



THE SWITCH
Annual Report 2008

_03 Introduction	_20 Group Balance Sheet
_04 CEO's review	_22 Group Profit and Loss Account
_06 The Design Switch	_24 Parent Company Balance Sheet
_08 The Production Switch	_26 Parent Company Profit and Loss Account
_10 The Proactive Switch	_28 Notes to the Financial Statements
_12 Business review	_30 Notes to the Income Statement
_14 Environment	_32 Notes to the Balance Sheet
_16 Report by the Board of Directors	_34 Corporate governance

The Switch – We're bringing you power: (pictured on cover from left to right) Vesa Laisi, Harri Ollila, Kaj Rönnlund, Dirk Heidenreich, Jarmo Saaranen, Veijo Karppinen, Jukka-Pekka Mäkinen

Introduction

Switch on the Power!

The power to generate. The power to transform.

The Switch brings you power. You will find us at the critical juncture where the power of the wind and other renewable sources is converted into electricity, and then relayed through the grid for use by industry and households. To run factories. To run hospitals. To run household appliances. This power is not just any power. It is power that is indispensable for the survival of our planet.

The world has fully embraced the need for eco-efficient power generation, and we have fully leveraged every aspect of our operations to meet this need. This means we not only answer our customers' call for the latest technologies tailored to their needs, but also do this with the fastest time to market and true long-term value. It means that we not only cooperate and share our ideas with them, but also provide the training and after-sales services they need to keep their products running effectively throughout the product life cycle.

Our customers highly appreciate the fact that we have deliberately moved away from old organizational hierarchies. All our actions are guided by customer needs and we face each challenge with a fresh outlook. This breeds creativity, ingenuity and success. Our personnel are always ready to explore new ideas.

The Switch delivers state-of-the-art control systems, power electronics and electrical machines for OEMs and system integrators worldwide. This includes megawatt-class permanent magnet generators and full-power converters for wind turbines, solar cell and fuel cell installations, and gensets for industrial use.

Welcome to The Switch. Welcome to the era of New Energy.



CEO's review

"By any measure, an outstanding success," says Jukka-Pekka Mäkinen, CEO and President, about the year of 2008, which The Switch coined as the Year of Execution. "We unleashed the full power of our Model Factory concept and, together with our partners, got into some serious production."

The year saw a tripling in sales and personnel, and an order backlog that is strong well into 2009 and beyond.

Jukka-Pekka attributes the success so far to a number of factors, and it is these same factors that will drive The Switch towards even greater achievements in the future.

"To begin with, our permanent magnet generator and full-power converter packages are a winning technology. They not only offer the best efficiency yields in the industry, but are also highly reliable and adaptable, and fully meet today's demanding grid requirements."

"But this is not the whole story. We have been successful because we have not organized ourselves in a traditional way, with different units for sales, R&D and production. Rather, all our actions are seamlessly geared towards meeting the needs of the customer. This is another key source of competitive advantage."

In all this, speed is absolutely critical – and today The Switch can offer the fastest time to market.

"Another factor is that our Model Factory concept is unique in the industry. The factories first develop a blueprint of the production process, complete with quality control and continuous improvement, and our partners then take over the process for mass production. In 2008, we achieved many breakthroughs in this area."

The Switch's rapid growth has certainly placed high expectations on all its resources. "We will concentrate more on synchronizing our operations in 2009. But even then, we will keep our focus on what is important – namely, our customer."

"Overall, the demand for our products is expected to remain strong in 2009, and we will continue to grow along with our customers."

— "We unleashed the full power of our Model Factory concept and, together with our partners, got into some serious production."



The Design Switch

Our customers value our leading innovation, our unique cooperation philosophy and our willingness to reach new heights together. This means that we not only design our products together with our customers, but that we also share our knowledge. As a result, our customers get products uniquely designed to meet their specific needs.

Excellent examples of this are our megawatt-class permanent magnet generators and full-power converters, known collectively as The Switch Drive. Our unique way of combining them into an optimized package is becoming the preferred approach in modern turbine development – and the winning technology for more reliable power generation.

Success in today's business environment is all about speed. Once our Model Factories in Lappenranta and Vaasa, in Finland, and Hudson in the U.S., have completed the prototype and zero-series stages, the switch to large volumes can occur swiftly and effortlessly – with the fastest time to market.

The Design Switch highlights 2008

- The Switch Drive design finalized in a 1.5 MW medium-speed and 3 MW medium-speed optimized package for wind power.
- The Switch commissioned its first solar inverter for Australian solar project.
- Tecogen Inc., of Massachusetts, takes delivery of a 100 kW Variable Speed Generator Drive (VSG), specifically developed and built to be used together with Tecogen's natural gas engine and PM generator.

—“World-class products tailored to customer needs. This is the task of The Design Switch, and it is where our Circle of Success begins.”

“The Production Switch makes the leap from prototype to mass production in months. This is where our Circle of Success continues.”

The Production Switch

Our Model Factory concept effectively brings a new way of thinking to production by establishing best-in-class production lines that can be seamlessly replicated in other locations. All processes, from R&D, supply chain management through to continuous quality monitoring and improvement, have real-time monitoring.

Once a line is successfully ramped up in the Model Factory, it is easy to set up in another location to meet the mass production demands of our customers. This frees up our Model Factory and personnel for new or advanced production responsibilities, improving our performance and maintaining our key production knowledge to support the sustainable growth of The Switch.

The ramp up to mass production is primarily handled by our partners. By combining our expertise with that of our partners, we are able to meet the demand for large volumes with the speed and efficiency you expect from a genuine global player.

The Production Switch highlights 2008

- The Switch opened a new Model Factory in Vaasa in 2008 and is building a new Model Factory in Lappeenranta, both in Finland.
- The Switch partners with Scanfil EMS Oy, a Finnish-based contract manufacturer, to double converter production capability and gain further access to the Chinese market.
- The Switch signs a cooperation agreement with Dong Fang Electrical Machinery Co., Ltd, based in China, for the production of megawatt-class permanent magnet generators for wind turbines.

The Proactive Switch

The Switch is dedicated to the highest achievable reliability and productivity. To this end, our customer's personnel are trained at their specific site for the implementation and maintenance of the application. This is complemented by our on-site maintenance capability and sophisticated remote diagnostics and support.

Our after-sales services naturally include maintenance operations, spare part supply as well as technical support and consultation. Our customers have direct access to our top specialists, and also benefit from our 24/7 online support.

We are actively developing our after-sales capability on a global basis and today are backed by a service partner network spanning 44 countries.

The Proactive Switch highlights 2008

- The Switch expands after-sales service capabilities in China.
- The Switch opens an office in Hamburg, Germany, to gain closer access to customers in the region.
- Partnership contract signed with Swedish Jowic to take care of after-sales support in Scandinavia.

—“Great service does not end with the delivery of world-class technology. It continues throughout the life-cycle of our products, and makes our Circle of Success complete.”

Business review

“The Switch continued its fast growth during 2008, exceeding that of the wind power market in general, in its selected markets of Europe, Asia and North America. We’ve been successful in answering the high market demand with our network of carefully selected partners,” says **Reijo Takala**, Vice President, Wind Power.

The demand for cutting-edge drive train technology from The Switch remains high despite the current gloomy economic situation worldwide.

“For 2009, The Switch will continue to serve its customers with increased production capacity. At present, The Switch employs over 150 persons in its facilities in Finland, Germany, the United States and China,” Reijo says.

“In 2008 we successfully met all our financial objectives. Both the operating result and order intake were better than budgeted,” says **Dag Sandås**, CFO, about The Switch’s financial operations for the year.

Funding is the key challenge faced by any rapidly expanding company, and so it is with The Switch.

“Although we must continually focus on the availability of funding, we have been very fortunate in this regard. We have shown excellent results to both our

“The Switch will continue to serve customers in our domestic market of Europe, as well as Asia and North America, with increased production capacity.”

investors and the banks who lend to us, and consequently they have learned to trust us.”

Still, with sales and personnel numbers tripling in 2008, The Switch sought a further injection of capital by means of a EUR 6 million share issue directed at investors and personnel during the year. “The issue was oversubscribed, which is a great motivator.”

One would expect that the financial crisis would have the CFO worried, but this is by no means the case. “The underlying fundamentals in the wind power business remain strong. Even if we see some curtailment with smaller players or project-financed deals, the impact on utilities will be marginal.”

The key investment targets for the near future have been identified.

“We will be investing in an IT road map and our China expansion program. This means that we must also carefully hedge any large currency exposures arising from our China operations.”

With decades of experience from leading global engineering companies, as well as from cooperation with merchant banks, Dag is ready to take on the challenge.

“In 2008 we successfully met all our financial objectives. Both the operating result and order intake were better than budgeted.”

Environment

The Switch has fully embraced the dream of a better world, and works actively each and every day towards the achievement of this goal. Whether we are ensuring the best for our employees, sponsoring a junior soccer team or just focusing on the development of ever better technologies for energy preservation, we receive the guidance we need from our fundamental values – to be seriously relaxed, dynamically different and always willing to explore new challenges.

— This is The Switch.
Responsible, Energetic,
Pathfinder.

Report by the Board of Directors

January 1, 2008 - December 31, 2008

The markets

Overall demand for equipment in the renewable energy sector continued to increase immensely. Products for the wind power sector dominated sales. It must be noted, though, that the current liquidity crisis is impacting both renewable and utility companies. The market outlook for renewable energy, and wind especially, will remain strong as governments are expected to continue to fight global warming.

The most successful areas for The Switch were China and Germany. The Switch gained good field experience both with generators and converters. A good number of new customer projects with related prototype development and zero-series production were started. This gives a good base for the entire product range of wind power generator and power converter packages.

Generally, the rapid market growth combined with technology transition in the market further improved The Switch positioning in the market. The growing size of the wind power market is boosting the demand for permanent magnet generators, and the new supply of cheaper magnets from China is noticeably making the overall economics more attractive.

Sales and performance

The Switch's consolidated turnover was MEUR 53.7 (2007: 20.0). The turnover of the parent company, The Switch Engineering Oy, was MEUR 7.6 (1.8).

Consolidated EBITDA was MEUR 3.0 (-1.7), while the EBITDA for The Switch Engineering Oy was MEUR -2.6 (-1.3). Consolidated EBIT

was MEUR 0.4 (-2.6), while the EBIT for The Switch Engineering Oy was MEUR -2.7 (-1.3). The consolidated financial result was MEUR -0.3 (-2.5), and the financial result of The Switch Engineering Oy MEUR 0.1 (-0.6).

The U.S. dollar exchange rate had a positive effect on the end result.

Balance sheet and financing

The consolidated balance sheet totaled MEUR 33.5 (13.5), with a total balance value of MEUR 18.7 (9.4) in The Switch Engineering Oy. The consolidated operational cash flow was a positive MEUR 2.9 (-2.0). On the group level, cash on hand and in banks was MEUR 5.5 (1.1). In The Switch Engineering Oy, cash on hand and in banks was MEUR 2.4 (0).

The consolidated goodwill arising from business transfers was MEUR 3.6 (4.1). Goodwill has been determined on the basis of a business plan approved by the Board of Directors, the principles of which have been approved by independent external consultants. Goodwill is depreciated over ten years.

Working capital management will still play a significant role in the fast growing company, but The Switch Group managed to finance its activities during the year despite the growth in turnover. At the end of December, trade receivables were MEUR 4.3 (2.4). The receivables turn rate was 29 (64) days at year end. Inventory turn rate was 34 (29) days. Net working capital increased by MEUR 0.2 (3.1) due to growth in turnover.

Consolidated return on equity (ROE) was -4.2% (-58.8%) and consolidated return on investment (ROI) 2.4% (-19.5%). The equity

ratio was 38.4% (35.4%) and net gearing ratio -35.4% (32.0%).

Major investments were made in machinery and testing equipment for the new rented Model Factory in Vaasa, as well as in product development activities related to significant projects, which will create new business opportunities and generate revenue in the future.

The existing bond and debt facilities with Nordea Bank and Finnvera were extended to a total value of MEUR 30 during the financial year.

A development loan amounting to MEUR 1 was received from TEKES, Finnish Funding Agency for Technology and Innovation.

The share capital of the company was increased with two directed issues and a capital loan exchange by the issuance of 809,138 new shares. The nominal value for the new shares was EUR 1 per share. The share capital of the company was increased from EUR 4,187,206 to EUR 4,996,344.

Two product development projects will be receiving grants from TEKES. The total costs will reach MEUR 3, and TEKES will provide grants for 50% of the costs, extending over the two upcoming years.

Investments

The Switch purchased shares in Merinova Oy in Vaasa. The total investment amounted to EUR 67,000, giving The Switch approximately 4 percent ownership in the company. The objective of Merinova is to be a nationally recognized and renowned Center of Expertise and an organization focused on the energy cluster

development. Together with universities, research and industry, Merinova plans and implements development projects in the energy sector and thus raises the level of expertise in small and medium sized companies.

The Switch purchased 40 shares in Cleen Oy for EUR 1,000 each, with a total investment of EUR 40,000. Cleen Oy was established by the Finnish government to strengthen the technology and knowledge base of the industry and research society to a level that makes it possible to reach the vision of 2020 and the requirements of 2050. By a private-public partnership, the funding of joint research was increased to a level twice that of the level of 2007.

Corporate structure and organization development

The Group was established in November 2006, when the former three companies, Rotatek Finland Oy in Lappeenranta, Verteco Oy in Vaasa, and Youtility Inc. in Hudson, USA, were acquired by the parent company The Switch Engineering Oy, established in July 2006 under the name of Runsortech Oy. The three companies were later renamed to The Switch Electrical Machines Oy, The Switch High Power Converters Oy and The Switch Controls and Converters Inc. The first financial period for the parent company consisted of eighteen months and The Switch Group of fourteen months. Therefore, the historical figures for 2007 are not fully comparable.

In June 2007, The Switch Engineering Oy established The Lu'an Switch Electrical Power Production Equipment Co., Ltd in Lu'an, in the Anhui province of China.

In July 2008, The Switch Engineering Oy established The Switch Holdings Ltd in Hong Kong.

In September 2008, The Switch Holdings, Ltd started the registration process to establish The Switch Wind Power Systems (Beijing) Co., Ltd, in Beijing, in the People's Republic of China.

In September 2008, The Switch Engineering Oy opened a branch new office in Hamburg, Germany.

On December 31, 2008, the companies within the Group and their General Managers were as follows:

The Switch Engineering Oy, Mr. Jukka-Pekka Mäkinen, President and CEO
The Switch High Power Converters Oy, Mr. Reijo Takala, Managing Director
The Switch Electrical Machines Oy, Mr. Jukka-Pekka Mäkinen, Managing Director
The Switch Controls and Converters Inc, Mr. Anders Troedson, Managing Director
The Lu'an Switch Electrical Power Production Equipment Co., Ltd, Mr. Mr. Jukka-Pekka Mäkinen, Managing Director
The Switch Holdings, Ltd, Mr. Jukka-Pekka Mäkinen, Managing Director
The Switch Wind Power Systems (Beijing) Co., Ltd, Mr. Jukka-Pekka Mäkinen, Managing Director

Until the Annual General Meeting, the members of the Board of Directors were Dirk Heidenreich, Veijo Karppinen, Vesa Laisi, Harri Ollila, Kaj Rönnlund and Jarmo Saarinen. The AGM re-elected the old members and elected Jukka-Pekka Mäkinen as a new member. At its organization meeting, it re-elected Veijo Karppinen as its chairman. Dag Sandäs acted as Secretary to the Board.

—“The ISO 9001 certificate for the Finnish units was received from DNV in December 2008.”

The management team of the Group was strengthened during the financial period. The management team is headed by the CEO, Mr. Jukka-Pekka Mäkinen. The members are Pertti Kurttila, Jorma Laukkanen, Olli Pyrhönen, Dag Sandås, Reijo Takala, and Anders Troedson.

Personnel

The number of people employed by the Group increased steadily during the financial period. The recruitment focus has been on experienced management and specialist recruitments.

The average number of people employed by the Group during the financial period was 93 (35). For the parent company, The Switch Engineering Oy, the number was 10 (2). On December 31, 2008, the Group employed 136 people (50), 14 (8) of them on The Switch Engineering Oy payroll.

The sum of wages and salaries and other remuneration paid during the financial period was MEUR 4.9 (2.2); in The Switch Engineering Oy, the sum was MEUR 1.3 (0.5).

A result-based pay system was initiated to apply to every employee. The system is based on group-specific metrics.

A value creation process was implemented in the Group during the year, resulting in explicit company values.

Product launches

The Switch has developed individually tailored permanent magnet generators and full-power converter packages to meet the needs of today's wind turbine applications, solar cell and fuel cell inverters, as well as solid rotor motors for high-speed industrial applications and permanent magnet motors and genera-

tors for low- or medium-speed industrial applications, as well as variable speed gensets.

The Switch Control and Converters shipped its first solar inverter to Australia. The 140 kW liquid-cooled inverter will be used to evaluate different array configurations in the customer's solar concentrator. The entire prototype system was developed and manufactured in four months, including the development of a proprietary maximum power point tracking algorithm.

Cooperation agreements

On June 25, 2008, Dong Fang Electrical Machinery Co. Ltd (DFEM) signed a cooperation agreement with The Switch to combine the world-class technology in megawatt class permanent magnet generators for wind power generation from The Switch with DFEM's production capabilities. The agreement will provide The Switch with strong production capacity in China, while Dong Fang gains access to a broader marketing and customer network through The Switch.

According to the specific terms of the agreement between the two companies, The Switch will provide DFEM with the production concept and technology behind its permanent magnet generator product family. DFEM will be responsible for the production of these generators primarily at its new factory in Deyang, in the southwest Sichuan Province in China.

The Switch will be in charge of all marketing and sales work outside China, and joint marketing and sales with DFEM within China.

On September 5, 2008, Scanfil EMS Oy signed a manufacturing agreement with The Switch to combine The Switch technology in megawatt-class full-power converters for wind

power generation with Scanfil's production capabilities to match rapidly growing market needs. This agreement doubles converter capacity for The Switch, while opening up additional manufacturing locations in China.

Operations development

The ERP project was initialized and continued throughout the financial period. Financial reporting was in-sourced at the beginning of 2008. The Switch strives to build an environment that supports the organization and growth to the maximum extent in order to reach the strategic business targets. Based on the defined business needs and expectations, a decision was made to review the current IT landscape and identify key areas to address. This will result in a 5 years' IT roadmap.

To support the future production strategy, a systematic steering approach for the logistics and manufacturing process was initiated. The Vaasa and Lappeenranta Model Factories clearly focus on technology-driven specialization, which provides support and knowledge for mass production ramp up. The planned factories in China are based on market demand and built for mass production.

The Switch inaugurated a new factory in Vaasa in April 2008. The factory is owned by Vaasa Parks, and comprises production and testing facilities for permanent magnet generators above 20 tons in weight, as well as full-power converters. The Switch launched a sizeable production factory project in Lappeenranta. The project is to build a production and testing facility for permanent magnet generators used in modern wind power plants. The factory project was started in February 2008, and the goal is to move into the new facility by spring 2009.

A group-level quality program was performed during 2008. The aim was to implement a quality management system in accordance with ISO 9001. The ISO 9001 certificate for the Finnish units was received from Det Norske Veritas (DNV) in December 2008.

Environmental considerations and social responsibility

The Switch Group's solutions will contribute to the battle against climate change and conserve energy resources. The Switch Group's products transform un-tapped energy into electricity and enable the efficient use of it.

The Switch's customers use The Switch state-of-the-art products and systems as part of their own machines or systems in wind turbine and other renewable energy applications or energy conserving applications.

The Switch was one of the several Finnish-based companies that were behind a special visit with Santa Claus at an orphanage in Deyang, China. Deyang is home to Dong Fang Electrical Company, a key partner for The Switch in China. In May, the city was heavily damaged by a magnitude 7.9 earthquake. In 2008, The Switch donated gift money to purchase winter jackets for the children.

The Switch and its personnel also donated funds directly to the victims related to Dong Fang.

Risk assessment

The Switch operates in an extremely fast growing segment. As a business in general, renewable energy component technology does not have any significant correlation with overall economic trends. To minimize risks related to this, however, the company has undergone vigorous development efforts to establish a degree of flexibility to allow prof-

itable operation even during periods of rapid growth.

The biggest single risk is the US dollar, as one of the group company's revenue is generated in the United States. Still, the majority of the deliveries has been made to countries in Europe and Asia, and the customer base is wide, so risks related to currency can be managed to a great extent.

Operational risks and risks arising from financing and eventual damages are highly limited.

AON was employed as an external insurance broker firm to streamline and optimize the insurance program for the Group.

The auditors

The firm of authorized public accountants KPMG Oy served as the auditor of The Switch Engineering Corporations, with Mr. Hans Bertell, APA, as the principal auditor.

Events after December 31, 2008 and preview of 2009

The Model Factory in Lappeenranta will be inaugurated in May. This factory specializes in the final assembly and testing of small generators for wind power applications and high-speed motors for industrial applications. The location was supported by the availability of local personnel and financial resources.

The most significant area of development over the coming year is to develop the local manufacturing and final assembly concept for high power converters and generators in China in cooperation with local partners.

The biggest operational challenge for the financial year is to deliver all orders already included in the order book at year-end.

ASSETS

BALANCE SHEET, CURRENCY EURO	Dec. 31, 2008	Dec. 31, 2007
FIXED ASSETS		
Intangible assets		
Development expenses	2,093,994	2,097,565
Intangible rights	457,300	120,753
Goodwill	3,646,587	4,051,763
Other capitalized long-term expenses	312,612	112,368
	6,510,493	6,382,449
Tangible assets		
Buildings	1,592,756	13,365
Machinery and equipment	1,609,038	1,617,429
Other tangible assets	0	17,643
	3,201,794	1,648,437
Investments	107,830	
Inventories		
Finished goods and work in progress	1,516,560	605,485
Raw materials	5,891,524	184,105
Advance payments	164,683	23,420
	7,572,767	813,010
Receivables		
Current		
Trade receivables	4,349,032	2,357,934
Other receivables	1,908,778	836,058
Prepayments and accrued income	4,341,443	344,564
	10,559,253	3,538,556
Cash on hand and in banks	5,544,213	1,097,076
ASSETS TOTAL	33,536,350	13,479,528

LIABILITIES

BALANCE SHEET, CURRENCY EURO	Dec. 31, 2008	Dec. 31, 2007
CAPITAL AND RESERVES		
Share capital	4,996,344	4,187,206
Share premium reserve	8,175,519	1,927,292
Retained earnings	-2,460,810	
Translation difference	-234,369	183,867
Profit (loss) for the financial year	-332,800	-2,460,810
	10,143,883	3,837,555
PROVISIONS	1,525,081	525,235
LIABILITIES		
Non-current liabilities		
Capital loan	350,697	350,697
Other liabilities	1,247,508	250,818
Current liabilities		
Loans from credit institutions	650,909	2,188,078
Advances received	5,834,563	1,663,821
Trade payables	11,265,081	3,678,448
Other liabilities	171,589	126,217
Accruals and deferred income	2,347,038	858,659
	20,269,180	8,515,223
LIABILITIES TOTAL	33,536,350	13,479,528

PROFIT AND LOSS ACCOUNT, CURRENCY EURO	Jan. 1 – Dec. 31, 2008	Nov. 1, 2006 – Dec. 31, 2007
NET SALES	53,683,547	19,950,159
Change in inventories of		
finished goods and work in progress	1,256,458	1,511
Other operating income	272,836	51,014
Raw materials and services		
Purchases during the financial year	-42,765,343	-14,135,900
Change in raw material inventories	5,379,753	
External services	-1,688,278	-769,307
	-39,073,868	-14,905,207
Personnel expenses		
Wages and salaries	-4,878,384	-2,161,896
Social security expenses		
Pension expenses	-923,801	-356,218
Other social security expenses	-302,552	-122,975
	-6,104,737	-2,641,089
Depreciation	-2,554,992	-966,099
Other expenses	-7,052,636	-4,116,300
OPERATING RESULT	426,608	-2,626,011
Financial income and expenses		
Financial income	37,753	27,959
Financial expenses	-553,362	-435,064
	-515,609	-407,105
OPERATING RESULT BEFORE EXTRAORDINARY ITEMS		-3,033,116
Extraordinary items		
Extraordinary income	0	600,000
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	-89,001	-2,433,116
Appropriations		
Change in provisions	-13,348	-24,019
Income taxes	-230,452	-3,674
RESULT FOR THE FINANCIAL YEAR	-332,800	-2,460,809

CONSOLIDATED CASH FLOW STATEMENT, CURRENCY EURO	Dec. 31, 2008	Dec. 31, 2007
Operating profit	426,608	-2,626,011
Depreciation and amortization	2,554,992	966,099
Financial income and expenses	-515,609	-407,105
Taxes	-213,239	-3,674
Other adjustments	986,498	55,328
Cash flow before changes in working capital	3,239,250	-2,015,363
Change in inventories	-6,629,625	144,169
Change in current interest-free receivables	-7,032,645	-882,855
Change in current interest-free liabilities	13,273,914	762,927
Change in working capital	-388,356	24,241
Cash flow from operating activities	2,850,894	-1,991,122
Investments in tangible and intangible assets	-4,344,223	-1,917,376
CASH FLOW FROM INVESTMENTS	-4,344,223	-1,917,376
Cash flow before financing	-1,493,329	-3,908,498
Change in non-current liabilities	996,690	-276,786
Change in current interest-bearing receivables	-1,537,169	1,519,907
Change in equity / share issue	809,138	1,053,525
Share premium reserve	6,248,226.48	1,927,292
CASH FLOW FROM FINANCING	6,516,885.48	4,223,938
Cash flow after financing	5,023,556.48	315,440
Effect of currency conversion	-576,419.48	0
Liquid funds on Jan. 1, 2008	1,097,076	1,412,516
Liquid funds on Dec. 31, 2008	5,544,213	1,097,076
Decrease / increase in liquid funds	4,447,137	-315,440

ASSETS

BALANCE SHEET, CURRENCY EURO	Dec. 31, 2008	Dec. 31, 2007
FIXED ASSETS		
Intangible assets		
Immaterial rights	109,129.00	0.00
Other capitalized long-term expenses	31,552.58	26,515.42
	140,681.58	26,515.42
Tangible assets		
Buildings	1,576,560.71	0.00
Machinery and equipment	59,230.65	313,072.07
	1,635,791.36	313,072.07
Financial assets		
Holdings in group undertakings	6,799,037.31	4,459,175.32
Other shares and undertakings	107,830.00	0.00
	6,906,867.31	4,459,175.32
FIXED ASSETS TOTAL	8,683,340.25	4,798,762.81
NON-CURRENT RECEIVABLES		
Receivables from Group companies	1,777,775.63	3,698,303.75
CURRENT RECEIVABLES		
Trade receivables	570,948.85	113,544.30
Receivables from Group companies	2,474,503.55	721,964.64
Loan receivables	410.69	1,500.00
Other receivables	191,768.17	105,687.81
Prepaid expenses and accrued income	2,638,391.07	1,331.77
	5,876,022.33	944,028.52
Cash on hand and in banks	2,384,143.98	0.00
CURRENT ASSETS TOTAL	10,037,941.94	4,642,332.27
ASSETS TOTAL	18,721,282.19	9,441,095.08

SHAREHOLDERS' EQUITY AND LIABILITIES, CURRENCY EURO	Dec. 31, 2008	Dec. 31, 2007
SHAREHOLDERS' EQUITY		
Share capital	4,996,344.00	4,187,206.00
Share premium reserve	8,175,518.96	1,927,292.48
Retained earnings	-643,705.92	0.00
Result for the financial year	145,023.35	-643,705.92
	7,676,836.39	1,283,586.56
SHAREHOLDERS' EQUITY TOTAL	12,673,180.39	5,470,792.56
LIABILITIES		
Non-current		
Loans from Group companies	500,000.00	0.00
Other loans	302,000.00	0.00
	802,000.00	0.00
Current		
Convertible debenture loans	0.00	600,000.00
Loans from credit institutions	0.00	999,669.75
Advances received	1,052,010.89	282,706.97
Trade payables	350,209.65	347,142.51
Loans from Group companies	2,976,605.48	1,544,160.25
Other current liabilities	69,637.78	19,266.40
Accrued expenses and deferred income	797,638.00	177,356.64
	5,246,101.80	3,970,302.52
LIABILITIES	6,048,101.80	3,970,302.52
SHAREHOLDERS' EQUITY AND LIABILITIES TOTAL	18,721,282.19	9,441,095.08

PROFIT AND LOSS ACCOUNT, CURRENCY EURO	Jan. 1 – Dec. 31, 2008	Jul. 1, 2006 – Dec. 31, 2007
NET SALES	7,592,297.84	1,761,196.03
Other operating income	1,843,028.36	14,139.57
RAW MATERIALS AND SERVICES		
Purchases during the financial year	-17,385.92	-19,599.98
External services	-7,387,203.81	-1,508,444.00
RAW MATERIALS AND SERVICES TOTAL	-7,404,589.73	-1,528,043.98
Personnel expenses		
Wages and salaries	-1,257,491.40	-450,360.36
Social security expenses		
Pension expenses	-266,696.76	-81,498.91
Other social security expenses	-65,139.74	-18,869.65
PERSONNEL EXPENSES TOTAL	-1,589,327.90	-550,728.92
DEPRECIATION	-102,189.50	-3,387.13
Other expenses	-3,073,646.62	-970,997.66
OPERATING RESULT	-2,734,427.55	-1,277,822.09
Financial income and expenses		
Other interest and financial income		
From group companies	183,233.97	87,055.94
From others	161,083.21	0.00
Interest and other financial expenses		
For group companies	-139,434.56	0.00
For others	-158,163.70	-52,939.77
FINANCIAL INCOME AND EXPENSES TOTAL	46,718.92	34,116.17
OPERATING RESULT	-2,687,708.63	-1,243,705.92
Extraordinary items	2,889,881.76	600,000.00
Income taxes	-57,149.78	0.00
RESULT FOR THE FINANCIAL YEAR	145,023.35	-643,705.92

CASH FLOW STATEMENT, CURRENCY EURO	Dec. 31, 2008	Dec. 31, 2007
Operating profit	-2,734,427.55	-1,277,822.09
Depreciation	102,189.50	3,387.13
Financial income and expenses	46,718.92	34,116.17
Taxes	-57,149.78	0.00
Cash flow before change in working capital	-2,642,668.91	-1,240,318.79
Change in current interest-free receivables	-2,029,450.98	-944,028.52
Change in current interest-free liabilities	2,862,807.96	2,370,632.77
Change in working capital	833,356.98	1,426,604.25
CASH FLOW FROM OPERATING ACTIVITIES	-1,809,311.93	186,285.46
Investments in tangible assets	-3,986,766.94	-4,802,149.94
CASH FLOW FROM INVESTMENTS	-3,986,766.94	-4,802,149.94
Cash flow before financing	-5,796,078.87	-4,615,864.48
Change in non-current receivables	1,920,528.12	-2,498,303.75
Change in non-current liabilities	802,000.00	0.00
Change in current loans	-1,599,669.75	999,669.75
Change in equity / share issue	809,138.00	4,187,206.00
Share premium reserve	6,248,226.48	1,927,292.48
CASH FLOW FROM FINANCING	8,180,222.85	4,615,864.48
Cash flow after financing	2,384,143.98	0.00
Liquid funds on Jan. 1, 2008	0.00	0.00
Liquid funds on Dec. 31, 2008	2,384,143.98	0.00
Decrease / increase in liquid funds	2,384,143.98	0.00

Notes to the Financial Statements

Notes concerning the preparation of the Financial Statements

In addition to the Parent Company, the consolidated Financial Statements consolidate the subsidiary companies The Switch High Power Converters Oy, The Switch Electrical Machines Oy, The Switch Controls and Converters and The Lu'an Switch Electric Power Production Equipment Co Ltd.

The official Financial Statements are published in Finnish. The annual report can be ordered from:

The Switch Engineering Oy
Yrittäjänkatu 11
65380 VAASA

The principles of valuation and accruals in the group

The Consolidated Financial Statements

The Consolidated Financial Statements combine the economic activities of all the companies in the Group. The transactions of the permanent branch office opened in Germany during the financial year have been entered in the parent company's ledger. The transactions of the Hong Kong-based daughter company established during the financial year have also been entered in the ledger of the parent company.

The consolidated Financial Statements have been prepared using the acquisition cost method. The identifiable assets and liabilities of the acquired companies have been valued at fair value at the time of acquisition. The difference between the price paid for the company and its net assets valued at fair value constitutes the goodwill that will be depreciated over ten years according to plan.

Intra-group business transactions, receivables, liabilities, non-realized margins and intra-group distribution have been eliminated in the consolidation.

The income statement of the Group companies, whose business currency or financial statement currency is not the Euro, have been translated into Euros using the average rate for the financial year; balance sheets use the rate on the balance sheet date. Translation differences for foreign currency loans have been recorded in the in-

come statement. Translation differences arising from the different exchange rates used in the income statement and balance sheet and translation exchanges arising from applying the acquisition cost method have been recorded in the unrestricted equity.

The principles of fixed asset valuation

The fixed assets are valued at their variable acquisition cost less accumulated depreciation. The acquisition cost of the fixed assets of the company is depreciated according to plan. The planned depreciation is calculated on the basis of the estimated economic life.

The principles of depreciation in group according to plan and their changes

ITEM GROUP	ESTIMATED LIFETIME	DEPRECIATION METHOD
Intangible assets	5 years	straight-line depreciation
Computer programs	5 years	straight-line depreciation
Machinery and equipment	8 years	straight-line depreciation
Office equipment and other non-fixed assets	8 years	straight-line depreciation
Buildings	10 years	straight-line depreciation
Goodwill	10 years	straight-line depreciation

Goodwill is depreciated over ten years. The investments of the Group in long-term product development and the long life span of the products as investment commodities have been taken into consideration in the depreciation period. The goodwill has been determined on the basis of a business plan approved by the Board of Directors, the principles of which have been approved by independent external consultants.

Expenses generating income over three or more years have been activated as long-term expenses and will be depreciated over five years.

Inventories

Inventories are entered in the balance sheet at the acquisition cost or the net realizable value, whichever is lower. The acquisition cost has been determined using the FIFO method.

Current assets

Trade and other debtors as well as accrued income have been recorded in the balance sheet at the nominal value or the estimated net realizable value, whichever is lower.

Pension expenses

The pension security of the personnel has been arranged by an external pension insurance company. The pension expenses are recorded as annual costs.

Comparability of the balance sheet and income statement

The reported financial period was the second for the Group and for the Parent Company. The first financial period of the Parent Company consisted of 18 months; the period for the Group comprised 14 months. The historical figures for 2007 are thus not fully comparable.

Notes concerning the Income Statement

Project revenue recognition

The percentage-of-completion method, which according to the Finnish Accounting Standards can be used for products requiring lengthy production times, has been used during the financial year 2008 for prototypes and zero-series orders. The projects are booked as revenue according to the percentage of costs incurred related to the total cost budget of the project.

Project revenue recognition for the Group

The percentage-of-completion method, which according to the Finnish Accounting Standards can be used for products requiring lengthy production times, has been used during the financial year 2008 for prototypes and zero-series orders. The projects are booked as revenue according to the percentage of costs incurred related to the total cost budget of the project.

— “The annual report can be ordered from The Switch, Yrittäjänkatu 11, 65380 VAASA, FINLAND.”

REVENUES BOOKED ACCORDING TO THE PERCENTAGE-OF-COMPLETION (POC) METHOD, CURRENCY EURO

Parent Company		
Net sales from POC projects		7,338,060.84
Other net sales		254,237.00
Net sales in total		7,592,297.84
Revenue from POC projects that has not been delivered to the customers booked for the current financial period and earlier financial periods:		
		8,302,864.20
Unbooked revenue from long-term projects:		
POC projects		8,046,780.32
Group		
Net sales from POC projects		41,148,592
Other net sales		12,534,955
Net sales in total		53,683,547
Revenue from POC projects that has not been delivered to the customers booked for the current financial period and earlier financial periods:		
		9,075,236.20
Unbooked revenue from long-term projects:		
POC projects		14,754,038
Other projects		80,657,044
Order backlog in total		95,411,082

PERSONNEL

Personnel in the parent company:

During the period under review, an average of 10 persons was employed.

Personnel in the Group:

During the period under review, an average of 136 persons was employed.

Salaries and remunerations to CEO, his deputy and the members of the board:

The CEO and deputy to CEO 345,128

No remunerations have been paid to the members of the board during 2008.

PARENT COMPANY SPECIFICATION OF THE SHAREHOLDERS' EQUITY:	2008	2007
RESTRICTED EQUITY		
Share capital on Jan. 1	4,187,206.00	0.00
Share issue	809,138.00	4,187,206.00
Share capital on Dec. 31	4,996,344.00	4,187,206.00
Restricted equity in total	4,996,344.00	4,187,206.00
NON-RESTRICTED EQUITY		
Share premium reserve Jan. 1	1,927,292.48	0.00
Share premium reserve	6,248,226.48	1,927,292.48
Free invested equity reserve on Dec. 31	8,175,518.96	1,927,292.48
Result from the previous financial year, Jan. 1	-643,705.92	0.00
Result from the previous financial year, Dec. 31	-643,705.92	0.00
Result for the financial year	145,023.35	-643,705.92
Non-restricted equity in total	7,676,836.39	1,283,586.56
SHAREHOLDERS' EQUITY IN TOTAL	12,673,180.39	5,470,792.56

GROUP SPECIFICATION OF THE SHAREHOLDERS' EQUITY:	2008	2007
RESTRICTED EQUITY		
Share capital on Jan. 1	4,187,206	0
Share issue	809,138	4,187,206
Share capital on Dec. 31	4,996,344	4,187,206
Restricted equity in total	4,996,344	4,187,206
NON-RESTRICTED EQUITY		
Free invested equity reserve on Jan. 1	1,927,292	0
Investment in free invested equity reserve	6,248,227	1,927,292
Free invested equity reserve on Dec. 31	8,175,519	1,927,292
Result from the previous financial year, Jan. 1	-2,460,810	0
Translation difference	-234,370	183,867
Result from the previous financial period, Dec. 31	-2,695,180	0
Result for the financial year	-332,800	-2,460,810
Non-restricted equity in total	5,147,540	-349,651
SHAREHOLDERS' EQUITY IN TOTAL	10,143,883	3,837,555

CALCULATION OF DISTRIBUTABLE EQUITY

Distributable equity for the Parent Company

Free invested equity reserve	8,175,518.96
Loss from previous financial period	-643,705.92
Financial year profit	145,023.35

Distributable equity Dec. 31, 2008 **7 676,836.39**

Distributable equity for the Group

Free invested equity reserve	8,175,519
Loss from previous financial period	-2,460,810
Translation difference	-234,370
Financial year loss	-332,800
Depreciation difference in shareholders' equity	-48,989

Distributable equity Dec. 31, 2008 **5,098,550**

CONTINGENT LIABILITIES AND OTHER COMMITMENTS, CURRENCY EURO

	PARENT	GROUP
Bank guarantees		4,250,000.00
Other commitments	2,022,528.49	5,332,028.49
Finnvera Oyj		500,000.00
Guarantee limit	9,000,000.00	13,000,000.00
On behalf of Group companies	8,000,000.00	

	PARENT		GROUP	
LEASING CONTRACTS	2008	2007	2008	2007
Nominal amount of rents according to leasing contracts	2,262,782.01	58,725.04	2,324,773.64	203,085.55
Payable within one year	367,757.33	13,901.40	391,896.59	77,826.83
Payable later	1,895,024.68	44,823.64	1,932,877.05	125,258.72

	PARENT	GROUP
OTHER RENTAL CONTRACTS		
Payable within one year	1,120,800.00	1,480,734.12
Payable later	10,087,200.00	12,912,802.67
Total	11,208,000.00	14,393,536.79

PARENT COMPANY SHARES IN OTHER COMPANIES

Company name	Holding %
The Switch High Power Converters Oy	100
The Switch Electrical Machines Oy	100
The Switch Controls and Converters	100
The Lu'an Switch Electric Power Production Equipment Co Ltd	100

The share capital consists of 4,996,344 shares. Each share equals one vote.

PROPOSAL OF THE BOARD

The Board of Directors proposes that the Annual General Meeting should approve the Financial Statements from Jan. 1 - Dec. 31, 2008 as presented.

The Board of Directors proposes to the Annual General Meeting that no dividend should be paid for the financial year of Jan. 1 - Dec. 31, 2008 and that the profit of EUR 145,023.35 be retained in shareholders' equity.

SIGNATURES

Veijo Karppinen
Chairman of the Board

Dirk Heidenreich

Vesa Laisi

Harri Ollila

Kaj Rönnlund

Jarmo Saaranen

Jukka-Pekka Mäkinen
President and CEO

Vantaa, March 3, 2009

AUDITOR'S ENDORSEMENT

The above Financial Statements have been prepared in accordance with generally accepted accounting principles in Finland.

Our auditors' report has been issued today.

Vaasa, March 6, 2009

Hans Bertell
Authorized Public Accountant

Corporate governance

The Switch Engineering Oy

The Switch Engineering Corporation applies the guidelines and provisions of its Articles of Association and the Finnish Companies' Act. According to Finnish law, the Finnish Companies' Act and the company's Articles of Association, the control and management of The Switch Engineering is divided among the shareholders represented at the Annual General Meeting, the Board of Directors and the President.

The Annual General Meeting

A General Meeting of The Switch Engineering Corporation shareholders is held at least once a year. The Annual General Meeting of the shareholders shall be held within six months from the end of the financial period. The meeting shall present the annual accounts and the audit report. The meeting shall decide on:

- The adoption of the income statement and the balance sheet, as well as, the consolidated income statement and the consolidated balance sheet in the parent company
- Measures necessary for the profit or loss shown on the adopted balance sheet
- The discharge from liability for the members of the Board of Directors and of the President; other matters, which under the Articles of Association, fall under the authority of the General Meeting

Under the Articles of Association, an invitation to a General Meeting must be distributed by registered mail, or otherwise proven in written form no earlier than four weeks and no later than one week prior to the date specified in Chapter 3a, section 11 of the Companies' Act.

The Board of Directors

The Switch Engineering Oy's Board of Directors has a minimum of three and a maximum of seven members. The term of office of a member of the Board of Directors shall commence from the Annual General Meeting at which the member was elected and end at the close of the next Annual General Meeting. The Board is elected by a General Meeting. In 2008, the Board had seven

members. The Board elects a chairman from among its members. The Board of Directors is responsible for the administration of the company and the proper organization of its operations. The Board steers and supervises the company's operations and decides on policies, goals and strategies of major importance.

Committees

The Switch Engineering Oy's Board of Directors has set up no committees during 2008. Any committee would be subordinate to the Board of Directors and would make recommendations to the Board of Directors to decide on.

The Board's Rules of Procedure

The principles applied by the Board in its regular work will be set out in the Rules of Procedure approved during 2009. The Board considers all the matters stipulated to be the responsibility of a board of directors by legislation, other provisions and the company's Articles of Association. The most important of these are the annual and interim financial statements, the matters to be put before General Meetings of shareholders, the appointment of the President and CEO and the organization of financial supervision in the company. The Board is also responsible for considering any matters that are so far-reaching with respect to the quality of the Group's operations that they cannot be considered to fall within the scope of the Group's day-to-day administration, such as approval of the Group's strategic plan and long-term goals, approval of the Group's annual business plan and budget, decisions concerning investments, acquisitions or divestments that are significant or that deviate from the Group's strategy, decisions to raise loans and the granting of security or similar collateral commitments when their size is significant, risk management principles, the Group's organizational structure, appointment of the company's Management team, approval of remuneration and pension benefits, monitoring and assessing the performance of the President and CEO and approval of the company's man-

agement principles and steering systems. In addition to matters requiring its decision, the Board is also given updates at its meetings on the Group's operations, financial position and risks.

Appointment of the Board of Directors and meetings

The Board of Directors is responsible for ensuring that a proposal to be put before a General Meeting concerning the election of a new member to the Board, and of which it is aware, is published in the notice of meeting and that the proposed individual has given his/her written consent. The Board of Directors convenes six to eight times a year following a predetermined schedule. In addition to these meetings, the Board convenes as necessary. In 2008, the Board of Directors convened eight times.

Shares and Shareholders

The parent company has 4,996,344 shares with a nominal value of EUR 1 each. Each share carries one vote. The company maintains the register of the company's shares. The Switch Engineering Oy owns none of its own shares.

The President and CEO

The Board of Directors appoints a President for the Group who is also its Chief Executive Officer. The President and CEO is in charge of the day-to-day management of the company and its administration in accordance with the company's Articles of Association, the Finnish Companies' Act and the instructions of the Board of Directors. He is assisted in this work by a Management team. The President and CEO of the company is Mr. Jukka-Pekka Mäkinen.

The Executive Vice President and Deputy to CEO

The Board of Directors appoints, if necessary, one or several executive vice presidents. The Board has appointed Mr. Dag Sandås Executive Vice President and Deputy to the CEO.

The Management team

The company's Management team comprised the President and CEO, the Chief Financial Officer, the Chief Technology Officer, the Group Vice President Wind Power, the Group Vice President Emerging Business, the Group Vice President Logistics and Supply Chain, and the Group Vice President Electrical Machines. Management team members are appointed by the company's Board of Directors, which also approves their remuneration and other terms of employment. The Management team was chaired by the President and CEO. It considered strategic issues related to the Group and its businesses, as well as major investments and divestments, product policy, the Group's structure and corporate steering systems, and it supervised the company's operations. The heads of the businesses in the Management team were each fully responsible for their respective businesses and/or functions.

The Corporate Management

The company's Corporate Management includes, in addition to the members of the Management team, other directors and managers in charge of processes and/or functions. Corporate Management meetings are chaired by the President and CEO and their composition varies depending on the business issues under consideration. There are two types of meetings held in connection with Management team meetings, Corporate Development Projects Board meetings (CDPB) and Technology Development Board meetings (TDB). Corporate Management meetings prepare proposals to the company's Board of Directors to deal with product development projects, process improvements, business issues, quality, information management and other development issues, and to handle relations with stakeholders.

Managing Directors of the Subsidiaries

The Managing Directors of the Group's subsidiaries are responsible for ensuring that the local resources are correctly dimensioned to meet the

needs of the business and/or functions; that the subsidiary's personnel development needs are met, that the subsidiary's operations fulfill the requirements stipulated in the Group's quality system; and that these operations comply with the respective country's legal requirements and with good business practice.

Remuneration of the Board of Directors

The Annual General Meeting decides annually on the fees to be paid to the members of the Board of Directors for one term of office at a time. The Board prepares a fee proposal, if applicable, for the decision of the Annual General Meeting.

The remuneration paid to the President and CEO and other members of the Management team, and the principles underlying it, are determined by the Board of Directors. The remuneration paid to the President and CEO and the other members of the Management team consists of a monthly salary and a bonus. The bonuses paid to the members of the Management team are based on the achievement of the company's strategic targets.

Incentive Schemes and Remuneration

There is an incentive program for the management and for all the employees of The Switch Engineering not having a personal bonus system. The program is a result-based pay system, and the results are determined by group or company specific metrics, driving for growth, improved profitability and improved operational processes.

There are no option schemes within The Switch Engineering Group. All changes in wages, salaries, incentives and other types of remuneration are approved according to the grandfathering principle.

Internal supervision

Responsibility for the management of the company and its proper organization lies with the Board of Directors. In practice, it is the President

and CEO's task to ensure the proper organization of the company's internal supervision, risk management, internal audit and accounting supervision mechanisms, assisted by the Management team. The instructions and guidelines apply to the entire Group or to individual businesses.

The company's financial progress is reviewed monthly through a Group-wide reporting system. This includes an income statement, balance sheet information, cash flow reports, key indicators, and events of importance to the company's operations.

Risk management

The purpose of risk management is to ensure that the company's business objectives are reached and that the company remains a going concern. The risk management function analyses the risks faced by the company's various businesses and units. It also defines the risk management principles applied throughout the Group and it develops risk management methods and insurance schemes. Areas of responsibility have been defined in the organization to cover different risks.

An external insurance broker firm is employed for streamlining and optimizing the insurance program for the Group.

The external audit

The company has one CPA-authorized auditor, who is an auditing firm. The auditor is elected by the Annual General Meeting (AGM) to audit the accounts for the ongoing financial year and their duties cease at the close of the subsequent Annual General Meeting. The auditor is responsible for auditing the consolidated and parent company's Financial Statements and accounting records and the administration of the parent company. In 2008 the AGM appointed the firm of public accountants KPMG Oy Ab as The Switch Engineering Corporation's auditor.



www.theswitch.com