ANNUAL REPORT 2011

VACON

DRIVEN BY DRIVES

FOCUS ON THE FUTURE

What will customers want in 2015? What kind of AC drives will be manufactured in 2018? Which company will be the world's leading manufacturer of AC drives and inverters in 2020? What will the world look like in 2025?

Vacon has performed well and been able to grow faster than the markets, while also maintaining good profitability.

The AC drive markets grow faster than the average industrial production. The reason is that AC drives and inverters are cleantech products. With them, it is possible to save significant amounts of energy and produce energy from renewable sources, such as the sun and wind.

In 2011, Vacon's AC drives helped to save appoximately 44 TWh of energy. This corresponds to the production capacity of approximately eight nuclear reactors. At the same time, Vacon's AC drives helped reduce global carbon dioxide emissions considerably.

In 2011, the amount of energy produced with Vacon's products was approximately 18 TWh. Producing an equivalent amount of energy using coal would generate about 16 million tonnes of carbon dioxide.

However, previous success is not a guarantee of future development. Therefore, Vacon ensures that it will grow profitably over a short term and be successful far into the future. To accomplish this, Vacon personnel is guided by the company's values and strategy that do not change from one year or quarter to another or fluctuate with economic development or situations.

Jutta Tuominen, Process Developer, R&D Excellence, develops operating models for managing environmental matters.

CLEANTECH – WITH AN ATTITUDE

Vacon is driven by a passion to develop, manufacture and sell the best AC drives and inverters in the world – and to offer customers services spanning the entire product life cycle. Our AC drives offer optimal process control and energy efficiency for electric motors. Vacon's inverters play a key role when energy is produced from renewable sources. Vacon has R&D and production units in Finland, the USA, China, and Italy. There are sales and service offices in 27 countries. In 2011, Vacon's revenues amounted to EUR 380.9 million, and the company employed globally 1,470 people on the average. The shares of Vacon Plc (VAC1V) are quoted on the main list of the Helsinki stock exchange (NASDAQ OMX Helsinki).

An AC drive is a device that is used to control the speed of an electric motor in all industry segments and civil engineering. In addition, inverters based on the same technology are key products in the production of renewable energy. With the AC drive technology, it is possible to obtain significant energy savings and produce clean energy from renewable sources, such as the sun and wind.

Vacon was established in Vaasa, Finland, in 1993. It was founded by 13 bold entrepreneurs who shared a passion to develop and manufacture the best AC drives in the world. The year 2011 was the company's 18th year of operations.

Customers and fields of operation

Vacon's production units are located in Finland, the USA, China, Italy, and India. In addition to Finland, Vacon has R&D units in Italy, China, and the USA. The company has sales offices in 27 countries, and it uses several sales channels to sell its products. Vacon's sales channels are original equipment manufacturers (OEMs), system integrators, brand label customers, distributors, and direct sales to end users. Vacon supplies AC drives to nearly all industry segments and to civil engineering. Typical customer sectors include machine manufacture, water treatment, building automation, marine and offshore industry, renewable energy generation, and mining. AC drives are used, for example, in pumps, fans, elevators, escalators, conveyors, compressors, as well as wind and solar power plants.

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

YEAR 2011 IN BRIEF

Mar 22
Vacon Plc's Annual General Meeting

May 11
Vacon inaugurates new factory in China

Jul 13
Vacon signs supply agreement with Bristol Compressors

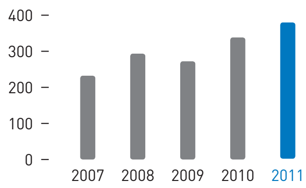
Aug 31
The Vacon 8000 Solar inverter has received extensive grid approvals

Financial targets and shareholders

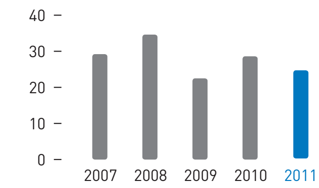
Vacon's goal is to achieve revenues of EUR 500 million, an operating profit of 14% and a return on equity of more than 30% in 2014.

Vacon Plc's shares are listed on the NASDAQ OMX Helsinki. At the end of 2011, Vacon had 4,814 shareholders, of which 47.0% were institutions or private investors operating in Finland and 53.0% were nominee-registered and foreign owners. The closing price of Vacon's share on the last day of 2011 was EUR 30.90, and the company's market capitalization was EUR 471.5 (593.4 million in 2010).

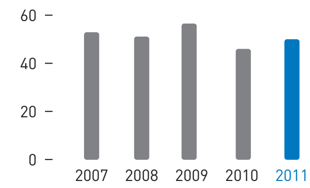
Revenues, MEUR



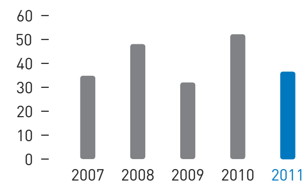
Operating profit, MEUR



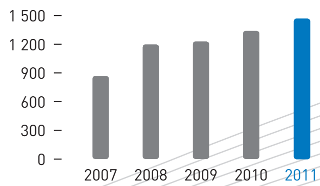
Equity ratio, %



Order book, MEUR



Number of personnel at the end of the period



Oct 21
Vacon has moved to new factory premises in Italy

Nov 3
Vacon delivers AC drives for AXTech winches in Norway

Nov 14
Vacon launches a new AC drive portfolio for OEMs

Dec 2
Vacon delivers AC drives to Indian aluminium factory

WE BELIEVE IN GROWTH

The year 2011 mirrored the previous year in many ways. Performance during the first six months of the year was excellent since growth that had started in the second half of 2010 continued and even strengthened. At the beginning of August, we released the best six-month performance of our history.

However, the first signs of a gloomier future were seen at the beginning of June as Chinese wind power investments declined drastically due to the new wind power regulations stipulated in China. We believe that China will continue its heavy investing in wind power and, more extensively, in the production of renewable energy. However, it is difficult to determine when these investments will genuinely resume. Nevertheless, a positive aspect is the fact that Vacon's customers who sell wind power solutions to China are able to meet the new regulations. This will ensure Vacon's customers have a good competitive position when the wind power investments in China recover.

For a long time, it seemed that the powerful demand for our products designed for motor control would carry us through the end of the year, substituting for the weakened demand for wind power products. However, in the last quarter of the year we unfortunately had to admit that the European financial crisis was affecting the willingness to invest in the eurozone, and the increase in orders came to a halt.

In December, we started to plan saving measures to safeguard the profitability of our company and, further, our future effectiveness.

In 2011, our orders increased to EUR 365.3 million (EUR 358.2 million in 2010). Revenues increased to EUR 380.9 million (EUR 338.0 million in 2010). Growth of revenues was slowed down by the weak demand for products designed for the production of renewable energy in the second half of the year, as well as the slowdown in the demand for motor control products in Europe in the last quarter. Approximately 13% of our revenues was generated by applications related to the production of renewable energy (18% in 2010).

Our profitability did not develop as targeted, and the reasons for this are clear. Our operating profit was EUR 24.7 million and 6.5% of the revenues (EUR 28.6 million and 8.5% in 2010). The weakened profitability was due to the decline in sales volumes in the second half of the year and the EUR 10 million provision related to the legal proceedings in China and an unpaid sales receivable from a solar energy customer.

Despite the challenges we faced at the end of 2011, I would like to emphasize that in 2011 we were able to grow by 12.7%, which brings us again slightly closer to our revenues target of EUR 500 million in 2014. Therefore, I would like to thank all Vacon employees for their professionalism, passionate attitude and hard work in ensuring

that once again, we grew faster than the market. I would also like to extend my thanks to our sales, manufacturing and R&D partners for their unwavering support as we journey towards an even more successful future.

Right now, it is difficult to estimate how the market will develop in 2012. In last year's Annual Report, I stated that I believe there will be increasingly rapid fluctuations in the global economy in the future. The year 2011 confirmed my view. Nevertheless, economic cycles are simply cycles for which we need to be prepared and to which we need to adjust operatively. I think it is important for the company's business operations to be based on well-founded estimates on what kinds of products will be in demand over a long term and on how customers' behavior and needs will change, for example, over a period of 10 years. This will be a solid foundation for the company's strategy.

At Vacon, we believe that AC drives and inverters designed for the production of renewable energy are products with increasing importance on a global scale – we believe that demand for them will grow, which is confirmed by all key studies evaluating the development in the field. An AC drive is a key product in improving energy efficiency in both industry and civil engineering. An inverter is a key product in energy production using renewable sources of energy.

Knowing that the world is suffering from shortage of energy and global warming, it is justified to believe that our products will be in high demand long into the future. One central challenge for us is to increase the recognition of AC drives technology, particularly in emerging countries with strong development potential.

Fortunately, we are not alone in this market, since naturally, competition benefits customers and drives us to design even better products and to offer even better services to our customers: it forces us to do our best.

Competition also requires a wise strategy. We concentrate solely on AC drives and inverters used in the production of renewable energy. This focus offers us opportunities to differentiate ourselves from our competitors in the market. We have managed to make use of this position before, and will make use of it in the future as well. In addition to this focus, our strategy continues to rely on our three additional main strengths: product leadership, a global presence, and a multi-channel sales network.

In 2011, we executed our strategy by introducing new and more competitive products to the market. In 2012, our product portfolio will grow further as we will introduce unparalleled new products to our customers. We will especially focus on our maintenance services, and at the same time, develop our organization to be increasingly international. We want to be closer to our customers everywhere in the world and, in particular, in the markets showing strong growth. In 2012, we will continue to invest considerably in renewable energy and, in particular, in the sales of products for solar power plants.

According to our calculations, the amount of energy saved in 2011 in various industrial and civil engineering applications by means of Vacon's AC drives was approximately 44 TWh (35 TWh in 2010). At the same time, Vacon's inverters generated approximately 18 TWh of energy from the sun and wind (15 TWh in 2010). My vision remains the same: one day, Vacon's products will provide savings of one percent in the electricity used around the world and produce five percent of electricity from renewable sources of energy. We have what it takes to reach these goals: a strong strategy and, above all, a passionate and skilled group of Vacon employees.

Again, I would like to thank everyone for the past year and wish you a successful year 2012!

Vesa Laisi
President and CEO, Vacon Plc

MARKET GROWTH CONTINUES

The global AC drives market developed favorably in the first half of 2011. Orders grew in all geographical areas and industry segments. However, in the second half of the year, the market development ceased. According to Vacon's estimates, this was due to two factors. Chinese wind power investments decreased temporarily due to the new regulations stipulated in China regarding wind power. China is the world's most significant builder of wind power technology, and therefore the situation is important for the entire global market. On the other hand, the prolonged European financial crisis and the subsequent uncertainty reduced the willingness of European companies to invest. This affected the demand for AC drives in the last quarter of the year, particularly in Europe. Market development in 2012 is difficult to estimate since right now, there are significant uncertainties related to the development of the macro economy. Nevertheless, what is important is that long-term growth forecasts have remained unchanged.

According to Vacon's estimate, the global AC drives market grew by approximately 6–8% in 2011. The total value of the market, according to Vacon's estimate, is approximately USD 9–10 billion.

In 2011, Vacon's revenues increased by 12.7%, so once again the company was able to increase its market share. It is estimated at about 5%. In terms of revenues, Vacon is one of the seven largest AC drives manufacturers in the world. The company's main competitors are global conglomerates for which AC drives are just one product among many. Vacon is the world's largest company focusing solely on AC drives. This focus and the subsequent agility and ability to respond to customers' needs provide a clear competitive advantage for Vacon.

Geographically speaking, the largest AC drives market in terms of revenues is the Asia Pacific region with a share of over 40%. Correspondingly, the share of Europe is approximately 25% and North America slightly over 20% (Frost & Sullivan). In 2011, order volumes increased the most in the Asia Pacific region. Overall, it can be said that the AC drives market growth is approximately double the growth of GNP.

Investments in the development of energy efficiency made in industry and civil engineering continued to increase in 2011. By 2014, the revenues of the global AC drives market are estimated to grow to USD 11.8 billion (Frost & Sullivan).

The AC drives market can also be viewed by industry segment. The products are used everywhere in industry, civil engineering, and energy production.

The largest industry segments using AC drives were machine manufacture, pulp, paper and packaging, food, building automation, materials handling, energy production, water treatment, vehicle and transportation, and oil and gas production.

Market development

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

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

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

The focus of growth in the AC drives market is shifting to the powerfully growing areas, and the focus of production is moving to Asia. AC drives manufacturers want to have a presence in the growth markets and take advantage of the competitive edge provided by lower production costs as well as provide quality service close to the customer.

From a technological perspective, AC drives are expected to be more economical, more reliable, easier to apply, more energy efficient, and offer better performance in the future. New, more economical materials are gaining ground and, as a result, products are becoming easier to customize with software solutions.

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

STRATEGY – OBJECTIVES, CHOICES, AND COMPETENCE

Vacon's goal is to achieve revenues of EUR 500 million, an operating profit of 14% and a return on equity of more than 30% in 2014. Vacon has succeeded in growing approximately twice as fast as the market during the past years and, at the same time, in maintaining a good level of profitability. Achieving the long-term growth and profitability targets also after 2014 requires the company to continuously monitor and develop its strategy. In the coming years, the company will ensure that it achieves its strategic objectives for 2014 and create the prerequisites for strong and profitable growth after 2014.

The company will pay special attention to improving its profitability. The central methods for improving profitability include moving component and parts procurement to countries where the cost level is lower, making use of the cost benefit offered by the new generation of products, increasing sales volumes and managing costs.

Safeguarding growth long into the future requires, among other things, that new growth opportunities are identified and used wisely and at the right time. A good example of future growth opportunities is renewable energy and especially solar energy, which became one of the company's focus areas in 2010 and 2011. In 2011, Vacon also considerably developed its service and maintenance offering that it will introduce to its customers in 2012. Vacon also conducts research into high-power and high-voltage AC drives.

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

Product leadership

For Vacon, product leadership means an extensive and competitive product portfolio and excellent product and application competence among its personnel. In 2011, Vacon took considerable strides forward in promoting its strategy. First of all, the company introduced the Vacon 8000 Solar inverter for the production of solar energy which has received extensive approvals by the grid authorities. In addition, Vacon introduced to the market several new AC drives designed for motor control in 2011.

Focus on AC drives

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

Multi-channel sales

Multi-channel sales are at the core of Vacon's sales and marketing strategy. The company sells its products to original equipment manufacturers (OEMs), system integrators, brand label customers, distributors, and end customers. Utilizing several different distribution channels in each geographical area or industry segment offers Vacon a true competitive advantage that benefits the company – sales do not rely on one channel only.

Global presence

Vacon has production units in five countries, R&D units in four countries and sales offices in a total of 27 countries. Extensive presence on different continents enables the company to place production close to the customer, thus hedging against currency risks. An extensive sales network offers sales the local touch they need. In 2011, production capacity was also increased in order to take the requirements of future growth into consideration. Vacon moved to new larger production facilities in China and Italy.

Strategic know-how

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

Each area of expertise is continuously developed and monitored in order to ensure the company has the required competence for implementing its strategy. In 2011, Vacon paid special attention to the development of managerial work.

GOALS FOR 2014

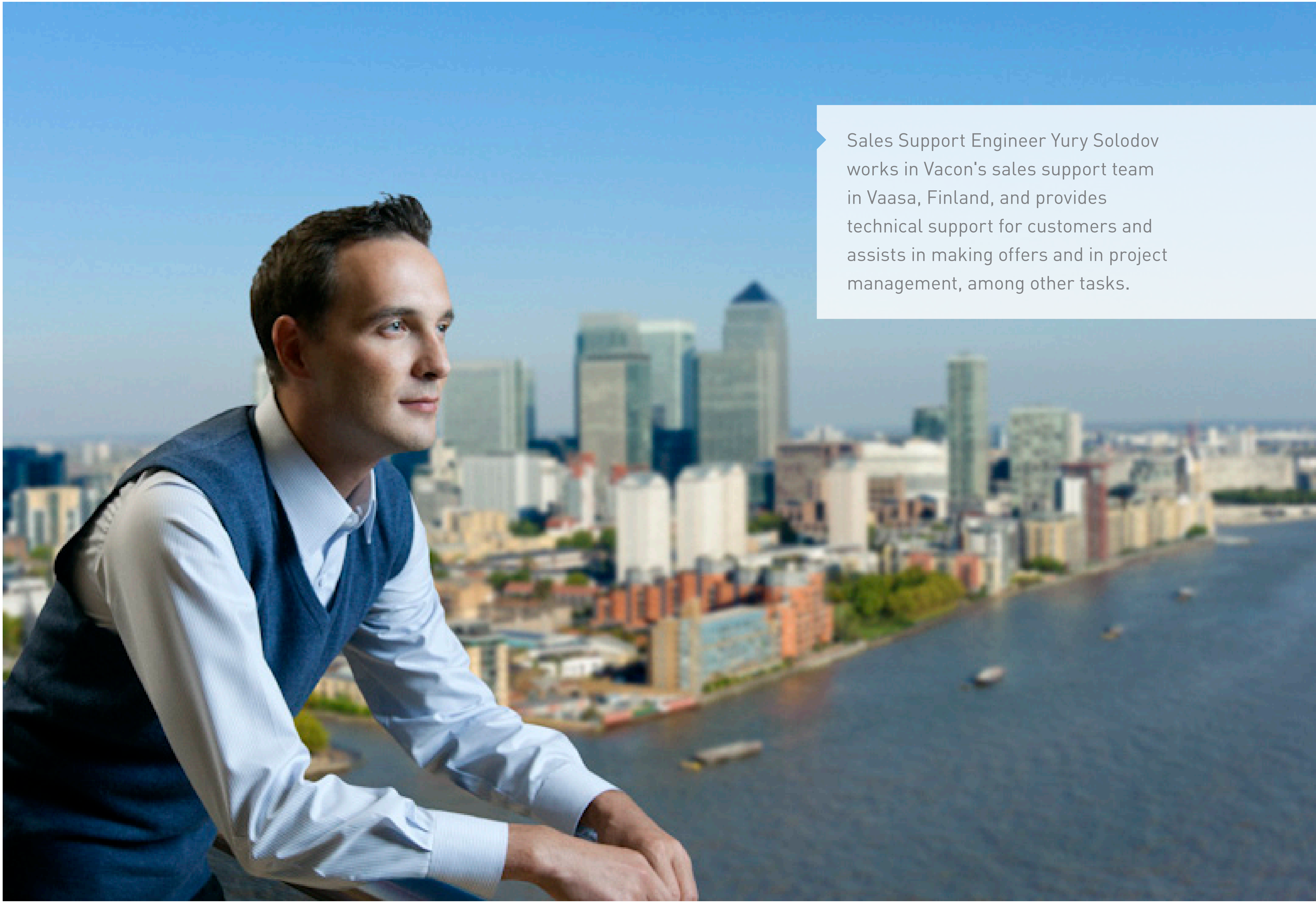
- Profitable growth
- 500 MEUR
- EBIT 14%
- ROE > 30%

STRATEGIC CHOICES

- 100% focus on AC drives
- Product leadership
- Multi-channel sales
- Global presence and international operations

STRATEGIC CORE COMPETENCIES

- AC drives expertise
- Common product platform design and product portfolio management
- Customer relationship management
- Mass customization and global sourcing
- Global ICT infrastructure and applications



Sales Support Engineer Yury Solodov works in Vacon's sales support team in Vaasa, Finland, and provides technical support for customers and assists in making offers and in project management, among other tasks.

100% FOCUS ON AC DRIVES

Vacon focuses solely on AC drives and inverters.
This means Vacon's local, skilled and motivated employees
are pioneers and specialists in their fields.

ONE OF THE MOST EXTENSIVE PRODUCT PORTFOLIOS IN THE MARKET

Products designed for motor control

Compact AC drives
The compact AC drives are easy and quick to install even if the available space is small. They offer the best possible cost-competitiveness for the high-volume market. These AC drives are typically used by original equipment manufacturers (OEMs) in various machinery, conveyor, compressor as well as pump and fan applications. Vacon's product portfolio consists of the Vacon 10 and Vacon 20 product families.

Standard AC drives
Standard AC drives are widely used in the industry to control pumps, fans, conveyors, and compressors. Dedicated HVAC standard AC drives are used in various commercial buildings. Vacon's product portfolio contains the Vacon 100, Vacon NX, and Vacon X series AC drives.

Premium AC drives
Premium AC drives are needed when high power and accurate control of speed and/or torque are required or when rotating motor energy must be fed back into the grid. These AC drives are used in demanding environments such as marine and offshore, mining and minerals, cranes, hoists, escalators or water treatment. Vacon's product portfolio contains the Vacon NXC, Vacon NXP and Vacon common DC bus product series.

Products designed for renewable energy production

The purpose of Vacon's inverters is to feed the energy produced by, for example, a wind generator or a solar panel into the grid. The same technology can be applied in feeding power generated by fuel cells, or wave power.

The Vacon 8000 Solar and Vacon 8000 Wind products can produce energy from renewable sources with optimum efficiency. These products are also capable of responding to the various phenomena of the grid and, as a result, they meet even the strictest requirements by international electricity distribution grid companies.

Vacon's AC drives are used, for example, in the wind turbine yaw and pitch control or adjusting the position of a solar panel.

Inverters utilizing solar energy

- Vacon 8000 Solar, cabinet-mounted solar inverters: 10–1,200 kW
- Solar inverter modules: 10–1,200 kW

Converters utilizing wind energy

- Vacon 8000 Wind, cabinet-mounted converters: 1,500–3,000 kW
- Converter modules: 5.5–5,500 kW

Project Manager Timo Kujansuu leads R&D projects for small and medium power AC drives.

NEXT-GENERATION PRODUCTS TO THE MARKET

In 2011, Vacon introduced new-generation AC drives for original equipment manufacturers (OEMs). At the same time, Vacon strengthened its technological position in products designed to utilize renewable energy.

– One of the most important milestones of 2011 was the introduction of the new-generation AC drives to the market. At a trade fair in Germany in November, we introduced a new compact product series designed specifically for original equipment manufacturers. Characteristic of these products is that they are a component of a machine or a device. The ease of AC drive installation and commissioning as well as adaptability to customers' needs are important in those cases, says **Timo Kasi**, Vacon's Vice President, Global R&D.

Original equipment manufacturers are an important customer segment in terms of Vacon's growth and success. In 2011, approximately a quarter of Vacon's revenues were generated in this segment.

– We have often seen that when our customers perform well in their own segment, we also succeed. It is all about close cooperation, says Kasi. Customer-specific development projects are an important part of all Vacon's R&D operations. Design cooperation with original equipment manufacturers, system integrators, and brand label customers brings in over a half of Vacon's revenues.

Extensive grid approvals for solar inverters

In 2011, the Vacon 8000 Solar inverter designed for the needs of solar power plants received grid approvals meeting the requirements of national grid companies. These approvals were exceptionally extensive on a global scale. The technology developed by Vacon also suits and is used in products designed for wind power. This way Vacon wants to promote the use of renewable sources of energy. However, the world's grids are not designed with renewable forms of energy in mind, and this plays a part in slowing down the utilization of wind and solar power, for example.

Production of renewable energy is characterized by fluctuations in the power generated, which may cause problems when there are malfunctions with the power grid. Therefore, an inverter that converts the electric power generated by solar panels to the requirements of the grid operators plays an extremely important role in the extensive utilization of solar energy. Through the approvals Vacon has received, the company can consider itself among the top companies in the world in terms of connecting these devices to the grid.

– Particularly challenging in the development of this solar inverter is the fact that different countries apply different standards regarding connecting solar power plants to the grid. Complying with the standards is important since by doing that, the solar power plant will work in the same way as any traditional power plant in case of grid malfunctions. We think that in the future, solar power plants will work as a stabilizing factor for the grid voltage. Vacon 8000 Solar can be used in Australia and the European key solar energy markets, such as Spain, Italy, the Czech Republic and Germany, says Kasi.

Global design partnership

R&D is among Vacon's core functions and therefore the company invests approximately 6% of its revenues in it. Vacon carries out global design cooperation on three continents. Each R&D unit in Finland, Italy, China and the USA gives its input in the design of new products. Product development is managed in a centralized manner and globally. Vacon uses shared technology, software, and component solutions.

– In 2011, we continued to invest heavily in the development of new products, and Vacon's global R&D functions strengthened around the world. New plants were commissioned in China and Italy, and new and extensive R&D laboratories were built in connection with the plants. In addition, we established a new R&D unit designing high-power AC drives in the Raleigh-Durham area in North Carolina in the USA. In 2011, the number of new development engineers in the Group increased at a good pace, says Kasi.

Jari Koskinen, Vice President, Global Production, emphasizes that quality improvement is promoted at all plants in a number of ways.

INCREASED QUALITY IN PRODUCTION

Probably all companies aim to continuously improve their operations and products. In 2011, this was Vacon's special focus area. All of Vacon's plants concentrated on improving quality in a number of ways.

Vacon's new plant in Suzhou in China is designed for the company's growing needs, and the plant was inaugurated in May 2011. The building, with a total area of 24,000 m^2, also houses a research laboratory and a service center serving the Asia Pacific region. The new plant has more production capacity and it considerably improves Vacon's opportunities to meet growing customer requirements and strengthen the company's competitiveness.

Quality was set as the most important focus area at the Suzhou plant. It is followed in importance by deliveries, total costs and inventory turn. These factors guide decision-making at the plant and the planning of daily operations and resources.

Several quality-related measures were defined at the Suzhou plant for 2011. The most important of these were:

- Quick responses to customer feedback
- Close collaboration between service production and R&D
- Auditing the quality of processes
- Improving the quality control of component suppliers
- Improving the daily management processes
- Redesigning the production lines
- Improving the new product inspection process
- Improving personnel competence in quality matters

More effective management of product changes and reliability testing

Overall quality was improved at the Vacon plant in Vaasa with the improvement of product change management and reliability testing, among other things, in 2011.

Product change management focuses on changes to products already introduced to the market and their quality or cost-effectiveness. Effective product change management creates savings of up to hundreds of thousands of euros at each product change release when, for example, defects that potentially interrupt manufacturing are fixed. The intention is to implement a unified policy for managing product changes at all plants.

In the summer of 2011, the largest individual investment was the high-tech MEOST (Multiple Environment Over-Stress) testing oven that was acquired for the reliability testing of R&D prototypes and products selected for product change releases. It will help detect possible weaknesses in the product by enabling versatile testing of the combined effect of multiple stress factors. The optional MEOST testing can further improve the extensiveness of product development and verification.

– In 2012, the intention is to apply the results of the MEOST testing also in production testing at the Vaasa plant, says **Jari Koskinen**, Vice President, Global Production.

The quality management system of the plant in the USA was reaudited

The quality management system of Vacon's US plant in Chambersburg, Pennsylvania, was reaudited in June 2011.

– We work to promote a culture of quality, customer satisfaction and continuous improvement in our own operations and also in our suppliers' operations, says **Rodney Snider**, Purchasing and Quality Assurance Manager at the plant in the USA.

The new plant in Italy meeting growth requirements

Transferring Vacon's plant operations from Naturno to the new facilities in Postal, near Merano in northern Italy, was finalized in the fall of 2011.

– The new building contains a plant area of 4,000 m^2 and also incorporates R&D laboratory facilities. The office space totals 3,000 m^2. This should be sufficient to meet considerable growth needs in the coming years, says **Andrea Perin**, Country Manager for Vacon in Italy.

The new plant is located on the road between the two largest cities in the area, Merano and Bolzano. Logistically the plant is in an excellent location, which improves the quality of deliveries.

Vladimir Kozak, Vacon's Managing Director in Germany, believes that there is demand for AC drive technology, improving energy-efficiency and industrial processes.

GROWTH IN A CHALLENGING MARKET SITUATION

In the first half of 2011, Vacon grew powerfully and strengthened its positions in the market. At the end of the year, the markets took a downward turn and growth weakened in some market areas. Multi-channel sales and an extensive product portfolio enabled Vacon to maintain its competitiveness in the challenging market situation.

Vacon sells its products to approximately 100 countries in accordance with its sales channel strategy. In addition to its own sales and customer service organization, Vacon supplements its sales through a global sales and cooperation network. Vacon's cooperation partners include distributors, system integrators, end customers, original equipment manufacturers (OEM), and brand label customers. They sell products to end users and maintain the products.

Expert service globally

Vacon's own sales network consists of sales companies in 27 countries on three continents.

– Vacon focuses solely on AC drives and their technology. Therefore, Vacon's local skilled and motivated employees are pioneers and experts in the field, says **Vladimir Kozak**, Managing Director of Vacon in Germany.

Although the situation now is challenging, Kozak is convinced that the future outlook for Vacon's products is excellent.

– There is plenty of demand for AC drives since they improve energy-efficiency and the functioning of industrial processes. In addition, Vacon's technology is used in renewable energy production. Providing the right kinds of solutions for customers' needs and excellent customer service generate results, Kozak says.

New products and close cooperation

At the end of 2011, Vacon introduced a new product family of compact AC drives for original equipment manufacturers (OEMs). Original equipment manufacturers are Vacon's second largest distribution channel. Cooperation with them is long-term and requires commitment from both parties. Purchasing an AC drive involves a lot more than selecting the right product.

– It is about selecting a supplier with the right attitude, the optimum solution, the best cooperation and the best application know-how, both locally and globally. And I think that in all these respects Vacon creates a perfect harmony, says **Heikki Hiltunen**, Vacon's Executive Vice President.

Although demand for products designed for the production of renewable energy fell in 2011, Vacon has continued its investments in renewable energy and participates in promoting the full utilization of renewable sources of energy.

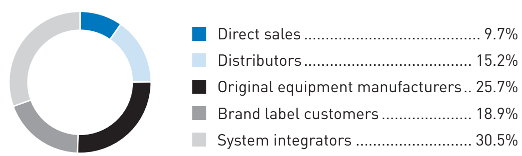
In 2011, Vacon continued to develop its sales organization and network in strategic areas and further strengthened its position in the market. In addition, Vacon has strongly developed its after sales and maintenance services. The renewal of these services and increasing their share in the company's operations are among Vacon's short-term goals.

– Vacon will introduce new products to the market in 2012. This offers the company good opportunities to grow its operations even if the market situation is challenging, Hiltunen summarizes.

Important agreements in 2011

- Vacon signed a three-year supply agreement with the compressor manufacturer Bristol Compressors International Inc., located in Virginia in the USA. The partnership offers Vacon an opportunity to strengthen its position in the North American building automation markets.
- Vacon and the Norwegian winch manufacturer AXTech signed an agreement on delivering 17 liquid-cooled 690 V AC drives to one of the world's largest electrified active heave-compensated winches. The most important factors for selecting Vacon included its advanced technology for feeding power into the grid, experience in winch applications for offshore industry and a competitive price.
- Vacon supplied AC drives with a total power of 58 megawatts to the new aluminum factory of AnRak Aluminium Ltd. in India.

Revenues by distribution channel in 2011



APPLICATIONS OF VACON'S AC DRIVES

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

Photo: RAXTAR

Lifting high – fast and safely

Safety and reliability are the key aspects of lifting equipment. The Dutch company RAXTAR is a provider of vertical access systems, including construction hoists and industrial lifts, in which Vacon's AC drives are used to control the motors.

RAXTAR is located near the town of Eindhoven in the southern part of the Netherlands. It manufactures hoists and materials lifts that meet the most stringent quality and safety requirements. The motors of the hoists and lifts are controlled by Vacon's AC drives and an application that measures the weight of the load in the lift and adjusts the lift speed accordingly. This means the lift always travels at the highest possible speed, when needed.

One of the most challenging and most successful joint projects between RAXTAR and Vacon is the One World Trade Center building being constructed at Ground Zero in New York City. The customer wanted the hoists to be able to carry 3,200 kilograms to 300 meters. The One World Trade Center is being built 16 hours a day, six days a week, and once completed, its height will be 541 meters (1,775 feet). The construction project's logistics are handled by 12 of RAXTAR's construction hoists, each with a maximum speed of 92 m/min. The hoists are equipped with 132 kW Vacon NXP AC drives.

Vacon's AC drives offer multiple benefits:

- Electrical energy generated by braking can be fed back into the grid.
- The top drive unit can run conventionally with brake resistors so the hoist can be used in every situation. It can also run on a generator supply.
- Vacon's software determines the weight of the lift's load and adjusts the speed accordingly. The lift always travels at the highest possible speed, increasing the lift transport capacity.

Photo: iStockphoto

An innovative HVAC solution for megayachts

The Marine division of Dometic Group in Pompano Beach, Florida, has been building air conditioning systems for marine applications for over 50 years. The majority of the company's customers are pleasure boat and yacht manufacturers. Dometic needed a system for the start-up of the compressor system that would reduce load peaks, harmonic distortion and radio frequency distortions of generators without expensive filters and conditioners.

Vacon's subsidiaries in the USA and Canada worked together with their partners to develop a new solution for compressors: a bypassable variable frequency drive.

Vacon's standard Line Synchronization application was modified by Vacon's Canadian distributor GLC Controls with an enhanced soft starting and stopping feature for Dometic. This application for the Vacon NXP AC drives enabled Dometic to control the compressor in a new innovative way.

The bypassable variable frequency drive is a comprehensive solution with multiple benefits:

- Smooth start-up and switch-off of the compressors helps avoid power surges.
- After the compressor reaches its nominal speed, it is connected directly to the grid and the AC drive can be bypassed.
- One bypassable variable frequency drive can control up to four compressors.

Photo © AlpTransit Gotthard Ltd.

A tunnel through the Alps

The world's longest railway tunnels are being excavated through the Alps in Switzerland. Reliable and efficient ventilation is an essential aspect of the excavation project. Ventilation in the explosion areas in the Ceneri base tunnel is arranged using a system designed by the Italian subsidiary of Systemair Group. Vacon's AC drives are used to control the system.

The base tunnels of Ceneri, Zimmerberg and Gotthard form the Gotthard rail connection which is one of the two main routes in the massive AlpTransit project. The Gotthard rail connection, constructed hundreds of meters below the existing tunnels, will provide an uninterrupted rail connection through the Alps and is 550 meters above sea level at its highest point. The uninterrupted rail connection will provide significant logistical and economic benefits since trains can be longer and carry twice as much cargo at double the currently possible speed.

The Ceneri base tunnel will be opened for traffic in 2019. Ventilation for the duration of the excavation project was designed by Systemair Spa in partnership with Consorzio Condotte-Cossi, which is the main contractor of the construction project. The goal was to provide a safe, controllable and energy saving ventilation system. The ventilation is built around the two test caves excavated earlier and used for supplying fresh air into the installation cave at the heart of the Ceneri mountain and to the rail tunnels to be excavated. Air-cooled Vacon NXP AC drives with a total power of approximately 2.5 MW are used in the ventilation of the Ceneri base tunnel.

Vacon's AC drives offer the following benefits:

- Energy savings and efficient use of energy.
- Centralized monitoring, adjustment and optimization of the functions of each AC drive.
- Effective ventilation of the explosion areas, which is important for the overall economy of the tunnel excavations.
- A secured ventilation system with an improved occupational safety for underground crews.

Photo: Vacon

Steel manufacturing in China

Huangshi Sunny Xingye Steel Sheet Co. Ltd. is a new steel manufacturer in China. Vacon has delivered more than 250 common DC bus inverters to the company's steel factory which so far has four production lines.

Huangshi Sunny Xingye Steel Sheet Co. Ltd., located in Huangshi City, in the Hubei province in China, launched its operations in 2009. Currently the factory has four production lines: galvanization lines for hot and cold rolled sheet metal as well as a pickling and an annealing line. More production lines are being built in the factory to meet the demand for steel.

The four production lines use a total of 275 Vacon common DC bus inverters as their main drives, with a combined capacity of 10.9 MW. The Vacon common DC bus inverters are equipped with various option cards, such as a feedback card enabling accurate speed control and the Profibus DP communications card allowing for a fast and reliable connection to the control system.

Vacon's common DC bus inverters are also used in demanding control of entry and exit reels, levelling, skin pass mill, looper and rotary shear.

Benefits provided by Vacon's common DC bus devices:

- Due to their compact size, they reduce the space needed in cabinet installation.
- They can be installed directly in the electric equipment room or process environment without separate enclosures or cabinets.
- They can optimize the consumption of power received from the grid since the electrical energy obtained from braking can be divided between different inverters thanks to the common DC power supply.
- The production line speed and torque control is accurate, resulting in high-quality steel products.

Photo: DBB Jack-Up Services A/S

The Wind barge takes care of offshore wind turbines

The conditions for servicing offshore wind turbines can often be challenging. This places great demands on maintenance vessels. The self-propelled barge owned by the Danish DBB Jack-Up Services A/S makes it possible to replace the heavy parts of wind turbines at up to 100 meters. The barge is aptly named Wind.

DBB Jack-Up Services A/S is a company in Århus, Denmark. The company services, maintains and supplies equipment for offshore wind power plants. The company owns a self-propelled barge named Wind which was equipped with a Liebherr telescopic crane, the first crane of this caliber to be installed in a vessel. Wind has been operating in the Owez offshore wind farm in the North Sea off the coast of the Netherlands since June 2010.

DBB Jack-Up Services A/S selected Vacon's air-cooled AC drives for the vessel's propulsion and the operation of the crane. Vacon's delivery included four 550 kW Vacon NXC AC drives, commissioning and customer support.

The crane on the Wind barge is a customized and optimized version of the world's largest telescopic crane. The crane is not controlled by a separate AC drive but Vacon's solution uses one of the propulsion drives. This is possible since the crane is never used simultaneously with the propulsion. The crane can also be controlled using the AC drive of the bow thruster.

With Vacon's AC drives

- The thrusters can be adjusted dynamically, which saves energy, and the actual speed of the vessel can be optimized to avoid cavitation, allowing for the maximum grip on the water.
- The torque of the thrusters can be adjusted precisely, improving the vessel's steering and safety.
- Low harmonic distortion and almost sinusoidal current can be achieved.

For more customer reference stories, please see www.vacon.com > Media Center > Articles

Sales Support Engineer Narong Meebun works in Vacon's sales support team in Vaasa and provides technical support for customers and assists in making offers and in project management, among other tasks.

GOVERNANCE AND MANAGEMENT – THE KEY TO SUCCESS

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

CORPORATE GOVERNANCE STATEMENT

Compliance with the Corporate Governance Code of Finnish Listed Companies

Vacon Plc adheres to the Finnish Corporate Governance Code for listed companies ("Corporate Governance Code"), effective from October 1, 2010, in its entirety. This Corporate Governance Statement has been compiled in accordance with Section 6, Chapter 2 of the Securities Market Act and Recommendation 54 of the Corporate Governance Code. The company's Board of Directors has approved the Statement. The company's auditor PricewaterhouseCoopers Oy has verified that the Statement has been issued and that the description contained in it concerning the main principles of the internal audit and risk management systems related to the financial reporting process is consistent with the financial statements. The Corporate Governance Code in full is available on the Securities Market Association website at www.cgfinland.fi. The company's Corporate Governance Statement is available on the company's website at www.vacon.com > Investors > Corporate governance. Vacon Plc's shares are listed on the NASDAQ OMX Helsinki.

The Board of Directors' report for 2011 is included in the Annual Report, available on the company's website at www.vacon.com > Investors > Publications and releases > Annual reports.

Internal monitoring and risk management systems related to financial reporting

Monitoring systems

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

Internal monitoring

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

Vacon Group's financial performance is monitored monthly through a Group-wide consolidation and reporting system. In addition, the goal is to integrate all of Vacon's subsidiaries into the same ERP system. Currently, 94% of revenues are reported through a common ERP system.

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

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

Internal audit

The purpose of Vacon's internal audit is to ensure that the company implements its strategy in accordance with the agreed operational principles and processes and that the internal audit system works. The internal audit focuses specifically on operations in the subsidiaries and works in cooperation with other monitoring functions. Furthermore, the operations of the internal audit have been aligned with the auditing work of the external auditors.

The Board of Directors approves the annual internal audit plan and receives regular reports on the internal audits completed. The internal audit also assists the Board of Directors in monitoring and managing the company.

Special audits are also performed as needed. The internal audit targets are always selected for one year at a time, taking into account the extent of financial auditing carried out in the units in question, the diversity of the unit's operations, and the experience basis accumulated in the company. Vacon seeks to carry out an internal audit in its major subsidiaries once a year and in others at three-year intervals.

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

Risk management

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

Identifying and assessing risks are important parts of the risk management process. Risks are reviewed at two-year intervals at a more detailed level, and, with regard to the most important risks, action plans are created and monitored monthly.

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

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

- Ensure the safety of the personnel of the Vacon Group, its customers and third parties
- Ensure the safety and high quality of Vacon's products and operating methods
- Ensure compliance with local and international laws, decrees and recommendations
- Ensure that risks are identified and taken into account in decision-making, and
- Ensure the continuity of business operations and sustainable growth in a manner that protects Vacon's brand and reputation.

A thorough risk survey was completed in 2010 in collaboration with Aon. In 2011, risks related to the supply chain were reduced by, for example, reviewing the continuity plans of the key suppliers and developing corresponding plans in Vacon's own plants. The company also took various measures to reduce contractual risks.

At the end of 2011, Vacon launched a renewal of its risk management policy, and this work will be completed in the first half of 2012. The risk management policy is available for all employees and updates to it are communicated throughout the Group. It is also included in the orientation of new employees. More information about risk management is available to employees, for example, on the Group's intranet. Vacon Plc describes the significant near-term risks and uncertainties associated with the business operations in its interim reports and Board of Directors' report.

Insider administration

Vacon Plc follows the insider guidelines for the listed companies of NASDAQ OMX Helsinki and its own insider guidelines, which in certain aspects set stricter requirements for handling insider information than those of the NASDAQ OMX Helsinki.

Vacon Plc maintains public and company-specific registers of insiders in the SIRE system of Euroclear Finland Oy. The company's public permanent insiders, based on their position as stated in the Securities Market Act, comprise the Board of Directors, the CEO, and the auditor. In addition to these, under a decision of the parent company's Board of Directors, other public permanent insiders are the Group Management Team, the secretary to the parent company's Board of Directors, as well as the spouses or registered partners of all the above, minors, and other family members who have lived in the same household for at least one year. Vacon Plc's company-specific insiders include personnel in the finance and communications departments and the executive assistants of senior management. The Group also establishes and maintains project-specific insider registers if required by law or other regulations.

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

In 2011, training events were organized for the company's company-specific insiders in order to review the insider regulations and guidelines.

Audit

In accordance with Vacon Plc's Articles of Association, the company has a minimum of one (1) and a maximum of two (2) auditors and at a maximum the same number of deputy auditors. The auditors must be public accountants or accounting firms authorized by the Central Chamber of Commerce of Finland. The auditors elected by Vacon Plc's Annual General Meeting are the authorized public accountants PricewaterhouseCoopers Oy (PwC) and the principal auditor appointed by PwC for the financial year was Markku Katajisto, APA. In addition to the duties in accordance with current regulations, the auditor also reports on his observations in the audit to Vacon Plc's Board of Directors.

The combined fees of PwC related to auditing for the entire Group were approximately EUR 130,000 in 2011. Other fees paid to the auditors by the Group were approximately EUR 114,000 and were mainly related to the Group's transfer pricing.

General Meeting

The highest authority in Vacon Plc is exercised by the company's shareholders in the General Meeting, which is 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 at the end of June. Extraordinary General Meetings are convened when necessary. The main matters falling within the jurisdiction of the General Meeting include adopting the financial statements, distribution of profits, discharging the members of the Board of Directors and the CEO from liability, deciding on the number of Board members and auditors and their election and remuneration, and possible amendments to the Articles of Association.

More information on convening and attending the Annual General Meeting and on decision-making in the meeting is available on the company's website at www.vacon.com > Investors > Corporate Governance > Annual General Meetings. The company is not aware of any shareholder agreements concerning the use of voting rights in the company or of any agreements limiting the disposal of the company's shares.

It is the company's aim that all Board members and the auditor attend the Annual General Meeting. Persons nominated for the first time as candidates for Board members shall attend the Annual General Meeting that elects the Board members, unless they have very pressing grounds for being absent. The CEO of the company attends all General Meetings of the company.

In 2011, Vacon Plc's Annual General Meeting was held on March 22, 2011 in Vaasa. Seventy-nine shareholders were present at the meeting, representing a total of approximately 61% of the voting rights of the company. All members of the Board of Directors attended the meeting. In addition, the meeting was attended by the CEO and the company's senior management and the representatives of the company's auditing firms. All documents from the Annual General Meeting 2011 are available on the company's website at www.vacon.com > Investors > Corporate Governance > Annual General Meetings > AGM 2011.

Composition and operations of the Board of Directors and its Committees

Composition and term of office of the Board of Directors

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

Vacon Plc's Annual General Meeting held on March 22, 2011 decided that the number of the members on the Board of Directors is seven. Pekka Ahlqvist, Jari Eklund, Jan Inborr, Juha Kytölä, Panu Routila, Mika Vehviläinen, and Riitta Viitala were re-elected as Board members. Jan Inborr was re-elected Chairman and Mika Vehviläinen was elected Vice Chairman of the Board of Directors at the organization meeting of the Board. The biographical details of the Board members and their shareholdings in the company are set forth at the end of this statement.

Duties of the Board of Directors

The tasks and duties of Vacon Plc's Board of Directors are defined on the basis of the Finnish Companies Act, the company's Articles of Association, and the Board of Directors' rules of procedure. The Board of Directors is responsible for the company's administration and the arrangement of its operations. The Board is responsible for overseeing the proper supervision of accounting and control of financial matters. The Board of Directors also takes care of the tasks of the Audit Committee in accordance with Recommendation 27 of the Corporate Governance Code.

The company's Board of Directors has approved written rules of procedure on the duties of the Board, matters to be discussed, as well as meeting practices and decision-making procedures. The Board revises its rules of procedure annually to ensure conformity with good corporate governance at all times. According to the rules of procedure, Vacon Plc's Board of Directors confirms Vacon Plc's and Vacon Group's long-term objectives and strategy, approves the Group's business plan, budget, and financial plan, and monitors their implementation, decides on major and strategically important single investments and approves the investment programs of the Group companies, monitors the Group's financial performance, the achievement of goals, appoints Vacon Plc's CEO, his deputy, and the members of the Group Management Team. The Board of Directors decides on the composition of the subsidiaries' Boards of Directors and the principles of remuneration and incentive systems of personnel, reviews and approves interim reports, the consolidated and the parent company's financial statements and Board of Directors' report and confirms the values of the Vacon Group.

Evaluation of independence

At the beginning of 2011, Vacon Plc's Board of Directors evaluated the independence of Board members in accordance with Recommendation 15 of the Corporate Governance Code.

Based on this evaluation, the Board declared that all members of the Board are independent of the company and that all Board members with the exception of Panu Routila are also independent of the major shareholders of the company. Panu Routila is the CEO of Ahlström Capital Oy, which, together with its subsidiaries, was a significant shareholder in Vacon Plc when the independence evaluation was conducted. The sales of Vacon Plc's shares by Ahlström Capital Oy and its subsidiary Karhula Osakeyhtiö in December 2011 to AC Invest Three B.V. (formerly DutchCo Gamma Holding B.V.) did not change the independence evaluation since AC Invest Three B.V. is a wholly owned subsidiary of Ahlström Capital Oy.

Decision-making

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

Meeting practice and self-assessment

Vacon Plc's Board of Directors generally convenes approximately 10 times per year. In addition to the Board members, the company's CEO and CFO, as a rule, attend Board meetings. Other members of the Management Team attend the meetings upon invitation by the Board. 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 CEO or, at his request, by another member of the Group Management Team. According to the Board of Directors' rules of procedure, the CEO ensures that the Board obtains sufficient information to assess the operations and financial situation of the Group. In addition, the parent company's CEO also supervises the implementation of the Board's decisions and reports to the Board on any deficiencies or problems in implementation.

The Board evaluates its work and procedures annually.

In 2011, the Board held 13 meetings. The average attendance percentage of the Board members was 93.4%.

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

	Number of meetings attended	Attendance percentage
Member of the Board of Directors		
Jan Inborr, chairman	13	100.0
Mika Vehviläinen, vice-chairman	11	84.6
Pekka Ahlqvist	12	92.3
Jari Eklund	13	100.0
Juha Kytölä	12	92.3
Panu Routila	13	100.0
Riitta Viitala	11	84.6

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

Vacon Plc's Annual General Meeting decides each year on the fees and principles for reimbursing expenses to the members of the Board of Directors. Fees to the Board members are paid as monetary compensation.

The fees payable to the members of Vacon Plc's Board of Directors in accordance with the 2011 Annual General Meeting were as follows:

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

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

The total amount of fees paid to the members of the Board of Directors was EUR 360,000 in 2011. A bonus accumulated on the basis of the 2010 revenues and operating profit was paid to the members of the Board in 2011. The total fees of each member are displayed in the table below.

The principles of the remuneration of the Board members are described in greater detail in the Remuneration Statement available on the company's website at www.vacon.com > Investors > Corporate Governance > Remuneration Statement

1000 EUR	Remuneration in 2011	2010
Member of the Board of Directors		
Jan Inborr, chairman	90	30
Mika Vehviläinen, vice-chairman	45	15
Pekka Ahlqvist	45	15
Jari Eklund	45	15
Juha Kytölä	45	11
Panu Routila	45	11
Riitta Viitala	45	15

Committees

Vacon Plc's Board of Directors has established a combined Remuneration and Nomination Committee, comprising three members of the Board. The committee prepares matters and makes recommendations for the Annual General Meeting and the Board to decide on.

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

The committee members in 2011 were Jan Inborr, Jari Eklund, and Mika Vehviläinen. The Remuneration and Nomination Committee held three full meetings in 2011. In 2011, the average attendance percentage of the Committee members was 100%.

Vacon Plc has a Corporate Governance working group that within the company reviews and develops matters governed by the Corporate Governance Code. The Board of Directors approves the Corporate Governance Statement prepared by the working group. The working group comprises one member of the Board, the Board's secretary, CEO, CFO, and a representative of Investor Relations. The company has not established a separate Audit Committee but the Board of Directors is in charge of the Committee's tasks.

CEO and other management

CEO

Vacon Plc's Board of Directors appoints the parent company's CEO and defines the terms and conditions for his service in writing. The CEO is in charge of the company's administration and day-to-day management. He is accountable to the Board for the achievement of the goals, strategy, plans, policies and objectives set by the Board. The CEO prepares matters to be decided at the meetings of Vacon Plc's Board of Directors and is responsible for executing the Board's decisions. The Group Management Team is chaired by the CEO.

Since 2002, Vesa Laisi has been the company's CEO. Heikki Hiltunen, a member of the Management Team responsible for the Products and Markets function, is the deputy to the CEO. The biographical details of the CEO and his deputy as well as their shareholdings in the company are set forth at the end of this statement.

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

Group management team

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

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

In 2011, the Vacon Group's Management Team consisted of:

- Vesa Laisi, President and CEO
- Heikki Hiltunen, Deputy to the CEO; Executive Vice President, Products and Markets
- Tuula Hautamäki, Vice President, Human Resources
- Jukka Kasi, Vice President, Business Development
- Timo Kasi, Vice President, R&D
- Jari Koskinen, Vice President, Production
- Eriikka Söderström, CFO

The Management Team convened 16 times in 2011.

Salaries and other benefits paid to the CEO and senior management

The principles of the remuneration of the CEO and other members of the Management Team are described in more detail in the Remuneration Statement available on the company's website at www.vacon.com > Investors > Corporate Governance > Remuneration Statement.

In 2010 and 2011, the total remuneration of the CEO and the other members of the Management Team was as follows:

2010 1000 EUR	Regular cash salary	Performance bonus from previous year	Fringe benefits	Share bonus	Total	Number of shares assigned
President and CEO	298	-	0.5	39	337	5,157
Deputy to the CEO	248	-	0.5	29	277	3,868
Other members of the Management Team	796	-	2	85	881	13,323
Total	1,342		3	154	1,496	22,348

2011 1000 EUR	Regular cash salary	Performance bonus from previous year	Fringe benefits	Share bonus	Total	Number of shares assigned (*)
President and CEO	355	149	0.5	526	1,031	
Deputy to the CEO	287	112	0.5	395	795	
Other members of the Management Team	889	372	3	1,361	2,625	
Total	1,531	633	4	2,282	4,450	

The share bonuses paid were based on the fulfillment of the criteria of the 2010 share bonus scheme.

(*) The company's Board of Directors will decide on the amount of the share bonuses to be paid in 2012 on the basis of the 2011 share bonus scheme no later than on April 30, 2012.

Bonus scheme for personnel

Vacon Plc's Board of Directors annually approves the principles of the bonus scheme for all personnel in the parent company and the production companies as well as the bonus scheme applied to the Managing Directors of the subsidiaries.

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

Previous positions:
Worked in various positions at Ahlström companies from 1972 to 2008.

Board member at:
Antti Ahlströmin Perilliset Oy (chair),
BaseN Oy,
Enics AG,
Mervento Oy,
Webforum Europe Ab

No Vacon Plc shares

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

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

Board member at:
Ilmarinen Mutual Pension Insurance Company (Supervisory Board)
The Finnish Fair Corporation (Supervisory Board),
Service Sector Employers PALTA ry (Board of Directors),
Confederation of Finnish Industries

No Vacon Plc shares

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

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

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

No Vacon Plc shares

Stefan Wikman
Secretary
born 1956, LL.M. (Law)
Partner of Roschier Attorneys Ltd.

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

Board member at:
Fastighets Ab Academill,
Harry Schaumans Stiftelse (chair), Ostrobothnia Chamber of Commerce

Delegation member at:
Stiftelsen för Åbo Akademi, Högskolestiftelsen i Österbotten

No Vacon Plc shares

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

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

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

No Vacon Plc shares

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

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

Board member at:
Pemamek Oy

No Vacon Plc shares

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

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

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

No Vacon Plc shares

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

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

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

No Vacon Plc shares

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

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

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

Vacon Plc's shares:
18,163

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

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

Board member at:
Exel Composites Plc, Hockey-Team Vaasan Sport Oy (chair)

Vacon Plc's shares:
11,316

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

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

Vacon Plc's shares:
57,222

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

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

Vacon Plc's shares:
4,100

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

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

Vacon Plc's shares:
10,429

Tuula Hautamäki
Vice President, Human Resources
born 1964
M.Sc. (Eng.), M.Sc. (Econ.)
Employed by the company since 2000.

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

Vacon Plc's shares:
12,333

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

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

Vacon Plc's shares:
365,411

Shareholdings on December 31, 2011

Esa Uusimaa works at Vacon's plant in Vaasa in the assembly of high-power AC drives.

RESPONSIBILITY – THE FOUNDATION OF BUSINESS PERFORMANCE

Responsibility is the foundation of Vacon's business operations, and it is manifested in the company's all operations, philosophy, and management. The company aims to offer sustainable solutions that help meet the global climate objectives.
A responsible company, Vacon develops its global operations from the perspectives of ecological and social well-being and profitable growth.

VACON DEVELOPS SUSTAINABLE ENERGY SOLUTIONS FOR THE FUTURE

The objective of the European Union climate and energy package is to reduce greenhouse emissions and energy consumption by 20% and increase the share of renewable energy sources in energy production by 20% by 2020. According to estimates, electric motors consume as much as a third of all the energy in the world. Improving the efficiency of the use of motors plays a significant role in finding ways to reduce energy consumption. The most effective way to reduce the energy consumed by an electric motor is to equip the motor with an AC drive.

Responsibility is the foundation of Vacon's business operations, and it is manifested in all of the company's operations, philosophy, and management. Vacon's operations are driven by two goals important in terms of responsibility:

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

The company aims to offer sustainable solutions that help meet global climate objectives. As a responsible company, Vacon develops its global operations from the perspectives of ecological and social well-being and profitable growth.

Vacon's main themes

Development of sustainable energy solutions

Vacon develops and offers products that help increase energy-efficiency and the use of renewable energy sources more extensively. Vacon wants to participate in creating a sustainable future and believes that its products are important in finding solutions to meet the shared climate objectives.

In 2011, Vacon's AC drives helped to save approximately 44 TWh of energy, which is equal to the production capacity of approximately eight nuclear reactors. In addition, Vacon's solutions produced 18 TWh of clean energy from renewable energy sources. Vacon's solutions help reduce global carbon dioxide emissions considerably.

Well-being through profitable growth

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

Vacon works to ensure profitability with a long-term growth strategy, by complying with good corporate governance in its business operations, and by assessing risks regularly. According to Vacon, improving one's financial position requires taking care of the environment, personnel and the surrounding society. As a global player, Vacon values competent and healthy personnel, now and in the future.

Environmentally friendly operating methods

Vacon works continuously to reduce the harmful environmental impacts caused by its operations through more energy-efficient operations, reduced transport emissions and development of environmentally friendly solutions.

Vacon strives to reduce the environmental impact of the entire life cycle of its products as early as in the product development stage. The environmental perspective is taken into consideration in the selection of components and materials, and the company's subcontractors are required to apply responsible operating methods and sound management of environmental matters. In addition, special attention is paid to the eco-friendliness of services and recyclability of products.

Stakeholders' significant role in responsible operations

Vacon considers work with stakeholders an important part of responsible operations. Vacon engages in ongoing and open dialog with its stakeholders. This dialog is used in the development of business operations. It helps to understand better the development of society and to define the objectives of Vacon's corporate responsibility more extensively.

Customers. Vacon continuously aims to improve cooperation with its customers. Open dialog and on-going customer feedback play an important role in Vacon's solutions, services, and the development of the company's operations overall.

Personnel. Competent and motivated personnel are a significant asset that helps Vacon reach its objectives. The company works continuously to improve personnel well-being and focuses on competence development and occupational safety.

Shareholders and investors. Vacon is a listed company and its shareholders expect profitable growth and success in the global market as well as good risk management and a functioning management system. For shareholders, Vacon is a company that develops and offers solutions to global challenges regarding sustainable development.

Subcontractors and partners. Vacon purchases the components and materials for its products from a global subcontractor network. Subcontractors must commit to Vacon's responsibility requirements and operate in an ecologically, socially and financially responsible manner. Compliance with the requirements is monitored as part of supplier evaluations.

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

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

Vacon's corporate responsibility reporting

The objective of Vacon's corporate responsibility report is to openly disclose the company's responsibility policies, views and objectives. Vacon develops the coverage of reporting to serve better the information needs of its stakeholders. Currently, corporate responsibility reporting covers, as applicable, Vacon's production units in Finland, China, the United States, and Italy as well as the components plant in India. Financial responsibility reporting covers the entire Group. Social responsibility reporting covers the entire Group, as applicable. The main focus continues to be on operations in Finland, since the majority of personnel work in Finland. Since 2010, Vacon has applied the G3 version of the GRI (Global Reporting Initiative) guidelines in the corporate responsibility section of its annual report, and according to self-assessment, it meets the criteria of application level C.

A DRIVE TO SUCCEED

Financial targets remain unchanged

Vacon's goal is to achieve revenues of EUR 500 million in 2014. The long-term profitability target is an operating profit of 14% of revenues (EBIT-%) and a return on equity (ROE) of more than 30%. In 2011, Vacon Group's revenues increased to EUR 380.9 million (EUR 338.0 million in 2010). The operating profit was 6.5% (8.5%) of revenues and return of equity was 18.7% (22.1%).

The year was divided in two in terms of development. In the first half of the year, demand was strong in all market areas and in nearly all industry segments. In the second half, demand weakened particularly in wind power products. Vacon had to adjust its performance guidance for 2011 downward in December 2011 due to the weakened financial performance. However, the long-term financial targets remained unchanged.

The greatest growth on revenues was experienced in the Asia Pacific region, where revenues grew by 20.1% compared to the previous year, to EUR 60.7 (50.5) million. Revenues from North and South America increased by 12.2% to EUR 67.6 (60.3) million. In Europe, the Middle East, and Africa, revenues increased by 11.1% from the previous year, to EUR 252.6 (227.3) million.

The Group's operating profit for the financial year was EUR 24.7 (28.6) million, or 6.5% (8.5%) of the revenues. The result before taxes was EUR 27.0 (27.5) million. The operating profit decreased by 13.4% from the previous year. Profit for the financial year was EUR 17.7 (19.1) million.

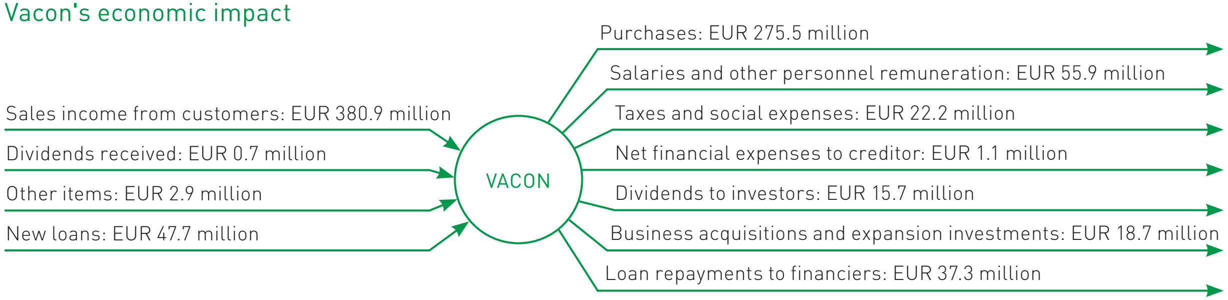
The amount of Vacon Group's liquid assets was EUR 16.3 (18.4) EUR. Gross capital expenditure was EUR 18.7 (15.9) million.

Vacon was a significant taxpayer in 2011 as well. During the financial period, the amount of taxes paid by the company was EUR 9.3 (8.5) million. In addition, Vacon's employees paid taxes on their income from the company.

International recognition

In November 2011, IR Nordic Markets awarded Vacon for exemplary management of investor relations in Denmark, Finland, Norway and Sweden. IR Nordic Markets monitors companies' investor relations operations and aims to help develop them. Vacon was recognized in the group of mid-sized listed companies.

Vacon's economic impact



ENVIRONMENTALLY CONSCIOUS TECHNOLOGY

Vacon's environmental responsibility is based on developing solutions that help promote global sustainable development objectives. Vacon's AC drives help achieve considerable energy savings and reduce the generation of greenhouse gases, carbon dioxide in particular. The company's products can, for example, help utilize renewable energy sources more effectively and improve water treatment processes for clean drinking water.

Vacon is strongly aware of its environmental responsibility and develops increasingly sustainable energy solutions for customers, improves the environmental performance of its products' life cycle and continuously seeks more ecological operating methods. In 2011, Vacon had several environmental responsibility development projects under way regarding the company's products, processes and improvement of methods for the management of environmental information.

Vacon received recognition for promoting solar energy technology

In 2011, Vacon was recognized for its work in solar energy production technology. The Technology Academy awarded two Finnish researchers and three solar technology companies, including Vacon, with the Millennium Distinction Awards recognition.

Within a short period of time, Vacon has developed a product that supports the production of solar energy and obtained the required grid connection approvals required by the market for it. This helps promote the utilization of solar energy in electricity production and also ensures that the high quality standards set for the production of electricity are met. The Vacon 8000 Solar inverter can be used in the world's most important markets for solar energy production.

The world's electrical grids are not designed for renewable energy, and this plays a part in slowing down the utilization of wind and solar power, for example. With the inverter developed by Vacon, the electricity created by solar panels can be fed into the distribution grid in accordance with the grid quality requirements.

Environmentally conscious design and manufacture

Environmentally conscious product design and development are central ways to reduce harmful environmental impact of the products over their entire life cycle. The main principles of environmentally conscious product development at Vacon include optimizing energy efficiency, minimizing substances harmful to the environment and people as well as improving recyclability.

In 2011, environmental aspects received more systematic attention through the development of environmentally conscious product development process and the Design for Environment (DfE) checklist used in the different stages of product development. This list aims to promote the use of materials and resources more efficiently and to consider all environmental perspectives at the beginning of product development. Environmentally friendly design also ensures that the products comply with environmental legislation and meet the environmental requirements important for Vacon's operations.

Vacon procures its components from carefully selected subcontractors from around the world. Only the final assembly and testing of the product takes place at Vacon's facilities. Therefore Vacon's own production processes create very low emissions. Only assembly and testing the finished products consume some energy. Testing also generates energy which is fed back into the electrical grid using Vacon's own AC drive technology. This means the company has been able to reduce the amount of purchased energy.

Environmental systems and programs

In 2011, Vacon's plant in China was awarded ISO 14001 certification. The company's plant in Vaasa has had ISO 14001 certification since 2004. Through certified environmental systems, Vacon works to ensure effective environmental performance with consistent quality that adheres to the principle of continuous improvement.

In 2012, the Vacon facility in Vaasa will start using a metering system for more detailed monitoring of, among other things, energy consumption and various waste fractions.

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

Energy-efficient plants and operating methods

In 2011, Vacon's plants in China and Italy moved to new facilities and a new facility opened in India. All facilities are as energy-efficient and environmentally friendly as possible.

Vacon's new plant facility in Italy meets the B requirement of the KlimaHaus certification, which means that its energy consumption is $\leqslant$ 50 kWh/m².

In December, Vacon's new product plant in India that produces semi-finished products launched the Go Green! campaign with the objective of making practical operating methods more sustainable and environmentally friendly. All employees of the plant participate in the campaign.

In 2011, a solar energy unit with peak power of 55 kW was installed on the roof of Vacon's plant in Vaasa. The Vacon 8000 Solar inverter is used to control it. This means the amount of purchased electricity can be reduced and product development gains valuable information on how solar panels and inverters work together. The annual estimated amount of energy that the solar power unit produces for the plant is 35 MWh.

Targeting at 20% energy savings

In 2010, Vacon signed the voluntary energy-efficiency agreement of Finland's Ministry of Employment and the Economy. The company strives for 20% energy savings in its Vaasa plant operations by the year 2016. The company established an energy efficiency work group, responsible for meeting this objective. In addition, the entire personnel are encouraged to find new areas and measures for saving energy.

In 2011, the company carried out an extensive energy survey to determine the most significant areas of improvement in terms of energy savings. Based on the results, the company is seeking measures to reduce the energy used in production testing systems and in the heating and lighting of the plant. The solar power plant at the Vaasa factory is one example of the measures taken. The energy-efficiency measures are reported in the agreement monitoring system annually.

Improving the eco-friendliness of transports

Transportation generates environmental emissions when components are delivered to plants for assembly and finished equipment is shipped from the plants to customers. In Europe, road transports are the primary means of delivery. Deliveries to customers outside Europe have typically been transported by air since the required delivery times are often short and keeping custom-designed products in the warehouse is practically impossible.

In 2011, Vacon studied different alternatives for reducing the volume of air cargo and thus reduce the harmful environmental effects of transports. A decision was made to replace some of the air transports with sea transports in 2012, which will bring considerable environmental benefits. Producing Vacon's extensive product portfolio at the other Vacon plants, in addition to the Vaasa plant, brings also environmental benefits. This means the need for transports between plants has also decreased.

Environmental responsibility applies to subcontractors

Vacon encourages its subcontractors to operate in a manner that is as environmentally friendly as possible, and they are required to exercise high-quality environmental management. Subcontractors are audited for environmentally friendly operations, and environmental sustainability is among the subcontractor selection criteria.

The materials and components used by Vacon have a direct effect on the environmental impacts of the product life cycle. Therefore, cooperation between Vacon and its subcontractors has a central role in reducing the environmental impacts of the products. Vacon sets high environmental requirements for components and materials in order to ensure the recyclability and safety of products that have reached their end of life. In 2011, Vacon launched the Supplier Excellence program aimed at its subcontractors on matters related to Vacon's quality and environmental requirements.

The environmental cooperation between Vacon and its subcontractors focuses, in particular, on identifying the use of prohibited and restricted substances and improving communication regarding materials. In 2011, Vacon implemented a list of prohibited and restricted substances, based on the IEC 62474 standard to be published in 2012. The list specifically designed for product development and subcontractor communications.

Vacon 100 HVAC's carbon footprint assessed

In 2011, Vacon assessed for the first time all the environmental impacts related to its product life cycle. The assessment was carried out in cooperation with a third party, and the objective was to gain a clearer understanding of all environmental impacts of Vacon's AC drives and to find ways to improve the products in this regard. The example product in the assessment was Vacon 100 HVAC.

The carbon footprint assessment provided valuable information on the components used in the product and the stages of the product life cycle. Concrete environmental savings can be attained by paying attention to the choices made in all of these areas, such as reducing the amount of materials used in packaging and shipping the components or finding alternative means of transport. The benefits an AC drive offers during the use phase are manifold compared to the environmental impact of manufacturing it. The assessment provided new theoretical information on the reduction of the carbon dioxide emissions. The company worked in close collaboration with subcontractors during the assessment, which also provided an opportunity for open dialog about ways to reduce the environmental impact of the supply chain.

Key figures for Vacon Group's production process

	2011	2010	2009	2008	2007
Consumption of electrical power, MWh	14 064	16 368	14 215	12 413	10 800
Electricity fed back into the test grid, MWh*	17 637	19 676	20 000	16 000	14 000
Recycling of electronics waste, tons	44.7	45	27.6	17.3	15.0
Other recyclable material, tons	327.6	249.7	315	315	218
Hazardous waste, tons	5.8	6.5	2.9	5.9	4.7

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

SAFETY AND WELL-BEING

Vacon aims to be a leading company in its field, and this objective is taken into consideration in the company's HR policy that covers all global operations. Vacon's HR policy is based on the company's strong values and it aims to take care of employees' competence and well-being. Maintaining a passionate attitude and finding new talent are of utmost importance. The company monitors job satisfaction and managerial performance in a variety of ways.

Social responsibility matters were highlighted in 2011. The company developed, in particular, its global corporate culture and strengthened its employer image. In addition to motivating development projects and shared accomplishments, the year also included challenges.

Vacon's values

CUSTOMER FIRST

Customer needs are the starting point of Vacon's operations. We operate in a flexible manner to provide our customers with the best possible service. We treat all our customers, both internal and external, with the same respect.

PEOPLE IN FOCUS

We operate honestly and fairly. Respect for the individual, mutual trust, and concern for others are a natural part of social interaction.

ENTREPRENEURSHIP AND A DRIVE FOR ACHIEVEMENT

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

PASSION FOR EXCELLENCE

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

Ethical guidelines and human rights

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

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

- providing a healthy and safe working environment and preventing risks relating to health and safety.
- respecting freedom of association, and the freedom of being a member of a trade union.
- not discriminating against job applicants and employees in any way. Everyone has equal opportunities in compensation, recruiting, access to training, and promotion regardless of race, gender, social status, origin, religion or political or other membership.
- complying with laws and industry norms in terms of working hours and compensation.
- refraining from using child labor (children under 14 years of age), forced labor or any kinds of punishment.
- prohibiting corruption and bribery in all operations. Vacon and its employees do not pay or accept bribes or unlawful payments.

Comprehensive well-being

Vacon applies a proactive approach to occupational health and well-being. The company conducts various surveys on its work environment and working community and develops its HR policy and working environment on the basis of these surveys and studies.

During 2011, Vacon paid special attention to its employees mental well-being. The focus of occupational health at the facilities in Finland was the implementation of the "Työkuntoon" program, concentrating on proactive management of well-being at work in everyday operations. The program aims to reduce and prevent musculoskeletal problems, in particular. The plant in Vaasa completed the workplace surveys organized by the occupational health care services that studied the hazards and stress factors caused by work and the working conditions and evaluated their impact on employees' health.

Vacon is a global company that strives to provide all employees with equal opportunities for advancing their careers. An extensive equality survey, including an employee questionnaire and manager interviews, was conducted in Finland to determine the realization of diversity and equality at Vacon. Three main goals were identified based on the results: reduction of mental stress, zero tolerance of harassment and improving the transparency of pay. The achievement of these goals is continuously monitored. Managers have been provided with training related to these topics, monitoring has been increased, reporting harassment has been made easy, and transparency of pay has been increased through various evaluation tools.

Job satisfaction

The level of job satisfaction is monitored annually through a group-wide job satisfaction survey. In 2011, the response rate of the survey was exceptionally high, 95.9%. Overall, the results showed positive development from the previous year. Respondents felt that pressure at work was lower and cooperation and communication had improved. The personnel were still highly motivated to take personal responsibility and the motivation was even slightly higher than before, and respondents felt that induction for new tasks had improved.

According to the survey, areas for improvement include fairness and meaningfulness and purpose of work. Competitiveness of pay and effectiveness of decision-making could also be improved. The survey results will be reviewed by the company management and in each team. The company management and each team will select the goals they feel are the most important, and these goals will be focused on either in the short or long term.

Job satisfaction is also covered in face-to-face development discussions between managers and employees one to two times per year. The development discussions will be used to evaluate the past period, set the objectives for the next period and to survey how employees are coping at work and what kinds of development wishes they have.

From recruitment to labor negotiations

The beginning of 2011 looked promising and Vacon recruited new employees actively. During the year, the number of the Group's personnel grew by 129 people. However, the prolonged financial crisis in Europe darkened the end of the year. In December, Vacon had to launch statutory personnel negotiations concerning the parent company's 425 office employees working in Finland. The personnel negotiations were due to the economic situation, production levels and reasons related to the possible reorganization of Vacon. The Group's objective is to achieve annual savings equaling 60 man-years in the operations in Finland and 10 man-years in the subsidiaries during 2012–2013.

Professional development

For Vacon to achieve its future objectives, the company needs personnel with world-class know-how and skills. From the perspective of professional development, the company's challenge is to retain the existing talent and strengthen competence in areas critical for the company's development.

At Vacon, competence development is based on the company's strategic objectives and development needs identified at various departments. Vacon applies the 70:20:10 principle in competence development: 70% of development takes place through learning on the job and doing, 20% is learned from others and 10% is gained from courses and training programs.

The company's managers are responsible for ensuring that their teams possess appropriate competence. Personnel were offered workshops and training with the aim of coaching employees in learning on the job, organized by the company and by management training institutes. In 2011, customized and advanced special training was also offered in several areas.

Vacon continuously organizes training programs of varying scope. For example, Product Excellence training aims to ensure that the company's personnel have extensive AC drive competence. Sales Excellence training develops sales management and competence. The training programs cover best practices, serve as forums for sharing experiences and for discussing the shared rules of sales, among other issues. Lean Six Sigma Greenbelt training is offered to improve total quality and effectiveness. These programs mainly apply guided project learning.

Management is one of Vacon's key development areas. The Vacon Lead program designed in 2011 is launched from the beginning of 2012. The four main areas of the program are management model and principles, management training, mentoring, and management tools. In 2011, other important development areas were mass customization, project management, quality and customer work.

Remuneration and benefits

Remuneration at Vacon is based on the work requirement level and personal performance. Remuneration and employment contracts are based on general agreements and individual solutions. All employees are automatically enrolled in a bonus scheme based on the company's revenues and profit earned. In addition, the company has a share-based incentive scheme that offers the covered employees the opportunity of long-term ownership of the company's shares.

Vacon New Horizons Café for global culture

The Vacon New Horizons culture cafe events were among Vacon's most important internal action programs in 2011. The cafes offered a meeting point for personnel to discuss the development of Vacon's culture, shared values, leadership and working methods.

Each event brought together 30–40 employees from different departments. The attendees divided into small groups and presented the ideas generated during the discussion to the other participants. Many valuable development ideas and thoughts emerged from the viewpoints presented. The results of the events will in the near future be utilized in projects concerning Vacon's management principles and values, among other issues.

Personnel satisfaction is promoted in a number of ways. For example, in Finland lunch can be purchased in the workplace canteen. The company supports a variety of sports and cultural interests.

All of Vacon's personnel in Finland are covered by the company's voluntary sickness expense insurance. In addition, employees who have worked at Vacon for more than 10 years are entitled to take one extra paid week of vacation in their anniversary year. All of Vacon's employees are entitled to the use of vacation timeshares owned by the company.

Vacon also encourages non-material rewards. This may mean receiving recognition for a job well done, or, for example, the possibility to develop oneself by studying during company time. In 2011, work was also carried out to identify different career paths. This aims to support opportunities for the entire personnel to advance their careers.

Cooperation with educational institutions promotes a strong employer image

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

In 2011, Vacon organized a Vacon Career Road Show tour spanning the Aalto University, Tampere and Lappeenrannan Universities of Technology as well as the University of Vaasa and Vaasa University of Applied Sciences. Vacon's company in India has worked in cooperation with a local institute focusing on industrial automation training since 2010. In 2011, cooperation was launched with International School of Business & Research in Bangalore, India.

Occupational safety

Vacon is a leader in occupational safety matters, aiming to create a working environment with zero accidents. The company management and personnel develop occupational safety in on-going cooperation. Occupational health and safety matters at the Vaasa plant are managed in accordance with the OHSAS 18001 standard, and the objective is to obtain OHSAS 18001 certification for all of the company's five plants by the end of 2014.

In 2011, the training offering promoting occupational safety was increased and local development projects were carried out at various facilities. For example, the employees of the facility in India were offered fire safety training and in Finland, electrical work safety training was launched for everyone who may need to work with electricity.

In the spring, the plant in Finland launched a visual management project with safety among five of its key indicators. The status of each indicator can be reviewed on visual management boards, and production monitors the indicators on a daily, weekly and monthly level. Visual management boards are used at the Vaasa plant, and the goal is to implement the same method at all of Vacon's plants.

Vacon's occupational safety committee in Finland has 12 members. The committee is chaired by the occupational safety manager, and employees and workers elect the labor protection delegates from among themselves. The occupational safety committee actively participates in the company's risk assessments, promotion of personnel initiatives, ergonomics and various development projects.

Vacon systematically assesses the hazards caused by work and working conditions using a comprehensive risk assessment model. Risk assessment aims to identify possible accidents, ergonomic, chemical and physical hazards as well as mental stress. In addition to the company's own specialists, it also uses external specialists in risk assessments.

Ergonomics is one of the specific challenges in the field, which is why surveys are continuously carried out by occupational health care. As a result of this cooperation, the trend of increasing musculoskeletal problems has been stopped. Efforts to make factory work lighter and reduce the frequency of heavy lifting have succeeded.

Product responsibility

Vacon makes sure that its products meet the requirements set in product safety laws and decrees. Equipment is tested in accordance with extensive safety testing standards, and the test results are verified by a third party.

Vacon also ensures that the implementation, use and decommissioning of its products is safe and reliable. The company provides customers with detailed information in its manuals and instructions and organizes extensive training packages.

Training is provided in several countries and customized according to the customer's needs. Vacon's extensive global service network with 80 service centers in 48 countries ensures service and other maintenance services for all of Vacon's brands. Preventive maintenance safeguards use and prolongs the life of an AC drive. In addition to this, Vacon offers 24/7 technical service over the phone.

A survey on industrial automation information security

In the fall of 2011, Vacon and F-Secure, a global provider of information security services, set out to establish a joint working group to survey the information security issues related to industrial automation applications. The close collaboration between the companies stemmed from the emergence of Stuxnet malware. Stuxnet malware is designed to interfere with industrial automation systems, but it does not directly infect Vacon's AC drives.

In December 2011, Vacon, Nixu and F-Secure published a joint white paper. The white paper included an overview of information security in fieldbuses and equipment used in industrial automation and provided practical recommendations for improving the information security of industrial processes.

Legal proceedings against Vacon on customs procedures

In January 2011, the Chinese prosecuting authority prosecuted Vacon for importing components to China under a false customs tariff heading. A court ordered the company to pay damages totalling EUR 5.5 million containing unpaid customs duties and a fine. Instead of the 10% customs duty demanded by the prosecutor, the court set the customs duty for the said components at 8%. The court also sentenced two former employees of Vacon's company in China to imprisonment.

In the future, Vacon will be even more meticulous regarding the details of local customs regulations. In its global operations, Vacon's unambiguous policy is to comply with both local and international laws, rules, and regulations.

Customer satisfaction

Vacon has always aimed to respond quickly and effectively to customer feedback and needs. This can only be accomplished through seamless and trust-based cooperation. Vacon wants to engage in open dialog with its customers and therefore, the monitoring of customer satisfaction has been developed systematically.

In 2011, Vacon applied the Customer Relationship On-Line (CROL®) process for measuring and monitoring customer satisfaction. The goal is to improve cooperation and monitor customer satisfaction on an on-going and systematic basis that results in tangible development measures. The CROL® process allows for collecting, analyzing and utilizing customer feedback effectively to improve the company's operations. The CROL® process was developed by PBI Research Institute in Finland.

Currently, customers' satisfaction with Vacon's sales, order and delivery processes and maintenance is monitored and measured monthly. Thanks to the CROL® process, the company is able to respond more quickly to customer feedback since it is automatically submitted to the account manager for a handling process. The results and customer feedback are reported to the company management, which is responsible for utilizing the reports in strategic planning.

In 2011, the process was implemented in Vacon's operations in Finland. The plan is also to implement the process in Vacon's other operating areas in 2012.

Social influence and sponsorship

Among Vacon's most important social and European channels of influence are the Federation of Finnish Technology Industries and the Confederation of Finnish Industries. Vacon also participates in the CleanTech Finland network which promotes Finnish cleantech companies in the international market. Local decision-makers in locations where Vacon operates are important players in the building of a regional development environment.

Vacon is concerned about the environmental state of the Baltic Sea. Vacon has pledged to donate to the Baltic Sea Action Group (BSAG) AC drives for a water purification project in the Baltic area. During 2012, Vacon and BSAG will be looking for a suitable project from the Baltic Sea area.

Vacon is the main cooperation partner of the Sail Training Association Finland (STAF). Vacon supports the Sails for Environment environmental protection program of STAF, offering marginalized young people opportunities to gain new experiences and learn cooperation skills through the foundation.

Vacon considers it important to support work with young people. In 2011, Vacon launched cooperation with Team Kalle Palander. The cooperation aims at offering promising young alpine skiers opportunities to develop their skills. The company also supports Alpine Ski Team Finland, and locally partners with Hockey-Team Vaasan Sport Oy.

Vacon selects its sponsorship recipients carefully. Vacon supports young, emerging collaboration partners who share similarities with Vacon's brand. Politically, Vacon is independent and therefore does not support political parties in Finland or elsewhere in the world.

Social responsibility key figures 2011

Accidents at work, Finland	8
Close calls, Finland	73

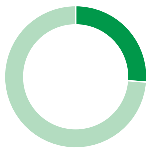
Personnel by region 2011

- Europe, the Middle East, and Africa . . . 67.4%
- Asia Pacific 25.5%
- North and South America 7.1%

New recruitment by region 2011

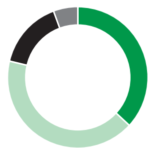
- Europe, the Middle East, and Africa . . . 59.2%
- Asia Pacific 35.1%
- North and South America 5.7%

Gender distribution 2011



- Women 26.2%
- Men 73.8%

Personnel by function 2011



- Products and Markets 36.9%
- Production. 41.9%
- R&D 15.7%
- Administration 5.6%

Level of education 2011

- Secondary school 19.9%
- Vocational education 25.0%
- Bachelor's degree or engineering degree 34.6%
- Master's degree 19.2%
- Licentiate or doctoral degree 1.3%

Personnel 2007–2011

	2011	2010	2009	2008	2007
Number of personnel at the end of the period	1,468	1,339	1,228	1,197	869
Europe, the Middle East, and Africa, %	67.4	69.1	71.2	74.6	81.9
North and South America, %	7.1	6.4	6.6	6.7	0
Asia Pacific, %	25.5	24.5	22.2	18.7	18.1
Women, %	26.2	27.2	27.5	29.2	28.4
Men, %	73.8	72.8	72.5	70.8	71.6
R&D personnel , %	15.7	15.0	13.8	13.0	11.6

Personnel key figures

	2011	2010
Number of Group employees, average	1,470	1,300
Average age of personnel, years	36.3	36.2
Average years of service, years	5.8	5.7

Application levels of the GRI Reporting Guidelines*

Application level	C	C+
G3 profile information	To be reported:	The report has been verified externally
	1.1, 2.1–2.10, 3.1–3.8	
	3.10–3.12, 4.1–4.4, 4.14–4.15	
Description of the G3 governance system	Not required	
G3 indicators	A minimum of 10 indicators are reported, including at least one indicator for each of the following areas: social responsibility, economic responsibility and environmental responsibility.	

* For more information, please see www.globalreporting.org.

Vacon Plc reports on corporate responsibility in accordance with the GRI Reporting Guidelines Application level C. The report has not been verified externally.

GRI compliant content		Application of GRI	Comments	Pages
Strategy and analyses				
1.1	Review by the President and CEO	X		6–7
Organizational profile				
2.1	Name of the organization	X		4–5
2.2	Primary brands, products, and/or services	X		14–15, 17, 21, 23–27
2.3	Operational structure of the organization	X		4
2.4–2.5	Location of organization's headquarters and the countries where the organization operates	X		Back cover
2.6	Nature of ownership and legal form	X		4–5
2.7	Markets served	X		6–9, 21
2.8	Scale of the reporting organization	X		4, back cover
2.9	Significant changes during the reporting period regarding size, structure, or ownership	X		59
2.10	Awards received in the reporting period	X		42, 43
Report profile, scope and boundary				
3.1–3.3	Reporting period, date of most recent previous report, and reporting cycle	P	Corporate responsibility is reported annually as part of the Annual Report. For more information, please see Vacon's website.	41
3.4–3.5	Contact point for questions regarding the report or its contents, process for defining report content	X		41, 111
3.6–3.8	Boundary of the report	X		41
3.10–3.11	Re-statements of information provided in earlier reports and significant changes from previous reporting scope or measurement methods	X	No significant changes in the measurement methods.	41

GRI compliant content			Application of GRI	Comments	Pages
GRI content index					
	3.12	GRI content index	X		52–55
Governance, commitments, and engagements					
	4.1–4.4	Governance structure of the organization, mechanisms of the shareholders and employees to provide recommendations or directions to the Board of Directors	X		29–37
Stakeholder engagement					
	4.14–4.15	Definition of stakeholder groups and stakeholder engagement practices	X		4–5, 41

Economic responsibility

Economic performance

C	EC1	Direct economic value generated	X		42
C	EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	P	Vacon develops products and solutions for solving the challenges posed by the climate change	7,39–40
C	EC3	Coverage of the organization's defined benefit plan obligations	P	Vacon also adheres to the legislation of the countries in which it operates regarding pension obligations.	34
C	EC4	Significant financial assistance received from government	P		42

Market presence and economic impacts

A	EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	P	For more information, please see Ethical guidelines and human rights.	46
C	EC6	Spending on locally-based suppliers at significant locations of operation	P	Vacon aims to make strategically effective procurements and invests in a global network	10–11, 19, 41, 43
C	EC7	Procedures of local hiring	X		47, 50

Indirect economic impacts

C	EC8	Development and impact of infrastructure investments and services	0		42

Environmental responsibility

Materials

C	EN1	Materials used by weight or volume	P		43–44
C	EN2	Percentage of materials used that are recycled input materials	P		44

Energy

C	EN3-4	Direct and indirect energy consumption by primary energy source	P		44
A	EN5	Energy saved due to conservation and efficiency improvements	X		44
A	EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	X		44

GRI compliant content			Application of GRI	Comments	Pages
Water					
C	EN8	Total water withdrawal by source	P	Overall the significance is low since water is not used in Vacon's production processes.	
Emissions, effluents, and waste					
C	EN16	Total direct and indirect greenhouse gas emissions by weight	P	The emissions are mainly generated by the production of the energy used. Vacon's products and solutions reduce the need for energy and the generation of greenhouse gases.	40, 43
C	EN22	Total weight of waste by type and disposal method	X		44
A	EN24	Volume of hazardous waste treated	X		44
Products and services					
C	EN26	Initiatives to mitigate environmental impacts of products and services	X		43–44
C	EN27	Percentage of products sold and their packaging materials that are reclaimed by category	-	Vacon has launched a program to reuse defective equipment.	
Compliance					
A	EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	P	None in 2011.	43
Transport					
A	EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting membership of the workforce	P	The majority of the internal meetings, training sessions etc. are held via video conferences.	44
Overall					
A	EN30	Total environmental protection expenditures and investments by type	P	Development of production and logistics is underway.	4–5, 19, 43–44

Social responsibility

Product responsibility					
C	PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement	X		39, 49
A	PR2	Compliance with product safety legislation and regulations	X		49
C	PR3	Type of product and service information required by procedures	X		49
A	PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling	X		49
A	PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	X		50

GRI compliant content			Application of GRI	Comments	Pages
Employment					
C	LA1	Total workforce by employment type (full-time/part-time), employment contract (permanent/temporary), and region	-		
C	LA2	Total number and rate of employee turnover by age group, gender, and region	P		50–51
A	LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees	X		47–48
C	LA4	Percentage of employees covered by collective bargaining agreements	0		47
C	LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements	0		47
A	LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees	X		48
C	LA7	Rates of injury, occupational diseases, lost days, and absenteeism by region	P		50
C	LA8	Education, training, counseling, prevention and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	X		46, 48
C	LA10	Average hours of training per year per employee by employee category	P		46–48
A	LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	P		46–47
A	LA12	Percentage of employees receiving regular performance and career development reviews	X		46
C	LA13	Breakdown of governance bodies and employees according to gender, age group and minority group membership	X		37, 46, 50
Human rights					
C	HR1–HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	P	Please see the Ethical Guidelines applicable to all Vacon's suppliers.	41, 46
A	HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	P	Human rights training is included in Vacon's orientation program. Please see the Ethical Guidelines.	41
C	HR4	Total number of incidents of discrimination and actions taken	X	None in 2011. Please see the Ethical Guidelines.	46
C	HR6–HR7	Operations identified as having significant risk for incidents of child labor or forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor	P	None in 2011. Please see the Ethical Guidelines.	46
Society					
C	SO3	Percentage of employees trained in organization's anti-corruption policies and procedures	P	Please see the Ethical Guidelines.	46
C	SO5	Public policy position and participation in public policy development and lobbying	X		49
A	SO6	Total value of financial and in-kind contributions to political parties	X		49

Content index key

Indicator type	Level of GRI reporting
C = Core indicator	X = reported in accordance with GRI
A = Additional Indicator	P = Reported in part
	- = Not reported for 2011

The GRI Guidelines core indicators EN11-12, EN17, EN19-21, EN23, PR6, PR9, LA14-15, LA8, LA14, HR10-11, SO1-2, SO4, and SO8-10 have not been reported.

FINANCIAL STATEMENTS

General review of 2011

According to Vacon's estimate, the global AC drives market grew by approximately 6–8% in 2011. Growth slowed down particularly in Europe in the last quarter of 2011 compared to the strong first half of the year. Growth in Asia and North America followed market forecasts.

On the whole, the year 2011 was very two-sided from Vacon's perspective. In the first half of the year, demand was strong in all market areas and in nearly all industry segments. In the second half, demand weakened particularly in wind power products. In the last quarter of the year, demand for motor control products declined in Europe compared to the beginning of the year due to the debt crisis. However, orders received for these products increased compared to the last quarter of 2010.

In 2011, the total value of orders received by the Group amounted to EUR 365.3 million (EUR 358.2 million in 2010), an increase of 2.0% from the previous year. Orders increased in 2011 in the APAC region (Asia Pacific) by 35.5% and declined in the EMEA region (Europe, the Middle East and Africa) by 4.1% and in North and South America by 2.1%. The Group's order book stood at EUR 36.6 million at the end of 2011 (EUR 52.1 million). Vacon's revenues for 2011 totaled EUR 380.9 million (EUR 338.0 million), an increase of 12.7% from the previous year.

The 2011 operating profit was EUR 24.7 million (EUR 28.6 million), which equals 6.5% (8.5%) of the Group's revenues.

There were three causes for Vacon's reduced profitability in 2011 and in the last quarter of the year, in particular. First, one of Vacon's solar energy customers is still arraging financing to pay for its considerable overdue debt. Vacon is continuing measures to secure its receivables but is prepared for a potential credit loss. Second, the lawsuit that was pending in Vacon's subsidiary in China concerning the company's customs clearance procedures ended in December. A court sentenced Vacon to pay compensation totaling EUR 5.5 million, consisting of unpaid customs duties and a fine. In the 2010 financial statements, Vacon made a EUR 3.2 million provision related to the lawsuit in China. Three parties concerned who were accused in the same lawsuit have filed their complaints regarding the court decision, and it is possible that the court decision will change in a higher court of law for Vacon as well. Therefore, the matter still contains uncertainties.

In December 2011, Vacon made a EUR 10 million provision recognizable through profit and loss concerning the aforementioned receivable from a solar energy customer and the lawsuit in China.

The operating profit excluding one-time items was EUR 34.8 million and 9.1% of revenues (EUR 32.4 million and 9.6%).

The third factor affecting the company's profitability was the decline in sales in the second half of the year. Vacon has launched global measures for cost savings and securing the profitability of its operations. As part of the company's wider global cost savings plan, Vacon launched in December statutory labor negotiations affecting Vacon Plc's office personnel in Finland. The objective is to achieve annual savings equaling 60 man-years in the operations in the parent company and 10 man-years in the subsidiaries during 2012-2013.

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

Result

The Group's revenues grew by 12.7% in 2011 to EUR 380.9 million (EUR 338.0 million in 2010). Revenues of the parent company Vacon Plc totaled EUR 271.3 million (260.4). The Group's operating profit was EUR 24.7 (28.6) million and profit for the period was EUR 17.7 (19.1) million. Earnings per share (EPS) decreased to EUR 1.10 (1.22).

The Group's cash flow from operating activities was EUR 26.8 (15.9) million. The consolidated statement of financial position total was EUR 198.1 (203.3) million. Vacon's equity ratio was 50.0% (46.0%). Gearing was 12.7% (10.7%). Return on investments was 26.9% (27.0%) and return on equity (ROE) was 18.7% (22.1%).

Key figures:

	2011	2010	2009
Revenues, MEUR	380.9	338.0	272.0
Operating profit, MEUR	24.7	28.6	22.5
Operating profit as % of revenues	6.5	8.5	8.3
Return on equity, %	18.7	22.1	20.5
Equity ratio, %	50.0	46.0	56.5

Global position

Vacon strengthened its global position in 2011. Based on market surveys, the company estimates that its market share is about five percent.

Vacon's revenues by region were as follows in 2011: Europe, the Middle East and Africa in total 66.3% (67.2% in 2010), North and South America 17.8% (17.8%), and Asia Pacific 15.9% (14.9%).

Vacon's 2011 revenues by distribution channel were as follows: direct sales 9.7% (8.0% in 2010), original equipment manufacturers 25.7% (26.0%), distributors 15.2% (14.9%), brand label customers 18.9% (20.2%), and system integrators 30.5% (31.0%).

Business strategy

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

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

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

For Vacon, product leadership means an extensive and competitive product portfolio and excellent product and application competence among its personnel.

At the end of 2011, Vacon introduced a new product family of compact AC drives for original equipment manufacturers (OEMs) including three new products: Vacon 10, Vacon 20 and Vacon 20 Cold Plate. Original equipment manufacturers are an important customer segment in terms of Vacon's growth and success. In 2011, approximately a quarter of Vacon's revenues were generated in this segment. In 2011, the Vacon 8000 Solar inverter, designed for the needs of solar power plants, received grid approvals meeting the requirements of national grid companies. These approvals were extremely extensive on a global scale. The technology developed by Vacon also suits for and is used in products designed for wind power. This way the company wants to promote the use of renewable sources of energy.

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

Multi-channel sales are at the core of Vacon's sales and marketing strategy. The company sells its products to original equipment manufacturers (OEMs), system integrators, brand label customers, distributors, and end customers. Utilizing several different sales channels in each geographical area or industry segment offered Vacon a true competitive edge. This has benefited the company in both the economic downturn and the rapid recovery of the market since sales did not rely on one channel only. For a company focusing solely on AC drives, multi-channel sales are an opportunity and a true competitive advantage.

Vacon operates production and R&D units in five countries and sales offices in a total of 27 countries. Extensive presence on different continents enables the company to place production close to the customer, thus hedging against currency risks. An extensive sales network offers sales the local touch they need.

In recent years, Vacon has invested heavily in the development of a common hardware and software platform for AC drives. Vacon's other strategic areas of expertise include product portfolio management, customer relationship management, mass customization, global sourcing as well as information and communication technology tools. Each area of expertise is continuously developed and monitored in order to ensure the company has the required competence for implementing its strategy.

Investments

The Group's gross investments totaled EUR 18.7 million (15.9 million in 2010). The investments focused on increasing production capacity and new product development projects. In 2011, Vacon commissioned new factories in China and in Italy.

Research and development

R&D expenditure in January–December 2011 totaled EUR 25.1 million (20.8 million), and EUR 7.0 million (EUR 4.8 million) of this was capitalized as development costs. The share of R&D expenditure of the Group's revenues was 6.6% (6.2%).

In 2011, Vacon continued to invest heavily in the development of new products, and Vacon's global R&D functions strengthened around the world. New plants were commissioned in China and Italy, and new and extensive R&D laboratories were built in connection with the plants. In addition, Vacon established a new R&D unit designing high-power AC drives in the Raleigh-Durham area in North Carolina in the USA. In 2011, the number of new product development personnel increased in the Group. Vacon has R&D units in Finland, China, the USA, and Italy.

Financial instruments valued at fair value

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

Personnel

Vacon aims to be a leading company in its field, and this objective is taken into consideration in the company's HR policy that covers all global operations. Vacon's HR policy is based on the company's strong values and it aims to take care of employees' competence and well-being. Maintaining a passionate attitude and finding new talent are of utmost importance. The company monitors job satisfaction and managerial performance in a variety of ways.

Vacon's personnel increased by 129 people during 2011. At the end of December, the Group employed 1,468 (1,339) people, of whom 730 (687) were in Finland and 738 (652) in other countries. The number of personnel by function is as follows: sales and marketing 37% (39%), production 42% (42%), R&D 16% (15%) and administration 5% (4%). The average age of personnel was 36.3 (36.2) years. The average length of employment was 5.8 (5.7) years. 26.2% (27.2%) of employees were women and 73.8% (72.8 %) were men.

Personnel key figures:

	2011	2010	2009
Average number during the year	1,470	1,301	1,231
Salaries and wages during the year, MEUR	55.9	52.5	42.9

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

All employees are automatically enrolled in the company's bonus scheme based on the company's sales result and profit earned. Group management and some of Vacon's personnel also belong to a long-term share bonus scheme.

Professional development
For Vacon to achieve its future objectives, the company needs personnel with world-class know-how and skills. From the perspective of professional development, the company's challenge is to retain the existing talent and strengthen competence in areas critical for the company's development.

At Vacon, competence development is based on the company's strategic objectives and development needs identified at various departments. Vacon applies the 70:20:10 principle in competence development: 70% of development takes place through learning on the job and doing, 20% is learned from others and 10% is gained from courses and training programs.

Vacon continuously organizes training programs of varying scope. For example, Product Excellence training aims to ensure that the company's personnel have extensive AC drive competence. Sales Excellence training develops sales management and competence. The training programs cover best practices, serve as forums for sharing experiences and for discussing the shared rules of sales, among other issues. Lean Six Sigma Greenbelt training is offered to improve total quality and effectiveness. These programs mainly apply guided project learning.

Management is one of Vacon's key development areas. The Vacon Lead program designed in 2011 will be launched from the beginning of 2012. The four main areas of the program are management model and principles, management training, mentoring, and management tools. In 2011, other important development areas were mass customization, project management, quality and customer work.

Employee well-being
Vacon applies a proactive approach to occupational health and well-being. The company conducts various surveys on the state of the work environment and working community and develops its HR policy and work atmosphere on the basis of these surveys and studies.

Vacon is a global, equality-oriented company that provides all employees with equal opportunities for advancing their careers. An extensive equality survey, including an employee questionnaire and manager interviews, was conducted in Finland to determine the realization of equality at Vacon. Three main goals were identified based on the results: reduction of mental stress, zero tolerance of harassment and improving the transparency of pay. The achievement of these goals is continuously monitored. Managers have been provided with training related to these topics, monitoring has been increased, reporting harassment has been made easy, and transparency of pay has been increased through various evaluation tools.

Vacon New Horizons for global culture
The Vacon New Horizons culture cafe events were among Vacon's most important internal action programs in 2011. The cafes offered a meeting point for personnel to discuss the development of Vacon's culture, shared values, leadership and working methods.

Each event brought together 30–40 employees from different departments. The attendees divided into small groups and presented the ideas generated during the discussion to the other participants. Many valuable developable ideas and thoughts emerged from the viewpoints presented. The results of the events will in the near future be utilized in projects concerning Vacon's management principles and values, among other issues.

Environment
Vacon's environmental responsibility is based on developing solutions that help promote global sustainable development objectives. Vacon's AC drives help achieve considerable energy savings and reduce the generation of greenhouse gases, carbon dioxide in particular. The company's products can, for example, help utilize renewable sources of energy more effectively and improve water treatment processes for clean drinking water.

Vacon knows its environmental responsibility and develops increasingly sustainable energy solutions for customers, improves the eco-friendliness of the product life cycle and continuously seeks more ecological operating methods. In 2011, Vacon had several environmental responsibility development projects under way regarding the company's products, processes and improvement of methods for the management of environmental information.

In 2011, Vacon's plant in China was awarded ISO 14001 certification. The company's plant in Vaasa has had ISO 14001 certification since 2004. Through certified environmental systems, Vacon works to ensure effective environmental performance with consistent quality that adheres to the principle of sustainable development.

Energy-efficient plants and operating methods
In 2011, Vacon's plants in China and Italy moved to new facilities and a new facility opened in India. The new facilities are as energy-efficient and environmentally friendly as possible.

In December, Vacon's new plant in India launched the Go Green! campaign with the objective of making practical operating methods more sustainable and environmentally friendly. All employees of the plant participate in the campaign.

In 2011, Vacon was recognized for its work in solar energy production technology. The Technology Academy awarded two Finnish researchers and three solar technology companies, including Vacon, with the Millennium Distinction Awards recognition.

Targeting 20% energy savings

In 2010, Vacon signed the voluntary energy-efficiency agreement of Finland's Ministry of Employment and the Economy. The company strives for 20% energy savings in its Vaasa plant operations by the year 2016. The company established an energy efficiency work group, responsible for meeting this objective. In addition, the entire personnel are encouraged to find new areas and measures for saving energy.

In 2011, the company carried out an extensive energy survey to determine the most significant areas of improvement in terms of energy savings. Based on the results, the company is seeking measures to reduce the energy used in production testing systems and in the heating and lighting of the plant. The solar power plant at the Vaasa factory is one example of the measures taken. The measures improving energy-efficiency are reported in the agreement monitoring system annually.

The carbon footprint of products was assessed

Vacon sets strict environmental requirements on its new products. Environmental aspects receive more systematic attention through the development of environmentally friendly product design and the Design for Environment (DfE) checklist used in the different stages of design. This list aims to promote the use of materials and resources more efficiently and to consider all environmental perspectives at the beginning of product development.

Vacon's operating model is modern: only the final assembly and testing of the product takes place at Vacon's facilities. The company's manufacturing process does not pollute the air, water, or soil. Energy is consumed by assembly as well as testing the finished products. Feeding energy produced in testing back into the electrical grid is done using Vacon's own AC drives technology. Feeding energy back into the company's grid reduces the amount of energy purchased and the environmental impact of production.

In 2011, Vacon assessed all the environmental impacts of its product during the product life cycle for the first time. The assessment was carried out in cooperation with a third party, and the objective was to gain a clearer understanding of all environmental impacts of Vacon's AC drives and to find ways to improve the products in this regard. The example product in the assessment was Vacon 100 HVAC.

The carbon footprint assessment provided valuable information on the components used in the product and the stages of the product life cycle. Concrete environmental savings can be attained by paying attention to the choices made in all of these areas, such as reducing the amount of materials used in packaging and shipping the components or finding alternative means of transport.

The relationship of the Board of Directors' Report with other environmental reporting

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

Company ownership and corporate governance

Shares and shareholders

In April 2011, the parent company paid dividends of EUR 15.2 million, or EUR 1.00 per share. This equals 82% of the earnings per share in the 2010 financial year.

Vacon's market value stood at EUR 471.5 million at the end of December (EUR 593.4 million). The closing price of the share on December 31, 2011, was EUR 30.90. The lowest price in January–December was EUR 27.21, and the highest was EUR 48.73.

A total of 2,975,467 Vacon shares (19.5% of the share stock) were traded during 2011, or in monetary terms, EUR 114.7 million. Vacon had 4,814 registered shareholders according to the shareholder register dated on December 31, 2011. The number of nominee registered shares and those registered by foreigners totaled 53.0% (34.7%) of the shares.

Own shares

On December 31, 2011, Vacon Plc held a total of 35,008 of its own shares, which it had acquired at an average price of EUR 24.54 per share. This is 0.2% of the share capital and voting rights, so it has no major impact on the distribution of ownership or voting rights in the company.

Board of Directors and President and CEO

Until the Annual General Meeting held on March 22, 2011, the Board of Directors included Pekka Ahlqvist, Jari Eklund, Jan Inborr, Juha Kytölä, Panu Routila, Mika Vehviläinen, and Riitta Viitala. At the AGM, Pekka Ahlqvist, Jari Eklund, Jan Inborr, Juha Kytölä, Panu Routila, Mika Vehviläinen, and Riitta Viitala were re-elected as Board members. Jan Inborr was re-elected Chairman and Mika Vehviläinen was elected Vice Chairman of the Board of Directors at the organization meeting of the Board of Directors. The term of office for Board members continues until the end of the following Annual General Meeting. Vacon's President and CEO throughout the financial year was Vesa Laisi and Executive Vice President, and Heikki Hiltunen was Executive Vice President and deputy to the CEO.

Auditors

In accordance with the decision of the Annual General Meeting, the company's auditor is authorized public accountants PricewaterhouseCoopers Oy (PwC) and the principal auditor appointed by PwC for the financial year is Markku Katajisto, APA.

Risk management

Vacon Group's risk management is part of the management process for the company's business operations. Risk management aims to ensure that the risks relating to business operations have been thoroughly surveyed and are effectively controlled. The goal is to minimize any damage arising from the risks and to identify the risks in managing the business. Risk management activities aim to ensure profitable growth for the company. More information about key risks and risk management at Vacon are provided in the notes to the financial statements and the risk management section of the Annual Report.

Dividend policy

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

Near-term risks and uncertainties

The company's most significant uncertainty is related to the trade receivable from a solar energy customer. The customer is arraging financing to pay for its considerable overdue debt. Vacon is continuing measures to secure its receivables but is prepared for a potential credit loss.

The lawsuit that was pending against Vacon's subsidiary in China concerning the company's customs procedures ended in December. A court sentenced Vacon to compensation totaling EUR 5.5 million, consisting of unpaid customs duties and a fine. In the 2010 financial statements, Vacon made a EUR 3.2 million provision related to the lawsuit in China. Three parties concerned who were accused in the same lawsuit have filed their complaints regarding the court decision, and it is possible that the court decision will change in a higher court of law for Vacon as well. Therefore, the matter still contains uncertainties.

In December 2011, Vacon made a EUR 10 million provision recognizable through profit and loss concerning the aforementioned solar energy customer receivable and the lawsuit in China.

The parent company has a pending tax proceeding regarding the tax inspection of transfer pricing in 2006–2008.

The typical and general risks in Vacon's business operations have to do with, among other things, uncertainty in demand and increased price competition, losing customers, goodwill, availability of raw materials and components as well as currency rate fluctuations.

The order book of Vacon's motor control AC drives is traditionally short in terms of time and therefore, it is not associated with significant risks relating to scheduling or cancellations of deliveries. The share of products supplied for the production of renewable energy in Vacon's revenues was approximately 13% in 2011. Risks typical of this business include longer delivery and payment times, which increases risks related to extending credit to customers and order cancellations. The sale of equipment for the production of renewable energy is project-based for Vacon, and therefore, it causes more considerable seasonal fluctuation in the volume. Energy production based on renewable sources of energy relies heavily on subsidies from governments. Therefore, this market area also carries a political risk.

Worldwide, Vacon has thousands of customers. The share of the 10 largest customers in Vacon's revenues is slightly less than 50%. The company continuously evaluates its customers' creditworthiness and ability to fulfill their commitments.

Vacon is capable of adapting its production capacity to market demand. The company estimates that its financial assets and withdrawable credit commitments are at a sufficient level for safeguarding liquidity. Vacon's statement of financial position includes EUR 9.2 million of goodwill, which is mainly attributable to the business acquisition completed at the beginning of 2008. Goodwill is tested annually in order to detect possible impairment.

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

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

Outlook for 2012

Vacon considers that there are significant uncertainties associated with the general growth prospects in the economy which may affect the demand for AC drives in Europe, in particular, and possibly also globally. Vacon is not expecting the demand for products designed for the production of wind energy to recover considerably at the beginning of 2012. In the first half of 2012, Vacon will introduce to the market several new products, which will improve the company's competitiveness in a market environment that might be challenging.

Market guidance for 2012

The company's estimate on the development of revenues and operating profit contains particularly many uncertainties due to the prevailing market situation, in which future performance is impossible to predict. Vacon estimates that its revenues will grow and operating profit as a percentage of revenues will improve from 2011. In 2011, revenues were EUR 380.9 million and operating profit as a percentage of revenues excluding one-time items was 9.1%.

Vacon's goal is to achieve revenues of EUR 500 million in 2014. Its profitability target is an operating profit of 14% and a return on equity of more than 30%.

Board proposal for distribution of profit

At the end of the financial year, the distributable equity of the parent company stands at EUR 65.2 million. The Board of Directors proposes to the Annual General Meeting to be held on March 27, 2012, that a dividend of EUR 0.90 per share be paid from the parent company's profit of EUR 20.5 million for the financial year 2011 and that the remainder of the profit for the year be transferred to retained earnings. According to this proposal, a total of EUR 13.7 million would be paid in dividends.

CONSOLIDATED FINANCIAL STATEMENTS

	IFRS 2011	IFRS 2010	IFRS 2009	IFRS 2008	IFRS 2007
Per share data					
Earnings per share, EUR	1.10	1.22	1.01	1.51	1.37
Equity per share, EUR	6.28	5.90	5.25	4.88	4.13
Dividend per share, EUR *)	0.90	1.00	0.70	0.65	0.75
Dividend payout ratio, % *)	81.47	82.13	69.02	42.94	54.59
Effective dividend yield, % *)	2.9	2.6	2.6	3.5	2.7
Price/earnings ratio	28.0	32.0	26.3	12.1	20.4
Share price development					
Lowest during the year, EUR	27.21	24.90	15.30	17.00	24.60
Highest during the year, EUR	48.73	39.75	28.90	32.44	38.00
Closing price at end of year, EUR	30.90	39.00	26.70	18.30	28.00
Average price for the year, EUR	38.50	32.49	21.51	26.65	30.01
Market capitalization, MEUR	471.5	593.4	406.1	278.0	426.5
Trading volume, share	2,975,467	2,670,146	4,493,871	4,915,722	8,241,357
Trading volume, %	19.5	17.6	29.6	32.3	54.1
Adjusted average number of shares during the financial year **)	15,246,387	15,213,083	15,204,263	15,238,236	15,226,997
Number of shares at end of year **)	15,259,992	15,214,435	15,209,989	15,193,188	15,232,188
Own shares	35,008	80,565	85,011	101,812	62,812

*) The 2011 dividend is the Board of Directors' proposal to the Annual General Meeting.

**) The average number of shares in the financial period was 15,246,387.
The number of shares outstanding is 15,259,992.

	IFRS 2011	IFRS 2010	IFRS 2009	IFRS 2008	IFRS 2007
Group's financial ratios					
Revenues, MEUR	380.9	338.0	272.0	293.2	232.2
Change in revenues, %	12.7	24.3	-7.2	26.3	24.6
Operating profit, MEUR	24.7	28.6	22.5	34.6	29.2
Change in operating profit, %	-13.4	26.8	-35.0	18.5	26.4
Operating profit as % of revenues	6.5	8.5	8.3	11.8	12.6
Profit before taxes, MEUR	27.0	27.5	22.0	32.6	28.8
Profit before taxes, as % of revenues	7.1	8.1	8.1	11.1	12.4
Return on equity, %	18.7	22.1	20.5	34.3	36.5
Return on investments, %	26.9	27.0	23.1	37.0	41.2
Interest-bearing net liabilities, MEUR	12.4	9.8	1.6	12.3	-11.0
Gearing, %	12.7	10.7	2.0	16.3	-17.1
Working capital, MEUR	45.1	45.9	31.2	42.5	27.2
Equity ratio, %	50.0	46.0	56.5	51.1	52.9
Gross capital expenditure, MEUR	18.7	15.9	18.2	11.2	9.1
Gross capital expenditure as % of revenues	4.9	4.7	6.7	3.8	3.9
R&D costs, MEUR	25.1	20.8	17.6	17.0	14.3
R&D costs as % of revenues	6.6	6.2	6.5	5.8	6.2
Personnel at the end of the period	1,468	1,339	1,228	1,197	869
Order book, MEUR	36.6	52.1	32.0	48.0	34.8

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

Consolidated statement of income (IFRS)

EUR thousand	Note	Jan 1–Dec 31, 2011	%	Jan 1–Dec 31, 2010	%
Revenues	3,4	380,883	100.0	338,032	100.0
Other operating income	5	337		435	
Change in inventories of finished goods and work in progress		-2,209		6,645	
Materials and services	6	-202,820		-186,664	
Employee benefit related expenses	8	-68,790		-64,869	
Depreciation/amortization	9	-12,221		-11,086	
Other operating expenses	7	-70,436		-53,907	
Operating profit		**24,744**	**6.5**	**28,586**	**8.5**
Financial income	12	8,319		1,084	
Financial expenses	12	-6,109		-2,142	
Profit before taxes		**26,953**	**7.1**	**27,529**	**8.1**
Income taxes	13	-9,297		-8,477	
Profit for the period		**17,655**	**4.6**	**19,053**	**5.6**
Attributable to:					
Equity holders of the parent company	14	16,843		18,524	
Non-controlling interests		813		528	
Earnings per share calculated on profit belonging to the equity holders of the parent company:	14				
Basic earnings per share, EUR		1.10		1.22	
Diluted earnings per share, EUR		1.10		1.22	

Consolidated statement of comprehensive income (IFRS)

EUR thousand		
Profit for the period	17,655	19,053
Other items in the statement of comprehensive income:		
Cash flow hedging	-53	-65
Available-for-sale financial assets	2,492	0
Translation difference	991	1,469
Total comprehensive income for the period	21,086	20,457
Attributable to:		
Equity holders of the parent company	20,273	19,928
Non-controlling interests	813	528

Assets

EUR thousand	Note	Dec 31, 2011	%	Dec 31, 2010	%
Non-current assets					
Goodwill	15	9,234		9,102	
Development costs	15	17,438		12,634	
Other intangible assets	15	9,257		11,145	
Property, plant and equipment	16	25,073		20,660	
Available-for-sale financial assets	19	3,692		0	
Deferred tax assets	13	5,731		4,817	
Other financial assets	19	2,320		3,837	
		72,745	36.7	62,193	30.6
Current assets					
Inventories	20	28,186		31,881	
Trade and other receivables	21	80,871		90,820	
Cash and cash equivalents	22	16,305		18,392	
		125,362	63.3	141,093	69.4
Total assets		**198,107**	**100.0**	**203,286**	**100.0**

Total equity and liabilities

EUR thousand	Note	Dec 31, 2011	%	Dec 31, 2010	%
Equity attributable to equity holders of the parent company					
Share capital	23	3,059		3,059	
Share premium		4,966		4,966	
Other reserves		73		63	
Own shares		-2,646		-2,646	
Fair value reserve		2,348		-91	
Retained earnings		87,981		84,358	
		95,781	48.3	89,710	44.1
Non-controlling interests		1,931	1.0	1,551	0.8
Total equity		**97,713**	**49.3**	**91,261**	**44.9**
Non-current liabilities					
Deferred tax liabilities	13	5,999		5,344	
Employee benefits	25	1,657		1,603	
Interest-bearing liabilities	26	20,221		9,852	
Other liabilities		0		173	
		27,877	14.1	16,973	8.3
Current liabilities					
Trade and other payables	27	53,067		62,415	
Income tax liabilities		1,650		6,471	
Provisions	28	9,278		7,857	
Interest-bearing liabilities	26	8,522		18,309	
		72,518	36.6	95,052	46.8
Total liabilities		**100,394**	**50.7**	**112,025**	**55.1**
Total equity and liabilities		**198,107**	**100.0**	**203,286**	**100.0**

EUR thousand	Jan 1–Dec 31, 2011	Jan 1–Dec 31, 2010
Cash flow from operating activities		
Profit for the period	17,655	19,052
Adjustments:		
Depreciation/amortization	12,221	11,085
Financial income and expenses	-2,209	1,057
Taxes	9,297	8,477
Other adjustments	12,286	-195
Changes in working capital:		
Change in inventories	4,969	-11,498
Change in non-interest-bearing receivables	-2,920	-36,241
Change in non-interest-bearing liabilities	-8,562	30,504
Interest received	907	489
Interest paid	-1,224	-891
Other financial items	-1,297	-1,566
Taxes paid	-14,294	-4,348
Net cash flow from operating activities	**26,830**	**15,925**
Cash flow from investing activities		
Acquisition of subsidiary	0	-727
Investments in tangible and intangible assets	-18,677	-13,695
Other investments	286	0
Repayments on loan receivables	1,984	790
Proceeds from the divestiture of other investments	2,599	281
Dividends received	694	0
Net cash flow investing activities	**-13,114**	**-13,351**
Cash flows from financing activities		
Proceeds from non-current borrowings	20,221	173
Repayments on non-current loans	-10,676	-3,043
Proceeds from current borrowings	27,710	12,083
Repayments on current loans	-37,796	-210
Dividends paid	-15,685	-11,214
Net cash flow from financing activities	**-16,226**	**-2,211**
Change in cash and cash equivalents	**-2,510**	**363**
Cash and cash equivalents at start of year	18,392	17,172
Translation differences in cash and cash equivalents	423	857
Cash and cash equivalents at end of year	16,305	18,392

	Equity attributable to equity holders of the parent company								
EUR thousand	Share capital	Share premium	Other reserves	Own shares	Revaluation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Equity on Jan 1, 2010	3,059	4,966	51	-2,646	-26	74,426	79,831	1,512	81,343
Other adjustments			12			26	38	33	70
Profit for the period						18,524	18,524	528	19,053
Other items in the statement of comprehensive income:									
Cash flow hedging					-65		-65		-65
Translation difference						1,469	1,469		1,469
Total comprehensive income for the period					-65	19,993	19,928	528	20,457
Share bonuses						560	560		560
Dividends paid						-10,647	-10,647	-522	-11,169
Equity on Dec 31, 2010	3,059	4,966	63	-2,646	-91	84,358	89,710	1,551	91,261
Equity on Jan 1, 2011	3,059	4,966	63	-2,646	-91	84,358	89,710	1,551	91,261
Other adjustments			10			87	97	17	114
Profit for the period						16,843	16,843	813	17,655
Other items in the statement of comprehensive income:									
Cash flow hedging					-53		-53		-53
Available-for-sale financial assets					2,492		2,492		2,492
Translation difference						991	991		991
Total comprehensive income for the period					2,439	17,834	20,273	813	21,086
Share bonuses						916	916		916
Dividends paid						-15,214	-15,214	-450	-15,665
Equity on Dec 31, 2011	3,059	4,966	73	-2,646	2,348	87,981	95,781	1,931	97,713

1. General information

The Vacon Group is a global company providing a comprehensive set of AC drives and related services. Vacon Plc and its subsidiaries focus exclusively on AC drives. The Group has operations in 27 (27) countries.

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

Vacon Plc's Board of Directors approved these financial statements for publication at its meeting on February 1, 2012. According to the Finnish Limited Liability Companies Act, the shareholders at the Annual General Meeting have the option to approve or reject the financial statements after they have been published. The Annual General Meeting may also decide on amending the financial statements.

2. Accounting principles for the consolidated financial statements

Accounting principles for financial statements

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), applying the IAS and IFRS standards in force on December 31, 2011, as well as the SIC and IFRIC interpretations. International Financial Reporting Standards refer to the standards and their interpretation to be applied in the community as provided in the Finnish Accounting Act and the provisions issued on the basis of this act, and in regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards. Notes to the consolidated financial statements have also been prepared in accordance with Finnish legislation regarding accounting and limited liability companies, complementing the IFRS standards.

Vacon adopted the IFRS standards on January 1, 2004, until which date reporting was conducted in accordance with the Finnish Accounting Standards (FAS). For the transition, Vacon applied the First-Time Adoption of the IFRS standard, which allowed certain transitional exceptions in 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 statement of financial position.

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

Estimates

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

Principles of consolidation

The consolidated financial statements include the parent company and all companies in which the parent company has the majority of votes or other controlling interest. The financial results of subsidiaries acquired or established during the year are consolidated from the date of acquisition or establishment. Consolidation ends when the controlling interest ceases. Subsidiaries have been included in the consolidated financial statements using the acquisition cost method. All payments to be made to complete an acquisition are recognized as a expense at the time of acquisition. The identifiable assets and liabilities of acquired companies are valued at fair value at the time of acquisition. The difference between the price paid for the company and its net assets valued at fair value constitutes goodwill. If the consideration is smaller than the fair value of the net assets of the acquired subsidiary, the difference is recognized through profit and loss. 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.

Transactions completed with non-controlling interests which do not result in a loss of the controlling interest are handled as transactions concerning equity. When the Group's controlling interest ceases, the remaining holding is measured at the fair value on the date the controlling interest was lost and the change in the carrying amount is recognized through profit and loss.

Intra-group business transactions, receivables, liabilities, non-realized margins, and intra-group profit distribution are eliminated in the consolidated financial statements. The subsidiaries' accounting principles have been adjusted to match the accounting principles applied by the Group, if needed. The allocation of profit or loss from the financial period to the shareholders of the parent company and the non-controlling interests is presented in the income statement. The allocation of the comprehensive income to the shareholders of the parent company and the non-controlling interests is presented in the statement of comprehensive income. The share of the non-controlling interests is presented as an individual item under equity. In the consolidated financial statements, the changes in Group companies' depreciation difference have been divided into change in deferred taxes and profit for the period. In the consolidated statement of financial position, the accumulated depreciation difference has been divided into deferred taxes and non-restricted equity.

Foreign currency items

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

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

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

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

Financial assets and liabilities

Financial assets

The Group's financial assets are classified according to the IAS 39 Financial Instruments: Recognition and Measurement standard into the following categories: financial assets at fair value through profit and loss, loans and other receivables, and available-for-sale financial assets. Financial assets are classified according to their purpose when acquired and at the time of their acquisition. Purchases and sales of financial assets are recognized on the transaction date.

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

"Loans and other receivables" are assets other than derivative assets that involve fixed or definable payments, are not quoted on the active markets, and that the Group does not hold for trading purposes. They are valued at amortized acquisition cost. On the statement of financial position, they are included in current or non-current assets according to their nature. Loans and other assets are presented as non-current assets if they mature in over 12 months. "Trade and other receivables" as well as "cash and cash equivalents" on the statement of financial position are also categorized as loans and other receivables.

Available-for-sale financial assets are assets other than derivative assets that have been specifically allocated to this category or have not been classified in any other category. They are included under non-current assets. Available-for-sale financial assets comprise shares and holdings in investment funds. They are valued at fair value if the fair value can be reliably determined. Changes in the fair value of available-for-sale financial assets are recognized in the other items in the statement of comprehensive income and presented in the equity item. The fair value reserve contains the changes in fair value and their tax impact. The accumulated changes in the fair value are moved from equity as adjustments due to the changes caused by classification through profit and loss when the investment is sold or when its value has impaired so that an impairment loss must be recognized for the investment.

Cash and cash equivalents

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

Financial liabilities

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

Derivative instruments and hedge accounting

Derivative contracts are originally booked at acquisition cost, which matches their fair value. In subsequent financial statements, derivative contracts are 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 on the statement of financial position under current receivables or liabilities, and contracts with longer maturity under non-current receivables or liabilities.

The Group applies IAS 39 compliant hedge accounting for cash flow hedging with respect to operative currency exposure. The relationship between the hedging instruments and items to be hedged is documented when hedging begins. The objectives of risk management and strategies to be followed in different hedging measures are also documented. When hedging begins and continuously thereafter, the Group documents whether the derivatives used in hedging effectively cancel the changes in the fair value or cash flows of the items to be hedged. The hedging instruments used are foreign exchange forwards. For those hedging relationships that meet the hedge accounting criteria, the effective portion of the change in the fair value of the hedging instrument is recognized in other items in the comprehensive income and any remaining ineffective portion is recognized through profit and loss. The cumulative change in fair value, which is recognized in other items in the statement of comprehensive income, is recognized through profit and loss at the moment the anticipated cash flow is recognized in the income statement.

The Group does not apply hedge accounting to interest rate swaps and foreign currency denominated loans that hedge foreign currency denominated net investments in foreign business units. Changes in the fair value of hedging instruments are recognized 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 simultaneously with the hedged cash flow if hedging proves ineffective. If the hedged transaction is no longer likely, the result of the derivative is immediately recognized through profit and loss.

Goodwill and other intangible assets

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

Goodwill is reviewed for impairment annually or more frequently if events or conditions indicate a possible impairment. The carrying amount is compared to the recoverable amount, which is the higher of the value in use or the fair value less costs incurred by sales. A unit's recoverable amount is determined from cash flow predictions discounted to their present value. In the calculations, the discount rate used is based on a capital structure in which the share of equity is 80% and the share of borrowings is 20%. The ROE requirement comprises the estimated risk-free interest in the euro zone (1.5%) and the anticipated inflation (2%), the general risk premium in the share market (4.5%), and the beta coefficient, which measures the level of risk in the operations (1.081). In addition, a risk premium (1%) has been added to the interest for Italy and Spain. For India, the country's risk-free interest (8.57%) has been used. The discount rate used in the calculations is defined before taxes. More information about the sensitivity of the recoverable amount in goodwill to changes in the assumptions applied is given in Note 15.

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

The depreciation periods for intangible assets are:

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

Any subsequent expenses associated with intangible assets are capitalized only if it is likely that the future financial benefit will flow to the company and if the acquisition cost can be reliably determined. Otherwise the costs are recognized as expenses as they are incurred.

R&D costs

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

A product designed to replace an existing product remains at the research stage until it has been tested and found feasible in prototype testing and is therefore likely to become available for sale later. After that, it moves on to the development stage and the expenses are capitalized on the statement of financial position. The values of the capitalized goods are tested annually for impairment.

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. On the statement of financial position, these are measured at original acquisition cost less accumulated depreciation. Land areas are not depreciated.

Ordinary maintenance and repair costs are recognized as expenses as they are 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:

Buildings	5–10 years
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 recognized through profit and loss and presented in other operating income or costs.

Impairment

The carrying amount of assets is assessed at the end of the financial year 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. For impairment assessment, the asset items are categorized at the lowest levels where cash flows can be separately itemized.

Leases

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

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

Inventories

Inventories are entered on the statement of financial position at the acquisition cost or at the lower net realizable value using the FIFO method.

The acquisition cost of finished goods and work in progress includes raw materials, direct salaries, and other direct expenses as well as the appropriate share of indirect production costs, excluding interest expenses. Net realizable value is the estimated sales price in ordinary activities less the costs associated with the sales 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 recognized as expenses in the income statement, and on the statement of financial position the amount is deducted from the value of receivables.

Pension schemes

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

Bonus schemes

The liability and expense to be recognized in the bonus schemes are based on a formula that takes into consideration the profit after certain adjustments that belongs to the company's shareholders. A provision is recognized when the Group has a contract-based obligation or when an actual obligation has arisen based on an earlier practice.

Revenues

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

Operating profit

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

Government grants

Subsidies received from the government or other parties are recognized as income in the income statement, with matching expenses recorded. Subsidies are recognized as deductions of the corresponding expenses. Subsidies associated with property, plant and equipment as well as intangible assets are deducted from the asset acquisition price and the net acquisition cost is capitalized on the statement of financial position.

Equity compensation benefits

The Group has two share bonus schemes. Share bonus scheme A offers key persons the opportunity to receive a bonus of company shares for three earnings periods of one calendar year each by achieving the targets set for them. The earnings periods are the calendar years 2011, 2012 and 2013. Share bonus scheme B offers the company's Management Team the opportunity to receive company shares as a bonus. The scheme has one earnings period, which covers the calendar years 2011–2014.

The shares to be assigned are measured at the share price of the moment of assignment and recognized in the result as employee benefits and increase in equity. The portion to be paid in cash is measured at the share price of the moment of assignment (realized schemes) or at the price of the closing of accounts (schemes under way) and recognized in the result as employee benefits and liability. The terms of the share bonus scheme are given in more detail in Note 24 'Share-based payments'.

Provisions

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

Income taxes

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

The recognized deferred tax assets and liabilities include the temporary differences between the Group companies' taxes and the statement of financial position. 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 closing date or a tax rate which has in practice been approved on the reporting period closing date. The most significant tax assets and liabilities consist of tax losses carried forward, appropriations, capitalizations of development costs, non-current asset items allocated at acquisition and financial instruments.

Deferred tax assets from tax losses carried forward are recognized in cases where it is likely that the loss can be taken into account when calculating the taxable income in future financial years. Deferred tax liabilities are recognized in full. The prerequisites for recognizing deferred tax liabilities are estimated on the closing date of each reporting period.

Contingent liabilities and contingent assets

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

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

Application of revised and amended standards and interpretations

IASB has released the following new or revised standards and interpretations that the Group has not applied yet. The Group will implement them from the effective date of each standard and interpretation. If the effective date is a date other than the first day of the financial period, the Group will implement them from the beginning of the financial period following the effective date:

- Amendment to IAS 1 Presentation of Financial Statements (effective from financial periods starting on July 1, 2012 or thereafter). The most central amendment is the requirement to categorize other items in the statement of comprehensive income based on whether they will potentially be transferred to be recognized through profit and loss later if certain conditions are met. The amendment has not yet been approved for application in the EU.
- Amendment to IAS 19 Employee Benefits (effective from financial periods starting on January 1, 2013 or thereafter). The amendments mean that all actuarial gains and losses must in the future be recognized immediately in other items in the statement of comprehensive income, in other words, the so-called corridor method will be discontinued and the financial cost is determined based on net transfer to reserves. The amendment has not yet been approved for application in the EU.
- IFRS 10 Consolidated Financial Statements (effective from financial periods starting on January 1, 2013 or thereafter). In accordance with the existing principles, the standard defines controlling interest as the central factor in resolving whether a company should be included in the consolidated financial statements. In addition, the standard provides additional guidance regarding the definition of controlling interest in situations in which it is difficult to assess. The standard has not yet been approved for application in the EU.

3. Acquired business operations

In 2011, the Group did not make any acquisitions.

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

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

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

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

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

The Group is committed to paying EUR 0.3 million as contingent consideration, of which EUR 0.2 million is tied to certain technical procedures and EUR 0.1 million to the revenues of 2010 and 2011 and orders received. If the Solar business exceeds the budgeted revenues and order quantity of the Vacon 8000 Solar products by 30 %, the contingent consideration of EUR 0.1 million will be paid in full. The recognized goodwill is not tax deductible.

4. Segment information

Vacon focuses on one product, the AC drive, which is also Vacon's only business segment.
Figures for the segment are equal to the figures for the entire Group. Vacon's operations in 2011 were organized into the following functions: Products and Markets, Production, Research & Development, Finance and Administration, Human Resources, and IT and Process Development and Business Development. To ensure that the organization is customer-oriented, operations are controlled by distribution channels: distributors, system integrators, end customers, original equipment manufacturers (OEM), and brand label customers.

Geographical details

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

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

Geographical areas, revenues from external customers:

EUR thousand	2011	2010
EMEA	252,559	227,260
Americas	67,630	60,251
APAC	60,694	50,521
Total	380,883	338,032

2011, EUR thousand	Revenues from external customers	Non-current assets
Finland	65,529	33,341
Other countries	315,354	33,673
Total	380,883	67,014

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

Group income from one customer amounted to approximately EUR 33.6 million in 2011 (EUR 41.3 million in 2010), which equaled 8.8% (12.2%) of the Group's revenues.

5. Other operating income

EUR thousand	2011	2010
Rental income	159	192
Government grants	49	195
Other	128	48
Total	337	435

6. Materials and services

EUR thousand	2011	2010
Materials and consumables		
Purchases during the financial year	194,916	186,769
Change in inventories	1,388	-5,585
External services	6,516	5,480
Total	202,820	186,664

7. Other operating expenses

EUR thousand	2011	2010
Delivery costs and commissions	10,259	8,556
Sales and marketing expenses	19,873	10,255
Rents	9,160	8,005
Administrative expenses	20,922	15,195
Other costs	10,222	11,896
Total	70,436	53,907

8. Employee benefit related expenses

EUR thousand	2011	2010
Salaries	53,532	50,918
Share bonuses granted paid in shares	876	560
Share bonuses granted paid in cash	1,469	1,055
Pensions		
Defined benefit plans	335	602
Contribution plans	7,901	7,473
Other personnel costs	4,678	4,262
Total	68,790	64,869
Office personnel	938	808
Factory personnel	532	493
Average number of personnel	1,470	1,301

Management employee benefits, salaries and remuneration are presented in Note 32. Related party transactions. Share bonuses granted to the management are presented in Note 24. Share-based payments.

9. Depreciation and amortization

EUR thousand	2011	2010
Depreciation by asset group		
Intangible assets		
Development costs	2,246	1,298
Intangible rights	4,036	4,257
Other intangible assets	499	509
Total	6,781	6,064
Property, plant and equipment		
Buildings	7	0
Machinery and equipment	5,433	5,022
Total	5,440	5,022
Total depreciation, amortization, and impairment charge	12,221	11,086

10. Auditor's fees

EUR thousand	2011	2010
Audit fees	130	151
Tax consulting	64	67
Other services	50	73
Total	244	291

11. R&D costs

The income statement includes research and development costs recorded as expenses of EUR 18.1 million in 2011 (EUR 16.0 million in 2010).

12. Financial income and expenses

EUR thousand	2011	2010
Dividends received	694	0
Interest income from loans and other receivables	224	139
Exchange rate gains on loans and other receivables	4,755	1,029
Exchange rate gains on financial loans valued at amortized acquisition cost	0	-343
Other financial income	2,646	259
Total	8,319	1,084
Interest expenses on financial loans valued at amortized acquisition cost	-1,098	-632
Exchange rate losses on loans and other receivables	-4,815	-1,383
Other financial expenses	-197	-127
Total	-6,109	-2,142
Financial income and expenses, total	2,209	-1,058

Items above the operating profit include exchange rate differences of EUR 0.2 million from hedge accounting derivative contracts and of EUR 0.4 million from trade receivables (in 2010, EUR -1.1 million from derivative contracts and EUR 0.7 million from trade receivables).

Other financial income includes the EUR 2.6 million compensation for the dissolution of an acquisition, received from The Switch Engineering Oy's shares.

13. Income taxes

EUR thousand	2011	2010
Taxes based on the taxable income for the financial year	-9,274	-9,345
Taxes on the previous year	-168	107
Deferred taxes	144	761
Total	-9,297	-8,477

Taxes related to other items in the statement of comprehensive income

2011	Before taxes	Tax impact	After taxes
Cash flow hedging	-76	23	-53
Available-for-sale financial assets	2,492		2,492
Translation difference	991		991
Total	3,407	23	3,430

2010	Before taxes	Tax impact	After taxes
Cash flow hedging	-80	15	-65
Translation difference	1,469		1,469
Total	1,389	15	1,404

Calculation of taxes

EUR thousand	2011	2010
Profit before taxes	26,953	27,529
Taxes calculated in accordance with domestic tax rate	7,008	7,158
Deferred tax income related to the change in the tax rate	-163	0
Impact of foreign subsidiaries' differing tax rates	616	-411
Tax-free income	-816	-122
Non-deductible expenses	2,176	1,154
Deferred tax assets carried forward from tax losses	406	1,146
Taxes on the previous year	168	-107
Others	-97	-341
Taxes in the income statement	9,297	8,477

Deferred tax assets and liabilities

EUR thousand	2011	2010
Net deferred tax liability is allocated on the statement of financial position as follows:		
Deferred tax assets	5,731	4,817
Deferred tax liabilities	-5,999	-5,344
	-267	-528
Gross change in deferred taxes recorded on the statement of financial position :		
Deferred taxes Jan 1	-528	-1,283
Items entered in income statement	144	761
Translation difference	26	-21
Items entered in equity	90	15
Deferred taxes Dec 31	-267	-528

Change in deferred tax assets and liabilities during financial year:

2011, EUR thousand	Jan 1	Items entered in income statement	Items entered in equity	Translation difference	Dec 31
Deferred tax assets:					
Employee benefits	42	-6			35
Provisions	688	250			937
Tax losses carried forward	2,325	337		-8	2,654
Internal margin from inventories	1,533	76			1,609
Other temporary differences	229	184	47	36	496
Total	4,817	840	47	28	5,731
Deferred tax liabilities:					
Capitalized intangible assets	4,002	859			4,861
Accumulated depreciation difference	1,365	-175	-67	2	1,125
Other temporary differences	-23	12	24		13
Total	5,344	696	-43	2	5,999
Deferred taxes, net	-528	144	90	26	-267

2010, EUR thousand	Jan 1	Items entered in income statement	Items entered in equity	Translation difference	Dec 31
Deferred tax assets:					
Employee benefits	27	15			42
Provisions	40	648			688
Tax losses carried forward	2,123	201			2,325
Internal margin from inventories	905	628			1,533
Other temporary differences	245	-16			229
Total	3,340	1,476	0	0	4,817
Deferred tax liabilities:					
Property, plant and equipment	10	-10			0
Capitalized intangible assets	3,316	686			4,002
Accumulated depreciation difference	1,278	66		21	1,365
Other temporary differences	19	-27	-15		-23
Total	4,623	716	-15	21	5,344
Deferred taxes, net	-1,283	761	15	-21	-528

On December 31, 2011, the Group had EUR 1.4 million (EUR 1.2 million on December 31, 2010) of tax losses carried forward for which no deferred tax assets have been recognized since there is uncertainty associated with their realization.

14. Earnings per share

Basic earnings per share are calculated by dividing the profit for the financial period attributable to the equity holders of the parent company by the weighted average number of shares outstanding during the year. At the end of financial years 2010 and 2011, the Group had no diluting instruments.

EUR thousand	2011	2010
Profit for the period attributable to equity holders of the parent company	16,843	18,524
Number of shares		
Weighted average number of shares during the year	15,246,387	15,213,083
Basic earnings per share, EUR	1.10	1.22
Diluted earnings per share, EUR	1.10	1.22

15. Intangible assets

EUR thousand	Goodwill	Development costs	Other intangible rights	Other intangible assets	Total 2011	Total 2010
Acquisition cost, Jan 1	9,102	20,929	24,028	3,207	57,266	48,722
Increases		7,035	914	685	8,634	7,792
Decreases			-63		-63	0
Transfers between items				868	868	-16
Translation differences	133	16	176	235	560	767
Acquisition cost, Dec 31	9,234	27,980	25,055	4,995	67,264	57,266
Accumulated amortization, Jan 1	0	-8,296	-14,727	-1,363	-24,386	-18,165
Accumulated amortization on decreases and transfers			64		64	5
Amortization for the financial year		-2,246	-4,036	-499	-6,781	-6,064
Translation differences			-141	-92	-232	-162
Accumulated amortization, Dec 31	0	-10,542	-18,840	-1,954	-31,335	-24,386
Carrying amount, Dec 31, 2011	9,234	17,438	6,215	3,042	35,929	
Carrying amount, Dec 31, 2010	9,102	12,634	9,301	1,844		32,880

Capitalized development costs refer to such development costs that meet the criteria specified in the IAS 38 standard. Capitalized development costs of new products have been divided into product groups and their balance sheet value has been tested against the discounted cash flows of the product groups. The cash flows of the product groups are based on management forecasts for 2012–2020. The recoverable amounts of the product groups exceed their corresponding balance sheet values.

Other intangible assets include software licenses, computer programs, subscription fees, customer relationships, and technology developed. Customer relationships and technology developed are included in the goodwill impairment testing.

Impairment testing of goodwill in cash-generating units

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

The Group's goodwill is distributed among nine business units (the Netherlands, Spain, Italy, Sweden, Germany, the USA, and India). According to the annual impairment tests, the recoverable amounts of the cash generating units exceed their balance sheet values, so the impairment tests have not resulted in impairment losses being recognized.

Sensitivity analysis

Decline in forecasted operating profit

Management estimates of the future profitability of operations have a key impact on the results of impairment testing. The estimated growth in business operations and the operating profit margin affect profitability. The reduction in annual forecasted operating profit that would result in the recoverable amount of the subsidiaries corresponding to the carrying amount of net assets, varies from unit to unit between -4% and -61%.

Rise in discount rate

The discount rate used in calculations also has a major impact when determining the recoverable amount. Calculations show that depending on the unit, the subsidiaries can withstand a rise of 1–28 percentage points in the discount rate before taxes, before their recoverable amount corresponds to the carrying amount of net assets.

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

EUR thousand	2011	2010
Subsidiaries	9,234	9,102

Main assumptions used in impairment testing:

	2011	2010
Growth in revenues on average (p.a., five-year forecasts)	9-31%	8-26%
Pretax discount rate	9.19-16.88%	9.53-19.60%
Long-term growth	2-3%	2-3%
Goodwill allocated, EUR thousand	9,234	9,102
Carrying value, EUR thousand	47,841	53,755
Result of impairment test (recoverable amount vs. carrying amount)	Exceeds	Exceeds

Changes in the company's markets, the global economy, and interest rates are reflected in the growth and profitability forecasts for the business units and in the related risk and requirements for returns. The assumptions made for the impairment tests are based on the management view of the development of the coming financial periods on the closing date. The forecasts and assumptions have been drawn up to carry out impairment tests. The forecasts and other assumptions are reviewed constantly and can change.

16. Property, plant and equipment

EUR thousand	Land and water areas	Buildings	Machinery and equipment	Advance payments and construction in progress	Other tangible assets	Total 2011	Total 2010
Acquisition cost, Jan 1	132		47,583	4,821	134	52,670	45,375
Increases		109	9,861	1,676		11,647	7,811
Decreases			-1,442	-1,589		-3,031	-1,405
Transfers between items			1,649	-2,453	-64	-868	-87
Translation differences			1,153	-35	-2	1,116	976
Acquisition cost, Dec 31	132	109	58,805	2,420	68	61,534	52,670
Accumulated depreciation, Jan 1	0		-31,989	0	-21	-32,010	-26,902
Accumulated depreciation on decreases and transfers			1,406		20	1,427	259
Depreciation for the financial year		-7	-5,433			-5,440	-5,021
Translation differences			-438		1	-438	-346
Accumulated depreciation, Dec 31	0	-7	-36,454	0	0	-36,461	-32,010
Carrying amount, Dec 31, 2011	132	102	22,351	2,420	68	25,073	
Carrying amount, Dec 31, 2010	132		15,594	4,821	113		20,660

17. Breakdown of financial assets and liabilities by measurement category

2011, EUR thousand	Financial assets/ liabilities recognized at fair value through profit and loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities valued at amortized acquisition cost	Carrying amounts of balance sheet items	Fair value	Note
Non-current financial assets							
Other financial assets		274	5,738		6,012	6,012	19
Current financial assets							
Trade and other receivables		77,708			77,708	77,708	21
Derivative contracts in hedge accounting	255				255	255	21
Cash and cash equivalents		16,305			16,305	16,305	22
Carrying amount by measurement category	255	94,287	5,738	0	100,280	100,280	
Non-current financial liabilities							
Interest-bearing liabilities				20,221	20,221	20,221	26
Current financial liabilities							
Interest-bearing liabilities				8,522	8,522	8,522	26
Derivative contracts in hedge accounting	946				946	946	27
Trade and other payables				36,465	36,465	36,465	27
Carrying amount by measurement category	946	0	0	65,209	66,155	66,155	

2010, EUR thousand	Financial assets/ liabilities recognized at fair value through profit and loss	Loans and other receivables	Available-for-sale financial assets	Financial liabilities valued at amortized acquisition cost	Carrying amounts of balance sheet items	Fair value	Note
Non-current financial assets							
Other financial assets		393	3,444		3,837	3,837	19
Current financial assets							
Trade and other receivables		87,518			87,518	87,518	21
Derivative contracts in hedge accounting	328				328	328	21
Cash and cash equivalents		18,392			18,392	18,392	22
Carrying amount by measurement category	328	106,303	3,444	0	110,075	110,075	
Non-current financial liabilities							
Interest-bearing liabilities				9,852	9,852	9,852	26
Current financial liabilities							
Interest-bearing liabilities				18,309	18,309	18,309	26
Derivative contracts in hedge accounting	503				503	503	27
Trade and other payables				39,126	39,126	39,126	27
Carrying amount by measurement category	503	0	0	67,287	67,790	67,790	

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

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

EUR thousand	Dec 31, 2011	Level 1	Level 2	Level 3
	Fair values at the end of the financial period			
Financial assets recognized at fair value through profit and loss				
Forward exchange contracts	256		256	
of which in cash flow hedge accounting	255		255	
Available-for-sale financial assets				
Share investments	5,738			5,738
Total	5,994	0	256	5,738
Liabilities valued at fair value				
Interest rate swaps	64		64	
Forward exchange contracts	1,138		1,138	
of which in cash flow hedge accounting	946		946	
Total	1,202	0	1,202	0

EUR thousand	Dec 31, 2010	Level 1	Level 2	Level 3
	Fair values at the end of the financial period			
Financial assets recognized at fair value through profit and loss				
Forward exchange contracts	362		362	
of which in cash flow hedge accounting	328		328	
Available-for-sale financial assets				
Share investments	3,444			3,444
Total	3,806	0	362	3,444
Liabilities valued at fair value				
Interest rate swaps	222		222	
Forward exchange contracts	628		628	
of which in cash flow hedge accounting	503		503	
Total	850	0	850	0

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

The fair values of level 2 instruments are to a significant extent based on inputs other than quoted prices included in level 1; however, they are based on information that is observable for the asset item either directly or indirectly. The Group uses market value reports compiled by Nordea Bank and Sampo Bank in determining the fair value of these instruments.

The fair values of level 3 instruments are based on acquisition cost or inputs concerning the asset item which are not based on observable market information but to a significant extent on the management's estimates.

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

EUR thousand	2011	2010
Available-for-sale		
Investment funds:		
At the beginning of period, Jan 1	1,848	1,700
Increases	34	148
Decreases	-232	0
At the end of period, Dec 31	1,650	1,848
Other unquoted holdings:		
At the beginning of period, Jan 1	1,596	1,672
Increases / value changes	2,492	0
Decreases	0	-76
At the end of period, Dec 31	4,088	1,596

Investment fund holdings in Power Fund I are measured at acquisition cost, since its fair value cannot be determined reliably.

Available-for-sale financial assets are investments in unquoted shares and a majority of these consist of The Switch Engineering Oy's shares that are measured at a fair value determined by a third party.

Other receivables		
At the beginning of period, Jan 1	393	1,935
Increases / decreases	-119	-1,542
At the end of period, Dec 31	274	393

20. Inventories

EUR thousand	2011	2010
Materials and consumables	12,680	14,068
Finished goods	15,506	17,813
Total	28,186	31,881

Inventories have been written down by EUR 1.3 million to accommodate for non-marketable assets in 2011 (EUR 0.6 million in 2010). Non-marketability deductions primarily cover spare parts and replacement units.

21. Trade and other receivables

EUR thousand	2011	2010
Loans and other receivables		
Trade receivables	72,139	77,574
Other loan receivables	268	2,174
Other receivables	5,301	7,770
Total	77,708	87,518

Financial assets recognized at fair value through profit and loss

	2011	2010
Derivative contracts in hedge accounting	255	328
Total	255	328
Accrued income and prepayments	2,908	2,974
Total	2,908	2,974

22. Cash and cash equivalents

EUR thousand	2011	2010
Cash and cash equivalents	16,305	18,392
Total	16,305	18,392

23. Notes relating to shareholders' equity

	Number of shares	Number of own shares	Share capital EUR	Own shares EUR	Share premium EUR	Total EUR
Jan 1, 2010	15,295,000	-85,011	3,059,000	-2,646,015	4,966,488	5,379,473
Shares issued as share bonuses April 22, 2010		4,446				
Dec 31, 2010	15,295,000	-80,565	3,059,000	-2,646,015	4,966,488	5,379,473
Shares issued as share bonuses April 20, 2011		45,557				
Dec 31, 2011	15,295,000	-35,008	3,059,000	-2,646,015	4,966,488	5,379,473

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

Under the authorization given at the Annual General Meeting on March 25, 2004, the company repurchased 95,260 of its own shares, and under the authorization given at the Annual General Meeting on March 26, 2008, it repurchased 60,000 of its own shares. The number of shares issued as a share bonus were as follows: 13,688 on April 21, 2006; 18,760 on April 12, 2007; 19,500 on April 8, 2008; 1,500 on December 23, 2008; 15,801 on April 22, 2009; 1,000 on December 3, 2009; 4,446 on April 22, 2010; and 45,557 on April 20, 2011, after which the company holds 35,008 of its own shares.

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

24. Share-based payments

In March 2011, Vacon Plc's Board of Directors decided on the new share-based incentive scheme that targets certain individuals in the Group. The purpose of the new scheme is to align the objectives of the management and the target group in order to increase the company's value and to commit the individuals in the target group to the company and offer them a competitive bonus scheme that is based on long-term holding of the company's shares.

The new share bonus scheme (scheme A) has three earnings periods, the calendar years 2011, 2012, and 2013. The company's Board of Directors defines the target group, earnings criteria and targets at the beginning of each earnings period. The possible bonus for the earnings period 2011 is based on Vacon Group's revenues, operating profit and working capital turnover, and it is paid out as a combination of the company's shares and cash in 2012. The share-based bonus scheme also contains a fourth earnings period (scheme B) for the members of the Management Team. The four-year earnings period is based on the Group's long-term strategy and covers the calendar years 2011–2014. The possible bonus on the scheme for the earnings period 2011–2014 is based on Vacon Group's long-term strategic revenues and operating profit targets and will be paid out in 2015 as a combination of the company's shares and cash. If the maximum targets set for the earnings criteria in 2011–2014 are met earlier, the bonus for the earnings period 2011–2014 can correspondingly be paid out earlier. The monetary portion aims to cover taxes and similar payments that the bonus incurs for the recipient.

The shares issued in the earnings periods 2011, 2012 and 2013 must be held for the two-year commitment period after the end of the earnings period. If the employment relationship of the member of the target group ends during the commitment period, the shares received as a bonus must be returned to the company without consideration. Members of the Group's Management Team must hold half of the shares earned under the incentive scheme until the total value of the holding equals the value of the member's gross annual salary. This number of shares must be held until the employment relationship with the Group company ends.

The share-based bonus scheme has a target group of approximately 60 people. The net bonuses to be paid based on the share-based bonus scheme for the four earnings periods total a maximum of 240,250 Vacon Plc's shares. In addition, an amount that is required for taxes and similar expenses on the shares when the shares are given will be paid in cash. The recipients of the share bonus are also entitled to any dividends accumulated during the earnings period.

Under the previous system which the Board of Directors decided on in February 2008, the commitment period of two earnings periods (2009 and 2010) has been in effect in 2011. The conditions of this scheme are similar to those of the new scheme A described above. The issued shares are stated in the adjasent table.

Nature of arrangement: Share bonus scheme

	2011–2014/B 2011	2011–2013/A 2011	2010–2012 2011	2009–2011 2011
Date of issue	March 22, 2012	March 22, 2012	Feb 19, 2008	Feb 19, 2008
Implementation	Shares and cash	Shares and cash	Shares and cash	Shares and cash
Maximum number of shares offered as share bonus during the earning period, share	45,250	59,125	47,700	44,100
Share price at time of issue, EUR	43.14	43.14	26.01	26.01
Agreed earning period (no. of years)	1	1	1	1
Agreed period (years) for prohibition on transfer after the earning period	3	2	1	0
Share price on valuation date, EUR	30.90	30.90	45.00	32.01
Assumed participation	91%	91%	100%	100%
Realization of profit-based terms and conditions in the earning year	65.0%	19.8%	95.5%	10%
No. of shares issued under the scheme	29,413	11,702	45,557	4,502
Value of shares being issued on valuation date, EUR thousand	909	362	2,050	144
Portion to be paid in cash (for taxes) calculated with the value on closing date and assumed dividend, EUR thousand	1,040	401	2,680	188
Total cost of shares issued based on value at the time of issue, EUR thousand	1,269	505	1,185	117
Total cost of the share bonus scheme, EUR thousand	2,309	905	3,865	305
Share value adjusted with anticipated participation, EUR thousand	1,154	459	1,185	117
Consolidated income statement includes 1/3 of the sum in employee benefits and increase in equity, EUR thousand	289	153	395	39
Remaining amount to be recognized in future financial years after taking the anticipated participation into consideration, EUR thousand	866	306	395	0
Amount to be paid in cash adjusted with anticipated participation, EUR thousand	959	368	2,680	189
Consolidated income statement includes 1/3 of the sum in employee benefits and liabilities, EUR thousand	239	149	1,009	72
Remaining amount to be recognized in future financial years after taking the anticipated participation into consideration, EUR thousand	718	219	835	0
Costs from the share bonus system recorded during the period as employee benefits, EUR thousand	528	302	1,404	111

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

25. Employee benefits

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

EUR thousand	2011	2010
Reconciliation of employee benefit-related assets and liabilities		
Current value of unfunded obligations	1,347	1,233
Current value of funded obligations	1,406	1,326
Fair value of assets	-1,081	-940
Non-recorded actuarial gains (-) or losses (+)	-16	-16
Net liabilities	1,657	1,603
Distributed on the statement of financial position as follows:		
Employee benefit assets	-1,097	-956
Employee benefit liabilities	2,753	2,559
Net liabilities	1,657	1,603
Defined benefit pension costs in the income statement are determined as follows:		
Labor costs during the year	-310	-515
Interest expenses	-108	-100
Expected income from assets covered by the arrangements	83	13
Total	-335	-602
Changes in the current value of the liability are as follows:		
Liability at start of year	2,559	2,312
Current service cost	95	157
Interest expenses	108	100
Actuarial gains (-) and losses (+)	-9	-10
Total	2,753	2,559

Changes in the fair values of plan assets are as follows:	2011	2010
Fair value of plan assets at start of year	-956	-817
Anticipated return	-13	-13
Actuarial gains (-) and losses (+)	7	10
Payments by employer to scheme	-135	-136
Fair value of plan assets at end of year	-1,097	-956

Plan assets are invested in bonds.

Key actuarial assumptions, Dec 31	2011	2010
Discount rate, %	4.8–5.5	4.42–8.15
Expected return on assets, %	4.5	4.75
Assumed future pay raise, %	3–3.5	3–6
Assumed increase in pensions, %	0.25–2	0.25–2

The Group forecasts that it will pay EUR 0.5 million to defined benefit pension plans in 2012.

26. Interest-bearing liabilities

Non-current liabilities measured at amortized acquisition cost

EUR thousand	2011	2010
Bank loans	20,221	9,852
Total	20,221	9,852

Interest-bearing non-current liabilities by currency:

EUR thousand	2011	2010
Euro-denominated	20,221	7,956
USD-denominated	0	1,896
Total	20,221	9,852

Current financial liabilities measured at amortized acquisition cost

EUR thousand	2011	2010
Repayment of bank loans in following year	4,959	2,844
Other loans	3,563	15,465
Total	8,522	18,309

Interest-bearing current liabilities by currency:

EUR thousand	2011	2010
Euro-denominated	3,619	13,765
USD-denominated	0	2,844
CNY-denominated	4,903	1,700
Total	8,522	18,309

27. Trade and other payables

Financial liabilities valued at amortized acquisition cost

EUR thousand	2011	2010
Trade payables	31,997	35,110
Other current liabilities	4,468	4,016
Total	36,465	39,126
Financial liabilities recognized at fair value through profit and loss		
Derivative contracts in hedge accounting	946	503
Total	946	503
Advance payments received	2,732	4,757
Salary and personnel expenses	8,991	12,751
Other accrued expenses	3,933	5,278
Total	15,656	22,786

28. Provisions

EUR thousand	Warranty provision	Other provisions	2011 Total
Jan 1, 2011	4,430	3,427	7,857
Increase in provisions	5,549	3,000	8,549
Used provisions	-4,430	-2,698	-7,128
Dec 31, 2011	5,549	3,729	9,278

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

The Group issues a warranty for its products. Any defects observed during the warranty period will be repaired at the company's expense or the customer will be provided with a corresponding product. The warranty provision is based on experience of defective products in earlier years. The warranty provision is expected to be used during the following year. The lawsuit against the subsidiary in China ended in December 2011. Three parties concerned who were named in the same lawsuit have filed their complaints regarding the court decision and it is possible that the court decision will change in a higher court of law for Vacon as well. Vacon has made a EUR 3.7 million (EUR 3.4 million in 2010) provision associated with the matter.

29. Management of financial risks

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

Foreign exchange risk

The company has business operations in 27 countries. The Group supplies its products and services directly and through partners to a total of more than 100 countries. This means the Group is exposed to foreign exchange risks arising from, for example, currency-denominated trade receivables and trade payables, internal transactions as well as from currency-denominated loans, deposits and bank account balances.

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 around 17.5% (17.6%) of the Group's invoicing. The other invoicing currencies are the Swedish krona, the Norwegian krone, the Danish krone, the British pound, the Russian ruble, the Czech koruna, the Chinese renminbi, the Indian rupee, the Australian dollar, the Canadian dollar, the Brazilian real, the Mexican peso, the Arab Emirates dirham, and the South Korean won. Of these, the Asian currencies account for approximately 15.9% (14.9%) of the Group's invoicing and the European non-euro currencies for 8.3% (10.1%). Invoicing directly related to euro accounted for 58.3% (57.4%) in 2011. Currency-linked purchases in the Group account for approximately 16.6% (16.1%) of revenues.

In accordance with the Group's finance policy, money transactions between the Group's parent company and subsidiaries are made in the subsidiary's business currency. Therefore, the majority of the transaction risk targets the Group's parent company. In accordance with the Group's finance policy, binding delivery and purchase contracts and trade receivables and trade payables are hedged in full with foreign exchange forwards. In addition, forecasted currency-denominated cash flows in the parent company are hedged for six months with about 70% of the estimated cash flow.

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

2011, EUR thousand	USD	GBP	SEK	NOK	AUD	CZK	DKK	RUB	CAD	CNY
Forecast items	2,153	1,618	3,069	895	442	559	1,087	1,083	749	4,314
Assets	29,545	1,151	1,252	323	2,852	11,457	1,672	757	826	-5,873
Liabilities	-983	-32	-27	-15	-158	-27	-5	0	0	3,182
Hedging	-29,430	-2,428	-3,950	-1,096	-3,234	-9,778	-1,759	-958	-1,513	0
Net position	1,285	309	345	107	-98	2,211	995	882	61	1,624

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

The table below shows the effect of the euro strengthening or weakening by 10% against the US dollar, British pound, Swedish krona, Norwegian krone, Australian dollar, Czech koruna, Danish krone, and Chinese renminbi when all other factors remain unchanged. The sensitivity analysis is based on the foreign currency denominated assets, liabilities, and forecast items on the closing date. The sensitivity analysis also takes into account the effect of foreign currency derivatives that net the impact of changes in exchange rates. The tax impact has not been accounted for.

Transaction risk	Strengthening of euro, 10%		Weakening of euro, 10%	
Dec 31, 2011, EUR thousand	Equity (other comprehensive income)	Profit for period	Equity (other comprehensive income)	Profit for period
USD	195	-117	-239	143
GBP	114	16	-140	-6
SEK	247	1	-302	-1
NOK	70	2	-85	-2
AUD	38	11	-47	-13
CZK	0	-150	0	184
DKK	8	0	-10	0
RUB	18	0	-22	0
CAD	62	0	-76	0
CNY	0	245	0	-299

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

The translation position consists of investments in non-Finnish subsidiaries. The Group's Board of Directors decides on the hedging policy and the main principle is to not hedge the translation position. The most significant exchange rate risks relating to foreign net investments come from the equity of the subsidiaries in the USA and China.

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

EUR thousand	Translation position Dec 31, 2011	Translation position Dec 31, 2010
	USD	USD
Capital invested	8,656	8,382

Interest rate risk

The Group is exposed to interest rate risk due to the changes in market rates on one hand and to potential reorganizations of interest income and expenses caused by the value changes in the balance sheet items on the other. The Group hedges against interest rate risks through its choice of interest rate periods for loans and through derivative instruments. Some of the loans have been hedged to fixed rates with interest rate derivatives. The Group's Board of Directors decides on the hedging policy and this is implemented by the Group's finance function.

The total amount of credit on the closing date was EUR 25.2 million, and this was 100% variable interest rate (EUR 12.7 million on December 31, 2010, with 100% variable interest rate). On the closing date, the Group had outstanding interest rate swaps worth EUR 2.9 (5.7) million. Hedge accounting is not applied to interest rate swaps.

The average interest rate of loans was 2.4% (1.0%). The loan agreements contain normal covenant terms.

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

Interest rate sensitivity, EUR thousand	Dec 31, 2011	Dec 31, 2010
Interest rate rises, 1 percentage point		
Variable interest loans	-200	-126
Interest rate swaps	29	57
Net impact on result	-171	-70
Interest rate decreases, 1 percentage point		
Variable interest loans	200	75
Interest rate swaps	-12	-16
Net impact on result	188	59

Counterparty and credit risk

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 credit facilities granted to customers, delivery and payment terms and how they are monitored, and the collection of payment.

Country risk is continuously monitored and limits are set for granting credit in areas where the political or financial situation is unstable. The risk is also reduced by using letters of credit and payments in advance. About 85% (86%) of the Group's receivables are from OECD countries, which represent a low country risk.

During the financial year, credit losses recognized in the income statement totaled EUR 8.6 million (EUR 0.3 million in 2010). The credit losses were due to an unexpected change in a customer's financial environment. The Group monitors the liquidity of its customers on an ongoing basis and is active in collection.

Breakdown of trade receivables by due date, EUR thousand	2011	2010
Not yet due	48,831	63,054
1–90 days after due date	16,304	13,037
91–180 days after due date	4,394	1,033
181–270 days after due date	2,372	381
271–365 days after due date	238	69
Over 365 days after due date	0	0
Total	72,139	77,574

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

Liquidity and refinancing risk

The Group continually assesses and monitors the amount of financing required by operations so that the Group has sufficient liquid funds to finance operations and to repay loans as they mature. The Group maintains its liquidity by means of effective cash management solutions such as Group accounts and bank credit facilities and by making investments that can be converted to cash quickly.

The Group's unused loans and credit facilities were reorganized in 2011. A total of EUR 50 million syndicated loan arrangement was signed with main banks, consisting of a EUR 20 million loan that matures in 2016 and a EUR 30 million committed credit facility that matures in 2014.

The amount of unused credit facilities on December 31, 2011, was EUR 35.7 (EUR 28.1) million, of which the amount of committed credit facilities was EUR 31.5 million and the amount of facilities to be renewed annually EUR 4.2 million. Surplus liquid funds are invested in partner banks. Liquid funds on December 31, 2011, totaled EUR 16.3 (18.4) million.

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

Dec 31, 2011, EUR thousand	Carrying amount	Cash flow	Less than 1 year	1–2 years	2–5 years
Bank loans	25,180	-26,915	-5,443	-6,597	-14,874
Trade payables and other current debts	36,465	-36,465	-36,465		
Financial commitments		-60	-60		
Check credit facility	3,563	-3,582	-3,582		
Total	65,208	-67,022	-45,550	-6,597	-14,874
Foreign exchange forwards in hedge accounting					
- Payable cash flows		-54,144	-54,144		
- Receivable cash flows		53,114	53,114		
Interest rate swaps	64	-64	-64		
Total	64	-1,094	-1,094		
Contracts of suretyship, maximum		-17,237	-8,949	-1,525	-6,763

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

Equity management

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

The Group's equity structure is monitored with gearing. Gearing is calculated by dividing interest-bearing liabilities by total equity. Net liabilities include interest-bearing liabilities less cash and cash equivalents. The Group's interest-bearing net liabilities at the end of 2011 amounted to EUR 12.4 million (EUR 9.8 million on December 31, 2010) and gearing was 12.7% (10.7%).

Gearing was as follows:

EUR thousand	2011	2010
Interest-bearing liabilities	28,744	28,161
Cash and cash equivalents	-16,305	-18,392
Net liabilities	12,438	9,769
Total equity	97,713	91,261
Gearing, %	12.7	10.7

30. Operating leases

Minimum rents for irrevocable operating leases:

EUR thousand	2011	2010
In one year	8,181	7,419
In more than one and less than five years	26,183	23,062
In more than five years	18,605	13,860
Total	52,969	44,341

The Group has leased most of the production and office facilities it uses. The duration of lease agreements is 3–15 years and the agreements normally include an option to extend the agreement after the original expiration date. The agreements usually contain an index clause.

31. Contingent liabilities and assets

EUR thousand	2011	2010
Collateral and contingencies given on one's own behalf		
Contract guarantees	2,326	2,139
Guarantees	11,031	5,691
Financial commitment in capital investment funds	84	118
Total	13,441	7,948
Collateral and contingencies given on behalf of others		
Contract guarantees	254	275
Guarantees	3,625	3,712
Total	3,880	3,987

An agreement has been reached on EUR 8 million (EUR 20 million in 2010) credit facilities for which the Group companies have jointly provided a contingency.

The parent company has a pending tax proceeding regarding the tax inspection of transfer pricing.

32. Related party transactions

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

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

The Group's parent company is Vacon Plc, Vaasa, Finland	Group holding (%)	Group votes (%)
Group subsidiaries:		
Vacon GmbH, Essen, Germany	100	100
Vacon Benelux B.V., Gorinchem, the Netherlands	100	100
Vacon SpA, Reggio Emilia, Italy	100	100
Vacon Drives Ibérica S.A., Terrassa, Spain	100	100
Vacon Drives (UK) Ltd, Leicestershire, UK	70	70
Vacon AB, Solna, Sweden	100	100
Vacon AT Antriebssysteme GmbH, Leobersdorf, Austria	70	70
ZAO Vacon Drives, Moscow, Russia	100	100
Vacon France SAS, Saint Pierre du Perray, France	70	70
Vacon AS, Holmestrand, Norway	80	80
Vacon Benelux NV/Sa, Heverlee, Belgium	100	100
Vacon Suzhou Drives Co. Ltd., Suzhou, China	100	100
Vacon Drives & Control Pvt Ltd, Chennai, India	100	100
Vacon Pacific Pty Ltd, Melbourne, Australia	85	85
Vacon Inc., Chambersburg, PA, USA	100	100
Vacon s.r.l., Postal, Italy	100	100
TB Wood's (India) Pvt. Ltd., Bangalore, India	100	100
Vacon s.r.o., Prague, Czech Republic	100	100
Vaasa Control de Mexico, Mexico City, Mexico	100	100
Vacon Drives A/S, Sønderborg, Denmark	100	100
Vacon Korea Ltd, Seoul, South Korea	100	100
Vacon Canada Inc, Stratford, Ontario, Canada	100	100
Vacon America Latina Ltda, São Paulo, Brazil	96	96
Vacon Solar S.L., Manresa, Spain	85	85

Management cash-based employment benefits:

EUR thousand	2011	2010
Salaries and other short-term benefits	2,168	1,342
Benefits to be paid on dismissal	1,629	1,606
Post-employment benefits	1,055	990
Share-based benefits	2,282	154
Total	7,134	4,092

Management salaries and fees:

EUR thousand	2011	2010
Vesa Laisi, President and CEO	1,031	337
Heikki Hiltunen, Executive Vice President	795	277
Board members:		
Jan Inborr, Chairman	90	30
Pekka Ahlqvist	45	15
Jari Eklund	45	15
Juha Kytölä	45	11
Panu Routila	45	11
Mika Vehviläinen, vice-chairman	45	15
Riitta Viitala	45	15
Mauri Holma	0	4
Veijo Karppinen	0	4
Total	2,186	734

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

PARENT COMPANY'S FINANCIAL STATEMENTS

EUR thousand	Note	Jan 1–Dec 31, 2011	%	Jan 1–Dec 31, 2010	%
Revenues	2	**271,257**	**100.0**	**260,409**	**100.0**
Change in inventories of finished goods and work in progress		-1,332		722	
Other operating income	3	276		228	
Materials and services					
Materials and consumables					
Purchases during the financial year		-151,209		-151,251	
Change in inventories		-1,863		2,658	
External services		-5,325		-4,781	
		-158,397	**-58.4**	**-153,373**	**-58.9**
Personnel expenses	4	-40,569		-39,769	
Depreciation/amortization	7	-5,504		-5,560	
Other operating expenses		-47,242		-39,041	
Operating profit		**18,489**	**6.8**	**23,616**	**9.1**
Financial income and expenses	9	6,464		3,061	
Profit before appropriations and taxes		**24,953**	**9.2**	**26,676**	**10.2**
Appropriations	10	927		-240	
Income taxes	11	-5,356		-6,362	
Profit for the period		**20,524**	**7.6**	**20,074**	**7.7**

BALANCE SHEET FOR THE PARENT COMPANY (FAS)

Assets, EUR thousand	Note	Dec 31, 2011	%	Dec 31, 2010	%
Non-current assets					
Intangible assets	12				
Intangible rights		3,116		4,540	
Other long-term expenditure		1,114		1,240	
		4,231	2.9	5,779	3.9
Tangible assets	13				
Land and water areas		132		132	
Machinery and equipment		9,918		9,131	
Other tangible assets		42		42	
Construction in progress		1,941		1,724	
		12,033	8.3	11,029	7.4
Investments	14				
Investments in Group companies	15	15,756		15,799	
Receivables from Group companies		28,221		19,926	
Other shares and investments		3,154		3,352	
Other receivables		17		13	
		47,148	32.5	39,090	26.1
Total non-current assets		63,411	43.7	55,898	37.3
Current assets					
Inventories					
Materials and consumables		4,706		6,569	
Finished goods		2,421		3,753	
		7,128	4.9	10,323	6.9
Current receivables	16				
Trade receivables		65,633		71,530	
Loan receivables		1,527		2,363	
Other receivables		3,093		3,234	
Prepaid expenses and accrued income	17	1,759		1,741	
		72,012	49.6	78,868	52.6
Cash and cash equivalents		2,576		4,792	
Total current assets		81,715	56.3	93,982	62.7
Total assets		**145,126**	**100.0**	**149,880**	**100.0**

Equity and liabilities, EUR thousand	Note	Dec 31, 2011	%	Dec 31, 2010	%
Equity	18,19				
Share capital		3,059		3,059	
Share premium		4,966		4,966	
Retained earnings		44,688		39,829	
Profit for period		20,524		20,074	
Shareholders' equity, total		73,238	50.5	67,928	45.3
Accumulated appropriations					
Depreciation difference	20	3,674	2.5	4,601	3.1
Liabilities	21				
Non-current liabilities					
Loans from financial institutions		20,000		9,796	
Other non-current liabilities		0		173	
		20,000	13.8	9,969	6.7
Current liabilities					
Loans from financial institutions		3,435		16,539	
Advance payments received		351		0	
Trade payables		27,184		28,101	
Other current liabilities		6,720		3,445	
Provisions		3,154		3,104	
Accrued expenses and deferred income	22	7,371		16,192	
		48,215	33.2	67,381	45.0
Total liabilities		68,215	47.0	77,351	51.6
Total equity and liabilities		**145,126**	**100.0**	**149,880**	**100.0**

CASH FLOW STATEMENT FOR THE PARENT COMPANY (FAS)

EUR thousand	Jan 1–Dec 31, 2011	Jan 1–Dec 31, 2010
Cash flow from operating activities		
Profit for period	20,524	20,074
Adjustments:		
Depreciation/amortization	5,504	5,560
Financial income and expenses	-6,464	-3,061
Appropriations	-927	240
Taxes	5,356	6,362
Other adjustments	117	-30
	24,109	29,146
Changes in working capital:		
Change in current receivables	6,035	-35,752
Change in inventories	3,195	-3,381
Change in non-interest-bearing liabilities	-5,752	18,230
	3,477	-20,903
Interest received	448	446
Interest paid	-750	-652
Dividends received	3,329	3,312
Other financial items	-415	-1,041
Taxes paid	-8,885	-2,868
Cash flow from operating activities	**21,313**	**7,440**
Cash flow from investing activities		
Investments in tangible and intangible assets	-4,959	-4,303
Loans granted	-9,107	-2,159
Other investments	-39	-1,554
Repayments on loan receivables	1,648	1,138
Sold shares in subsidiaries	43	0
Purchased shares in subsidiaries	0	-1,144
Proceeds from the divestiture of other investments	2,831	281
Dividends received	694	0
Cash flow from investing activities	**-8,888**	**-7,741**
Cash flow from financing activities		
Proceeds from non-current borrowings	20,000	173
Repayments on non-current loans	-9,542	-1,969
Proceeds from current borrowings	6,190	14,005
Repayments on current loans	-16,076	-3,123
Dividends paid	-15,214	-10,647
Cash flow from financing activities	**-14,641**	**-1,561**
Change in cash and cash equivalents	**-2,216**	**-1,862**
Cash and cash equivalents at start of year	4,792	6,654
Cash and cash equivalents at end of year	2,576	4,792

1. Accounting principles for financial statements

General accounting principles

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

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

Revenues

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

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

Other operating income

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

Foreign currency items

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

Derivative contracts

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

Pension arrangements

Statutory and any supplementary pension obligations are covered through payments to pension insurance companies and recognized as expenses in accordance with actuarial calculations by those institutions.

Leasing and rental liabilities

Leasing payments are treated as rent expenses. Unpaid leasing and rental fees are recognized 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 on the basis of taxable income calculated in accordance with Finnish tax regulations, and adjustments to taxes from previous financial periods.

R&D costs

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

Fixed assets and depreciation

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

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

Investments

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

Investments in subsidiaries are valued at acquisition cost on the balance sheet. Investments in associated companies are presented as other long-term investments on the balance sheet. Associated companies are companies in which Vacon has 20–50% of the voting rights or in which Vacon has a significant but not controlling interest. During the 2011 financial year, Vacon had no investments in associated companies.

Inventories

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

Provisions

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

Dividends and own shares

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

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

2. Revenues

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

EUR thousand	2011	2010
Revenues by market area		
EMEA	188,122	181,677
Americas	53,112	51,915
APAC	30,023	26,818
Total	271,257	260,409

3. Other operating income

EUR thousand	2011	2010
Rental income	159	192
Other	116	36
Total	276	228

4. Personnel expenses

EUR thousand	2011	2010
Wages, salaries, and bonuses	33,302	32,770
Pension costs	5,472	5,249
Other personnel costs	1,796	1,751
Total	40,569	39,769
Management salaries and fees		
President and CEO and his deputy	1,826	614
Members of the Board of Directors	360	120
Total	2,186	734

Salaries and fees of the President and CEO, his deputy and Board members are presented in note 32 to the Consolidated Financial Statements.

5. Average number of personnel

	2011	2010
Office personnel	413	346
Factory personnel	355	340
Total	768	686

6. President and CEO's pension commitments

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

7. Depreciation and amortization

EUR thousand	2011	2010
Intangible assets	2,466	2,532
Tangible assets	3,038	3,028
Total planned depreciation	5,504	5,560

8. Auditor's fees

EUR thousand	2011	2010
Audit fees	32	35
Tax consulting	64	21
Other services	50	68
Total	147	124

9. Financial income and expenses

EUR thousand	2011	2010
Income from non-current asset investments	2,599	0
Dividend income from Group companies	3,329	3,312
Dividend income from others	694	0
Interest income from Group companies	407	396
Other interest income and financial income from others	4,554	787
Total	8,983	4,495
Interest income and financial income, total	11,583	4,495
Interest income and financial expenses to others	-5,119	-1,434
Financial income and expenses, total	6,464	3,061
The item 'Other interest and financial income from others' includes unrealized exchange rate gains	3,045	531

10. Appropriations

EUR thousand	2011	2010
The difference between planned depreciation and depreciation presented for taxation	927	-240

11. Income taxes

EUR thousand	2011	2010
Direct taxes for current year	-5,306	-6,443
Direct taxes for previous years	25	94
Other taxes and similar payments	-75	-13
Total	-5,356	-6,362

12. Intangible assets

EUR thousand	Intangible rights	Other long-term expenditure	Total 2011	Total 2010
Acquisition cost, Jan 1	13,514	1,714	15,228	13,234
Increases	796	122	917	1,994
Acquisition cost, Dec 31	14,310	1,835	16,145	15,228
Accumulated depreciation, Jan 1	-8,975	-474	-9,449	-6,917
Amortization for the financial year	-2,219	-247	-2,466	-2,532
Accumulated depreciation, Dec 31	-11,194	-721	-11,915	-9,449
Carrying amount, Dec 31, 2011	3,116	1,114	4,231	
Carrying amount, Dec 31, 2010	4,540	1,240		5,779

13. Tangible assets

EUR thousand	Land and water areas	Machinery and equipment	Advance payments and construction in progress	Other tangible assets	Total 2011	Total 2010
Acquisition cost, Jan 1	132	31,555	1,724	42	33,453	31,144
Increases		3,825	1,805		5,630	3,448
Decreases			-1,589		-1,589	-1,139
Acquisition cost, Dec 31	132	35,380	1,941	42	37,495	33,453
Accumulated depreciation, Jan 1	0	-22,424	0	0	-22,424	-19,396
Amortization for the financial year		-3,038			-3,038	-3,028
Accumulated depreciation, Dec 31	0	-25,462	0	0	-25,462	-22,424
Carrying amount, Dec 31, 2011	132	9,918	1,941	42	12,033	
Carrying amount, Dec 31, 2010	132	9,131	1,724	42		11,029
Carrying amount of production machinery and equipment Dec 31, 2011		9,411				
Carrying amount of production machinery and equipment Dec 31, 2010		8,652				

14. Investments

EUR thousand	Investments in Group companies	Other shares and investments	Total 2011	Total 2010
Shares, Jan 1	15,799	3,352	19,151	17,935
Increases		34	34	1,292
Decreases	-43	-232	-275	-76
Carrying amount, Dec 31	15,756	3,154	18,910	19,151

EUR thousand	Receivables from Group companies	Other receivables	Total 2011	Total 2010
Receivables, Jan 1	19,926	13	19,939	18,263
Increases	9,107	4	9,111	2,165
Decreases and transfers between items	-812		-812	-488
Carrying amount, Dec 31	28,221	17	28,238	19,939
Total investments, Dec 31			47,148	39,090

15. Shareholdings

	Parent company votes %	Parent company holding %
Shares in subsidiaries:		
Vacon GmbH, Essen, Germany	100	100
Vacon Benelux B.V., Gorinchem, the Netherlands	100	100
Vacon SpA, Reggio Emilia, Italy	100	100
Vacon Drives Ibérica S.A., Terrassa, Spain	100	100
Vacon Drives (UK) Ltd, Leicestershire, UK	70	70
Vacon AB, Solna, Sweden	100	100
Vacon AT Antriebssysteme GmbH, Leobersdorf, Austria	70	70
ZAO Vacon Drives, Moscow, Russia	100	100
Vacon France SAS, Saint Pierre du Perray, France	70	70
Vacon AS, Holmestrand, Norway	80	80
Vacon Benelux NV/Sa, Heverlee, Belgium	99	99
Vacon Suzhou Drives Co. Ltd., Suzhou, China	100	100
Vacon Drives & Control Pvt Ltd, Chennai, India	100	100
Vacon Pacific Pty Ltd, Melbourne, Australia	85	85
Vacon Inc., Chambersburg, PA, USA	100	100
TB Wood's (India) Pvt. Ltd., Bangalore, India	100	100
Vacon s.r.o., Prague, Czech Republic	100	100
Vaasa Control de Mexico, Mexico City, Mexico	100	100
Vacon Drives A/S, Sønderborg, Denmark	100	100
Vacon Korea Ltd, Seoul, South Korea	100	100
Vacon Canada Inc, Stratford, Ontario, Canada	100	100
Vacon America Latina Ltda, São Paulo, Brazil	96	96
Vacon Solar S.L., Manresa, Spain	85	85

16. Current receivables

EUR thousand	2011	2010
Receivables from Group companies		
Trade receivables	43,878	49,060
Loan receivables	1,527	1,916
Total	45,405	50,976
Receivables from others		
Trade receivables	21,756	22,470
Current loan receivables	0	447
Other receivables	3,093	3,234
Prepaid expenses and accrued income	1,759	1,741
Total	26,607	27,892
Current receivables, total	72,012	78,868

17. Key items included in prepaid expenses and accrued income

EUR thousand	2011	2010
Foreign currency hedging	255	328
Tax assets	128	0
Subsidies	381	327
Share bonus receivables	835	59
Advances paid	152	554
Other	8	473
Total	1,759	1,741

18. Equity

EUR thousand	2011	2010
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
Total restricted equity	8,025	8,025
Retained earnings, Jan 1	59,903	50,476
Dividends paid	-15,214	-10,647
Retained earnings, Dec 31	44,688	39,829
Profit for the period	20,524	20,074
Total non-restricted equity	65,212	59,903
Shareholders' equity, total	73,238	67,928

19. Calculation of distributable funds

EUR thousand	2011	2010
Retained earnings	44,688	39,829
Profit for the period	20,524	20,074
Total	65,212	59,903

20. Accumulated appropriations

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

21. Liabilities

EUR thousand	2011	2010
Non-current liabilities		
Interest-bearing loans from financial institutions	20,000	9,796
Non-interest-bearing other liabilities	0	173
Non-current liabilities, total	20,000	9,969
Current liabilities		
Interest-bearing		
Loans from financial institutions	3,435	16,539
Loans to Group companies	5,830	2,611
Total	9,265	19,150

The unused facility of checking accounts in the parent company amounts to EUR 8.1 million.

Non-interest-bearing		
Advance payments received	351	0
Trade payables to others	23,901	25,553
Trade payables to Group companies	3,283	2,548
Other current liabilities	891	835
Warranty provisions	3,154	3,104
Accrued expenses and deferred income	7,178	15,982
Accrued debts to Group companies	193	210
Total	38,950	48,231
Current liabilities, total	48,215	67,381
Interest-bearing liabilities	29,265	28,946
Non-interest-bearing liabilities	38,950	48,405
Total liabilities	68,215	77,351

22. Key items included in accrued expenses and deferred income

EUR thousand	2011	2010
Salaries including social security costs	5,192	9,703
Taxes	0	3,401
Interest	95	226
Materials and consumables allocated to period	1,139	2,346
Foreign currency hedging	946	503
Others	0	13
Total	7,371	16,192

23. Currency derivatives

EUR thousand	2011	2010
Forward contracts		
Changes in value entered in income statement	-691	-175
Nominal amount	53,114	47,022
Interest rate swaps		
Changes in value entered in income statement	-64	-222

Derivative contracts are used for hedging against currency and interest risks. The contracts mentioned above were open on the balance sheet date and mature during the financial period starting on January 1, 2012.

24. Collateral and contingent liabilities

EUR thousand	2011	2010
Contract guarantees		
On behalf of Group companies	13,357	7,830
On behalf of others	254	275
Total	13,612	8,105
Other commitments		
Commitment on a subsidiary's debts	3,368	1,352
Financial commitments	84	118
Total	3,452	1,471

Vacon Plc is responsible for all costs that incur from Vacon Benelux B.V.'s legal procedures, as referred to in Article 403, paragraph 1, sub f of Book 2 of the Dutch Civil Code.

The parent company has a pending tax proceeding regarding the tax inspection of transfer pricing.

	2011	2010
Amounts payable under leasing agreements		
Payable in the following financial year	839	704
Payable later	937	796
Total	1,775	1,500
Payable amounts on rental agreements		
Payable in the following financial year	3,423	3,292
Payable later	15,588	18,497
Total	19,011	21,789

Vaasa, February 1, 2012

Jan Inborr
chairman

Pekka Ahlqvist

Jari Eklund

Juha Kytölä

Panu Routila

Mika Vehviläinen

Riitta Viitala

Vesa Laisi
President and CEO

To the Annual General Meeting of Vacon Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Vacon Oyj for the year ended 31 December, 2011. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity´s preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company´s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

Opinion on the consolidated financial statements

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

Opinion on the Company's Financial Statements and the Report of the Board of Directors

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

Vaasa February 1st, 2012
PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Katajisto
Authorised Public Accountant

INVESTOR INFORMATION

Listing, trading, and share capital

Vacon has one share series. The share is listed on the Mid Cap list of NASDAQ OMX Helsinki in its sector Industrials. At the end of 2011, Vacon Plc's market value was EUR 471.5 million excluding own shares owned by the company.

During 2011, a total of 2,975,903 company shares with a value of EUR 114.7 million were traded on the stock exchange. The highest share price during the year was EUR 48.73 and the lowest EUR 27.21. The closing price on December 31, 2011, was EUR 30.90.

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

Authorizations held by the Board of Directors

Vacon Plc's Annual General Meeting on March 22, 2011, authorized the Board of Directors to decide on the purchase of the company's own shares and to decide on a share issue.

The number of own shares that may be purchased and disposed of shall be no more than 1,529,500, which corresponds to 10% of the total number of shares in the company. Only non-restricted equity may be used for purchasing own shares on the basis of the Board of Directors' authorization. The company and its subsidiaries jointly may not at any time own more than 10% of the company's own shares.

Own shares may be purchased on the purchasing date at a price determined in public trading or at a price otherwise determined by the market.

The Board of Directors shall be authorized to decide on the manner and other conditions for the purchase of the company's own shares. Derivatives, among others, may be used in the purchase. The shares may be repurchased in deviation from the shareholders' pre-emptive rights (directed repurchase of shares).

The authorization is valid until June 30, 2012. The authorization cancels the authorization given by the Annual General Meeting on March 23, 2010 regarding the purchase of own shares.

The number of own shares that may be purchased and disposed of on the basis of the authorization shall be no more than 1,529,500, which corresponds to 10% of the total number of shares in the company.

The Board of Directors has the right to decide on all conditions of the share issue. The share issue can be a directed issue. The authorization is valid until March 22, 2016. The authorization cancels the share issue authorization given by the Annual General Meeting on March 28, 2007.

The General Meeting held on March 28, 2007, authorized the Board of Directors to decide on the disposal of the company's own shares held by the company in one or several installments through the issuance of shares. The maximum amount of own shares to be disposed of on the basis of the authorization is 1,529,500 shares.

The authorization shall include the right of the Board of Directors to decide on all terms and conditions on which the shares shall be disposed of and the shares can, thus, be disposed of by derogation from the pre-emptive rights of the shareholders (directed share issue). The authorization is valid for five (5) years from the date of the decision of the Annual General Meeting.

Treasury shares

At the end of 2011, Vacon Plc held a total of 35,008 treasury shares (80,565 at the end of 2010), corresponding to 0.2% of the total number of shares. At the end of 2011, the market value of these treasury shares was EUR 1.1 million.

Notices of changes

Vacon Plc received notices of changes in shareholding in 2011 as follows:

Ahlström Capital Oy (Business ID 1670034-3) and its subsidiary Karhula Osakeyhtiö (Business ID 0135950-3) announced on December 29, 2011 that they had sold their holding of Vacon Plc's shares to Ac Invest Three B.V. (formerly DutchCo Gamma Holding B.V.), a wholly owned subsidiary of Ahlström Capital Oy. Ac Invest Three B.V. has announced that its holding in Vacon Plc's share capital and votes has exceeded 1/5 (20%) as a result of the transaction. Ahlström Capital Oy has announced that its direct holding in Vacon Plc's share capital and votes after the aforementioned transaction has fallen below 5% (1/20).

Ilmarinen Mutual Pension Insurance Company (Business ID 0107638-1) announced on September 6, 2011, that its holding of Vacon Plc's share capital and votes exceeded 5% on September 5, 2011. Currently, Ilmarinen Mutual Pension Insurance Company owns 769,877 shares, which represents 5.03% of Vacon Plc's share capital and votes.

Incentive schemes

In March 2011, Vacon Plc's Board of Directors decided on a new share-based incentive scheme that targets certain individuals in the Group. The purpose of the new scheme is to align the objectives of the management and the target group in order to increase the company's value and to commit the individuals in the target group to the company and offer them a competitive bonus scheme that is based on long-term holding of the company's shares.

The new share bonus scheme has three earnings periods, the calendar years 2011, 2012, and 2013. The company's Board of Directors defines the target group, earnings criteria and targets at the beginning of each earnings period. The possible bonus for the earnings period 2011 is based on Vacon Group's revenues, operating profit and working capital turnover, and it is paid out as a combination of the company's shares and cash in 2012. The share-based bonus scheme also contains a fourth earnings period of four years for the members of the Management Team. The earnings period is based in the Group's long-term strategy and covers the calendar years 2011–2014. The possible bonus for the earnings period 2011–2014 is based on Vacon Group's long-term strategic revenues and operating profit targets and will be paid in 2015 as a combination of the company's shares and cash.

The share-based bonus scheme has a target group of approximately 60 people. The net bonuses to be paid based on the share-based bonus scheme total a maximum of 240,250 Vacon Plc's shares.

Additionally, Vacon has a bonus scheme for all personnel.

Dividend policy

The dividend policy adopted by Vacon's Board of Directors is to propose to the Annual General Meeting for approval a dividend that is in line with the company's financial performance. The goal is to distribute approximately 50% of the period's net profit in dividends. When determining the dividend, the financing required for the growth of operations is taken into consideration. Vacon's Board of Directors has decided to propose to the Annual General Meeting to be held on March 27, 2012, that a dividend of EUR 0.90, or 81.5% of the Group's earnings per share, be paid for 2011.

Shareholders

On December 31, 2011, Vacon had a total of 4,814 shareholders. The number of shares owned by nominee registered and foreign investors increased by 18.3 percentage points during the period under review.

At the end of 2011, 53.0% of the company's shares was owned by nominee registered and foreign shareholders. Private persons owned 28.0% of the shares.

Current information on

Vacon's share price and ownership structure is available on Vacon's website at www.vacon.com.

Distribution of shareholding

Share distribution

Number of shares	Number of share-holders	% of share-holders	Number of shares	% of shares
1 - 50	1,053	21.9	29,951	0.2
51 - 100	892	18.5	80,343	0.5
101 - 500	2,091	43.4	540,607	3.5
501 - 1,000	351	7.3	275,496	1.8
1,001 - 5,000	309	6.4	686,536	4.5
5,001 - 10,000	39	0.8	288,728	1.9
10,001 - 50,000	52	1.1	1,017,804	6.7
50,001 -	27	0.6	12,375,535	80.9
Total	4,814	100.0	15,295,000	100.0

By shareholder category

Corporations	567,614	3.7
Banks and insurance companies	663,599	4.3
Nominee-registered and foreign shareholders	8,100,783	53.0
Non-profit and public sector institutions	1,685,962	11.0
Households	4,277,042	28.0
Total	15,295,000,	100.0

Major shareholders on December 31, 2011

	Number of shares	% of shares
Ac Invest Three B.V.	3,064,844	20.0
Ilmarinen Mutual Pension Insurance Company	868,968	5.7
Tapiola Mutual Pension Insurance Company	584,500	3.8
Jari Koskinen	365,411	2.4
Vaasa Engineering Oy	359,514	2.4
Martti Ehrnrooth	325,070	2.1
Mauri Holma	290,288	1.9
OP-Suomi Pienyhtiöt Investment Fund	206,316	1.3
Tapiola Group Companies	163,800	1.1
Heikki Autio	137,060	0.9
Own shares	35,008	0.2
Other	8,894,221	58.2
Total	15,295,000	100.0
Number of shares outstanding	15,259,992	

Shareholdings of the Board of Directors and Management Team

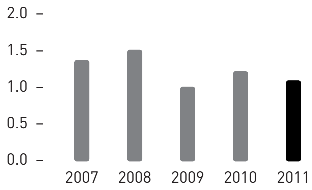
Vacon Plc's Board members did not own company's shares on December 31, 2011. The President and CEO and other members of the Management Team held a total of 478,974 shares, or 3.1% of the company's share stock and voting rights.

Share information

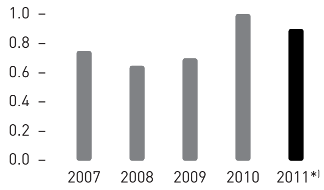
Share information

Listing	NASDAQ OMX Helsinki
Listing start date:	14.12.2000
List:	Mid Cap
Sector:	Industrials
ISIN code:	FI0009009567
Trading code:	VAC1V

Earnings per share, EUR

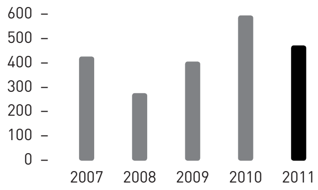


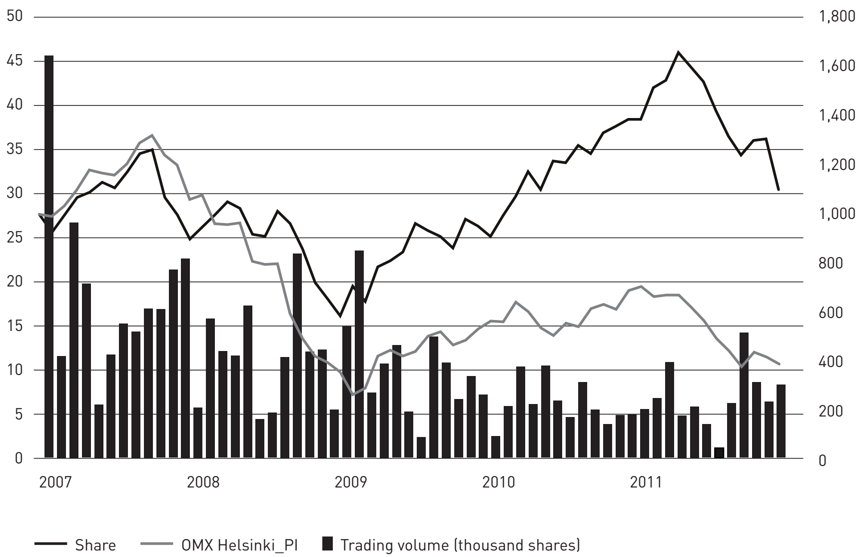
Dividend per share, EUR



*) The 2011 dividend is the Board of Directors' proposal to the Annual General Meeting.

Market capitalization, MEUR





January

Jan 7 Chinese prosecutor decides to bring charges relating to customs clearance procedure applied at Vacon's Chinese subsidiary
Jan 25 Invitation to a briefing and teleconference

February

Feb 2 Vacon Plc Financial Statement Bulletin 1 January–31 December 2010
Feb 14 Vacon's summary of year 2010 releases published
Feb 17 Notice to the Annual General Meeting
Feb 25 Vacon's Annual Report 2010 published

March

Mar 14 Vacon Plc revises profit forecast for 2011
Mar 22 Vacon Plc's annual general meeting
Mar 23 Conveyance of Vacon Plc's own shares under Vacon Plc's share bonus scheme
Mar 23 The Board of Directors of Vacon Plc resolved on incentive plan

April

Apr 19 Invitation to a briefing and teleconference
Apr 27 Vacon Plc Interim Report 1 January–30 March 2011
Apr 29 Invitation to Vacon's Capital Markets Day May 25, 2011

May

May 25 Vacon's Capital Markets Day, May 25, 2011

June

Jun 14 American Superconductor Corporation and The Switch agree on extension of completion of sale

July

Jul 1 American Superconductor Corporation and The Switch shareholders amend purchase agreement
Jul 26 Vacon publishes its January–June Interim Report on August 3, 2011

August

Aug 3 Vacon Plc Interim Report 1 January–30 June 2011

September

Sep 6 Ilmarinen Mutual Pension Insurance Company holding in Vacon Plc

October

Oct 7 American Superconductor Corporation and The Switch agree on extension of completion of sale
Oct 17 Vacon publishes its January–September Interim Report on October 25, 2011
Oct 25 Vacon Plc Interim Report 1 January–30 September 2011
Oct 31 AMSC and the shareholders of The Switch Engineering Oy terminate acquisition agreement

November

Nov 29 Vacon Plc's Financial Calendar for 2012

December

Dec 12 Vacon reduces its guidance for 2011
Dec 13 Vacon Plc to start negotiations to save costs
Dec 29 Court orders Vacon to pay compensation in China
Dec 29 Ahlström Capital Oy and DutchCo Gamma Holding B.V.holding in Vacon Plc

Annual General Meeting

Vacon Plc's Annual General Meeting will be held on Tuesday, March 27, 2012 at 4:00 p.m. at Vaasan ylioppilastalo, Domus Bothnica, at Yliopistonranta 5, 65200 Vaasa. Shareholders wishing to attend the Annual General Meeting must be registered no later than March 15, 2012, in the company's shareholder register maintained by Euroclear Finland Oy, and shall notify the company of their attendance no later than 10:00 a.m. (GMT+2) on March 22, 2012.

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

The notification of attendance can be done at the company's website at www.vacon.com/agm2012, by telephone at +358 (0)40 8371 278 or by mail to Vacon Plc, Maija Suutarinen, Runsorintie 7, 65380 Vaasa, Finland.

Share register

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

Payment of dividends

The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.90 per share be paid for the 2011 financial year. The dividend approved by the AGM will be paid to those shareholders who are registered on the record date in the company's share register maintained by Euroclear Finland Oy.

Reconciliation date:..................................March 30, 2012
Dividend payment date:..............................April 11, 2012

Financial overviews and reports in 2012

Financial Statements Bulletin:.......................Feb 2, 2012
Annual Report 2011:...................................week 10/2012
Interim Report January–March:.................April 25, 2012
Interim Report January–June:..................August 1, 2012
Interim Report January–September:....October 24, 2012

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

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

Vacon Plc
Corporate Communications
Runsorintie 7
65380 Vaasa, Finland
Telephone: +358 (0)201 2121
Fax: +358 (0)201 212 208
E-mail: annualreport@vacon.com
Internet: www.vacon.com

Investor relations

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

Responsibility for investor relations at Vacon:

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

Eriikka Söderström, CFO
Tel. +358 (0)201 212 445
eriikka.soderstrom@vacon.com

Sebastian Linko, Director, Corporate Communications and Investor Relations
Tel. +358 (0)40 8371 634
sebastian.linko@vacon.com

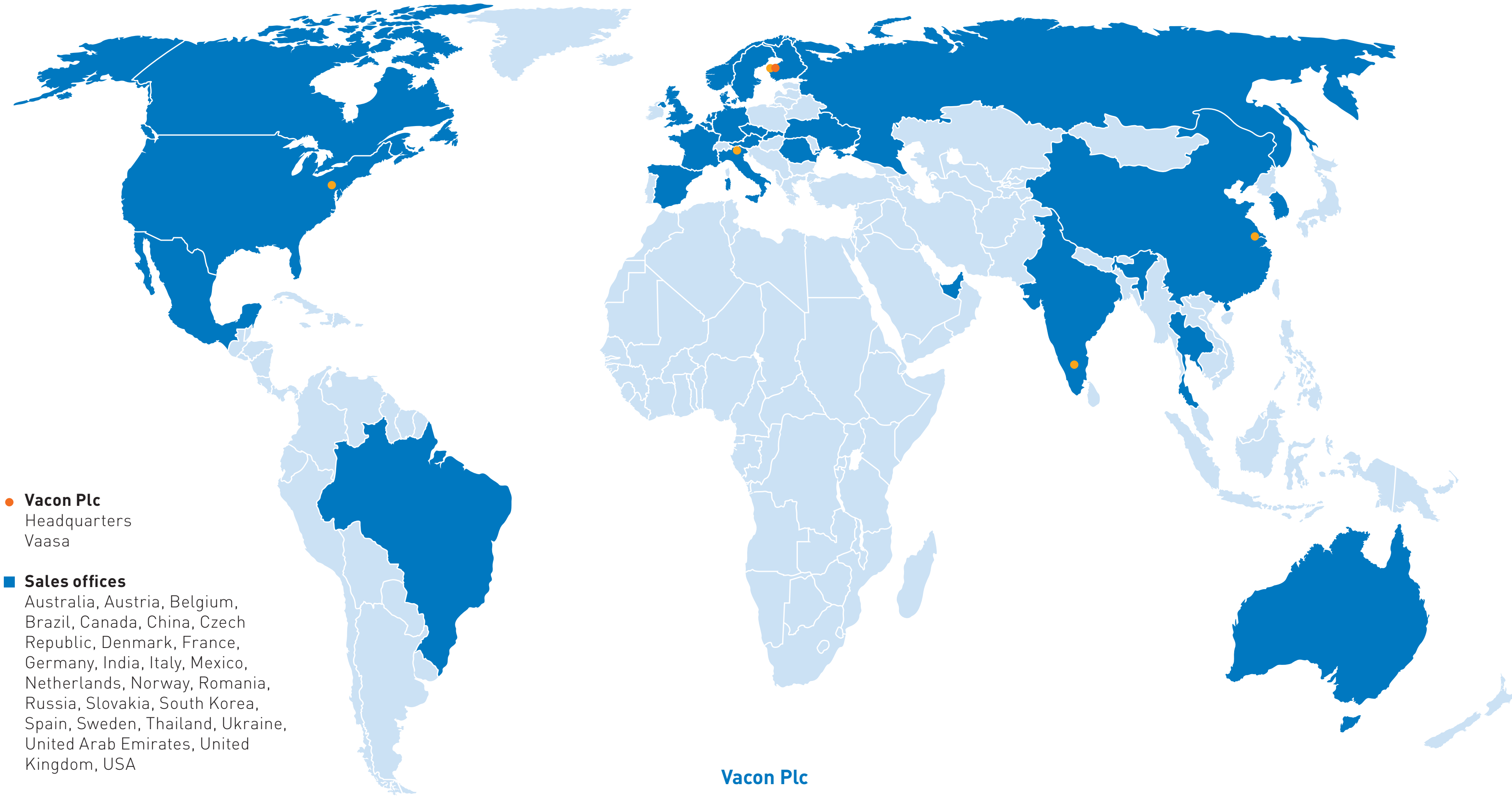
Maija Suutarinen, Specialist, Corporate Communications and Investor Relations
Tel. +358 (0)40 8371 278
maija.suutarinen@vacon.com

Analyst coverage

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

The analysts' names, companies and telephone numbers

- Timo Heinonen, Carnegie Investment Bank AB, Tel.+358 (0)9 6187 1234
- Jyri Tuomola, Danske Markets Equities, Tel. +358 10 236 4782
- Artem Beletski, SEB Enskilda Equities, Tel. +358 9 6162 8729
- Antti Kansanen, Evli Pankki Oyj, Tel. +358 9 4766 9149
- Michael Schröder, FIM, Tel. +358 9 6134 6311
- Tom Skogman, Handelsbanken Capital Markets, Tel. +358 (0)10 444 2752
- Pasi Väisänen, Nordea Bank Ab, Tel. +358 (0)9 165 59 943
- Pekka Spolander, Pohjola Bank plc, Tel. +358 (0)10 252 4351
- Tomi Tiilola, Swedbank, Tel. +358 (0)40 721 2245



Vacon Plc
Headquarters
Vaasa

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

Production plants
India, Italy, China, Finland, USA

Vacon Plc
Headquarters
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Tel: +358 (0)201 2121
Fax +358 (0)201 212 205
firstname.lastname@vacon.com

For global contact information, please see **www.vacon.com**