010	1-6/2009	1-12/2009
Office personnel	786	752	763
Factory personnel	478	461	468
Total	1,264	1,213	1,231

Shares and shareholders
Vacon had a market capitalization at the end of June of EUR 520 million. The closing share price on 30 June 2010 was EUR 34.20. The lowest share price during the January-June period was EUR 24.90 and the highest EUR 35.31. A total of 1,505,242 Vacon shares were traded during the January-June period, in monetary terms EUR 44.6 million.

Vacon's main shareholders on 30 June 2010:

	Number of shares	Holding, %
Ahlström Capital Group	3,061,215	20.0
Ilmarinen Mutual Pension Insurance Company	682,877	4.5
Tapiola Mutual Pension Insurance Company	584,500	3.8
Vaasa Engineering Oy	424,433	2.8
Koskinen Jari	362,403	2.4
Holma Mauri	347,171	2.3
Ehrnrooth Martti	333,000	2.2
Tapiola Group companies	325,300	2.1
Karppinen Veijo	186,134	1.2
Autio Heikki	147,060	1.0
Nominee registered and in foreign ownership	4,689,553	30.7
Vacon Plc own shares	80,565	0.5
Others	4,070,789	26.6
Total	15,295,000	100.0
Shares outstanding	15,214,435	

On 30 June 2010 members of Vacon's Board of Directors, the President and CEO, and the Deputy to the CEO held directly a total of 22,954 shares, or 0.2 % of Vacon's share stock.

Own shares
On 30 June 2010 Vacon Plc held a total of 80,565 of its own shares.

Dividend
The AGM adopted the proposal of the Board of Directors to pay a dividend of EUR 0.70 per share, in total EUR 10,646,992. It decided that the record date for the dividend payment would be 26 March 2010 and the payment date 6 April 2010.

Risks and uncertainties in the near future
The most significant risks for Vacon in the near future relate to the availability of critical components and materials, uncertainty about general demand and intensifying competition on price.

On 19 March 2010 Vacon announced that the Chinese Customs were carrying out an audit of the customs clearance process at Vacon's factory in China. The investigation by the Chinese authorities is still in progress. Vacon has carried out its own internal audit of the matter but does not comment on the issue while the official investigation is still in progress. The company will issue a statement on the matter as and when necessary.

Vacon's order book has always been short term in nature, so there are no major risks connected with the timing of deliveries or their cancellation. Vacon has thousands of customers worldwide. The ten largest customers account for less than half of Vacon's revenues. Vacon does not finance customer projects and is also continuously assessing the creditworthiness of its customers and their ability to pay their debts.

Vacon's balance sheet includes goodwill of EUR 9.5 million, most of which is related to the company acquisition at the beginning of 2008. The company tests goodwill for impairment annually.

The availability of raw materials and components and changes in their prices can affect the profitability and scale of the company's business. The availability of certain components and materials is expected to pose a challenge in the second half of the year. Purchase agreements for raw materials and components are mainly annual agreements, which contain price and exchange rate clauses for changes in the global market prices of raw and other materials.

Some of the most significant financial risks affecting the result are foreign exchange risks. Exchange rate fluctuations may have an impact on business, although the international expansion of business operations reduces the relative importance of individual currencies. The biggest exchange rate risks against the euro relate to the US dollar and the Chinese renminbi.

Prospects for 2010
The AC drive market picked up in the second quarter of 2010. Despite this, market developments in the second half of the year are exposed to uncertainties arising from the global economy. During the recession Vacon has strongly invested in developing skills and knowhow and in product development and has established new subsidiaries. This creates a solid basis for future growth.

Vacon keeps its market guidelines unchanged and estimates that revenues in 2010 will increase from 2009. It expects relative profitability to be similar to that in 2009 and earnings per share to improve from 2009.

2010 financial reporting
Vacon will publish its third 2010 interim report as follows:
- January-September: Wednesday, 27 October, 2010 at 9.30 am

Formal statement
This release contains certain forward-looking statements that reflect the current views of the company's management. Due to the nature of these statements, they contain risks and uncertainties and are subject to changes in the general economic situation and in the company's business sector.

Vacon in brief
Vacon's operations are driven by a passion to develop, manufacture and sell the best AC drives in the world — and nothing else. AC drives are used to control electric motors and in renewable energy generation. Vacon has R&D and production units in Finland, the USA, China and Italy, and sales offices in more than 27 countries. In 2009 Vacon had revenues of EUR 272 million and globally employed 1200 people. The shares of Vacon Plc (VAC1V) are quoted on the main list of the Helsinki stock exchange.

Driven by Drives, www.vacon.com

Vaasa, 4 August 2010

VACON PLC

Board of Directors

For more information please contact:
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Conference for media and analysts
Vacon will hold a briefing for analysts and the media at 11.30 am on 4 August 2010 at the Scandic Simonkenttä Hotel, Simonkatu 9, 00100 Helsinki

Dial-in conference for investors and investment analysts
A dial-in conference in English for investors and investment analysts will be held at 3.00 pm on 4 August 2010. President and CEO Vesa Laisi and Eriikka Söderström, CFO and Vice President, Finance and Control, will participate in the conference. Lines can be booked ten minutes before the conference by calling the service number +44 207 162 0025. The conference ID code is "Vacon Oyj". To hear a recording of the conference, available for four working days, call +44 207 031 4064, ID code 855961.

Conference link:
http://wcc.webeventservices.com/view/wl/r.htm?e=189224&s=1&k=C527CDBD8C5843F536ED5AB4CE4DD7D6&cb=blank

Distribution
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Main media

Accounting principles

This interim report has been prepared in accordance with IFRS (International Financial Reporting Standards) standard IAS 34 on Interim Financial Reporting.

Vacon has prepared this interim report applying the same accounting principles as those decribed in detail in its 2009 consolidated financial statements

The interim report is unaudited.

Consolidated income statement, IFRS, MEUR

	4-6/ 2010	4-6/ 2009	1-6/ 2010	1-6/ 2009	1-12/ 2009
Revenues	80.2	75.7	145.5	145.7	272.0
Other operating profit	0.0	0.1	0.1	0.2	0.3
Change in inventories of finished goods and work in progress	0.8	1.3	1.2	0.0	-1.0
Materials and services	-43.5	-39.9	-76.5	-73.9	-138.1
Employee benefit costs	-15.6	-13.5	-29.5	-27.7	-53.6
Other operating costs	-12.7	-13.6	-24.2	-24.8	-47.5
Depreciation	-1.2	-1.0	-2.4	-2.1	-4.3
EBITA	8.1	9.1	14.2	17.4	27.8
Amortization	-1.5	-1.3	-3.0	-2.5	-5.3
Operating profit	6.6	7.8	11.2	14.9	22.5
Financial income and expenses	-0.2	-0.3	-0.5	-0.8	-0.6
Profit before taxes	6.4	7.5	10.8	14.0	22.0
Income taxes	-2.1	-1.9	-3.7	-4.0	-5.9
Profit for period	4.3	5.5	7.0	10.1	16.1
Attributable to:					
Equity holders of the parent	4.2	5.3	6.8	9.7	15.4
Minority interest	0.1	0.2	0.3	0.4	0.6
Earnings per share, euro	0.27	0.35	0.44	0.64	1.01
Earnings per share diluted, euro	0.27	0.35	0.44	0.64	1.01

Consolidated statement of comprehensive income, IFRS, MEUR

	4-6/ 2010	4-6/ 2009	1-6/ 2010	1-6/ 2009	1-12/ 2009
Net profit for period	4.3	5.5	7.0	10.1	16.1
Other comprehensive income					
Cash flow hedging	0.0	0.0	0.0	-0.1	-0.1
Exchange differences on translating foreign operations	1.2	-0.7	2.0	-0.1	-0.1
Total comprehensive income	5.5	4.8	9.1	9.9	15.9
Attributable to:					
Shareholders of parent company	5.4	4.6	8.8	9.5	15.3
Minority interest	0.1	0.2	0.3	0.4	0.6

Consolidated balance sheet, IFRS, MEUR

	30.6.2010	30.6.2009	31.12.2009
ASSETS			
Goodwill	9.5	8.2	8.1
Development costs	10.9	6.5	9.1
Intangible assets	12.0	13.8	13.3
Tangible assets	19.8	18.4	18.5
Loans receivable and other receivables	0.1	0.2	0.2
Deferred tax assets	3.9	3.1	3.3
Other financial assets	3.9	3.6	5.3
Total non-current assets	60.0	53.8	57.8
Inventories	24.5	21.4	19.3
Trade and other receivables	69.7	63.1	51.3
Cash and cash equivalents	14.9	10.2	17.2
Total current assets	109.2	94.7	87.8
Total assets	169.2	148.5	145.6
EQUITY AND LIABILITIES			
Share capital	3.1	3.1	3.1
Share premium reserve	5.0	5.0	5.0
Own shares	-2.6	-2.6	-2.6
Retained earnings	72.8	68.7	74.4
Minority interest	1.3	1.2	1.5
Total equity	79.5	75.3	81.3
Deferred tax liabilities	4.9	3.8	4.6
Employee benefits	1.6	1.5	1.5
Interest-bearing liabilities	11.6	14.3	12.4
Total non-current liabilities	18.1	19.6	18.5
Trade and other payables	53.0	38.5	36.1
Income tax liabilities	1.9	1.7	1.3
Provisions	1.9	1.6	1.9
Interest-bearing liabilities	14.7	11.8	6.4
Total current liabilities	71.6	53.6	45.7
Total equity and liabilities	169.2	148.5	145.6

Q2/2009 Calculation of changes in shareholders' equity, IFRS, MEUR

Attributable to equity holders of the parent						Minority interest	Total equity
	Share capital	Share premium reserve	Own shares	Retained earnings	Total		
Shareholders' equity 31.12.2008	3.1	5.0	-2.6	68.7	74.1	1.4	75.5
Dividend paid							
				-9.9	-9.9	-0.6	-10.4
Total comprehensive income for period				9.5	9.5	0.4	9.9
Share bonuses				0.2	0.2		0.2
Other changes				0.1	0.1		0.1
Shareholders' equity 30.6.2009	3.1	5.0	-2.6	68.7	74.1	1.2	75.3

Q2/2010 Calculation of changes in shareholders' equity, IFRS, MEUR

Attributable to equity holders of the parent						Minority interest	Total equity
	Share capital	Share premium reserve	Own shares	Retained earnings	Total		
Shareholders' equity 31.12.2009	3.1	5.0	-2.6	74.4	79.8	1.5	81.3
Dividend paid				-10.7	-10.7	-0.5	-11.2
Total comprehensive income for period				8.8	8.8	0.3	9.1
Share bonuses				0.2	0.2	0.0	0.2
Shareholders' equity 30.6.2010	3.1	5.0	-2.6	72.8	78.2	1.3	79.5

Consolidated cash flow statement, IFRS, MEUR

	30.6.2010	30.6.2009	31.12.2009
Profit for the period	7.0	10.1	16.1
Depreciation	5.4	4.6	9.6
Financial income and expenses	0.5	0.8	0.6
Taxes	3.7	4.0	5.9
Other adjustments	0.0	0.2	0.5
Change in working capital	-4.2	-0.4	11.0
Cash flow from financial items and tax	-4.6	-5.0	-6.5
Cash flow from operating activities	7.7	14.2	37.1
Investments in tangible and intangible assets	-6.3	-7.4	-16.1
Proceeds from disposal of tangible and intangible assets	0.0	0.0	1.4
Other investments	0.6	-0.2	-2.3
Proceeds from disposal of other investments	0.0	0.0	0.6
Cash flow from investing activities	-5.7	-7.6	-16.5
Repayment of long-term loans	-2.0	-1.5	-3.3
Proceeds from short-term borrowings	7.9	0.0	0.0
Repayment of short-term loans	0.0	-0.4	-5.8
Dividends paid	-11.2	-10.4	-10.4
Cash flow from financial activities	-5.3	-12.4	-19.5
Change in liquid funds	-3.3	-5.8	1.2
Liquid funds at start of period	17.2	15.7	15.7
Translation differences for liquid funds	1.0	0.3	0.3
Liquid funds at end of period	14.9	10.2	17.2

Segment information

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

Purchased business operations
In March 2010 the Group acquired a controlling interest (85 %) in a small Spanish company Global Inver Sonne S.L. to promote its own technology in the utilization of solar energy. The estimated final price for the transaction is EUR 0.8 million. According to initial calculations, the acquisition of Global Inver Sonne S.L. gave rise to goodwill of EUR 0.7 million, which is based on the anticipated potential for expanding business operations.

MEUR	
Acquisition cost	
Amount recognized on acquisition date	0.4
Estimated conditional transaction price	0.4
Possible variation in conditional price	0 - 0.4
Total acquisition cost	0.8
Fair value of net acquired assets	0.1
Goodwill	0.7
Allocation of goodwill:	
Europe, Middle East and Africa	0.7
The impact on the cash flow was as follows:	
Total acquisition cost	-0.8
of which paid on acquisition date	-0.4
Cash funds acquired	0.1
Net payment for acquisition from cash funds	0.3

	Carrying amount	Fair value
Inventories	0.1	0.1
Receivables, total	0.0	0.0
Cash and bank balances	0.1	0.1
Total assets	0.1	0.1
Total liabilities	0.0	0.0
Net assets		0.1
Acquisition cost		0.8
Goodwill		0.7

Key indicators

	30.6.2010	30.6.2009	31.12.2009
Orders received, MEUR	164.8	135.4	256.1
Change in orders received, %	21.7	-16.2	-16.4
Revenues, MEUR	145.5	145.7	272.0
Change in revenues, %	-0.1	1.3	-7.2
Operating profit, MEUR	11.2	14.9	22.5
Change in operating profit, %	-24.6	-17.2	-35.0
Operating profit, % of revenues	7.7	10.2	8.3
Earnings per share, EUR	0.44	0.64	1.01
Equity per share, EUR	5.14	4.87	5.25
Equity ratio, %	48.1	51.4	56.5
Gross capital expenditure, MEUR	6.3	7.7	18.2
Gross capital expenditure, % of revenues	4.4	5.3	6.7
Interest-bearing net liabilities, MEUR	11.4	15.8	1.6
Gearing, %	14.3	21.0	2.0
Net working capital, MEUR	37.4	42.6	31.2
Order book, MEUR	51.3	37.7	32.0
Adjusted average number of shares during the period	15,211,708	15,199,299	15,204,263
Number of shares at end of period	15,214,435	15,208,989	15,209,989
Number of personnel at end of the period	1,346	1,282	1,228

Commitments and contingencies, MEUR

	30.6.2010	30.6.2009	31.12.2009
Commitments and contingencies	2.4	2.3	2.4
Financing commitments	0.2	0.3	0.3

Calculation of financial ratios

Earnings per share =	Profit for the financial period attributable to equity holders of the parent company --- Adjusted average number of shares
Equity per share =	Shareholders' equity – minority holding --- Adjusted number of shares at year end
Equity ratio % =	Shareholders' equity x 100 --- Balance sheet total – advances received
Gearing, % =	(Interest-bearing liabilities – cash, bank balances and financial assets) x 100 --- Shareholders' equity
Net working capital =	Inventories + non-interest-bearing current receivables – non-interest-bearing current liabilities