

BOARD OF DIRECTORS' REPORT

FINANCIAL YEAR 1 JANUARY–31 DECEMBER 2007

Ensto Group consists of the following three business units operating under the Ensto brand: Ensto Utility Networks, Ensto Enclosures and Components and Ensto Building Technology.

Ensto Group's parent company, Ensto Oy, is EM Group Oy's wholly owned subsidiary. The main focus of the EM Group Oy, owned by the Miettinen family, is on owning and developing industrial enterprises and real estate business activities.

THE YEAR IN BRIEF

Ensto Group's net turnover improved during the financial year in all business units. The company continued to develop its production and logistics by expanding its operations in Russia and transferring its luminaire assembly operations from Finland to Estonia. It also founded a low and medium voltage overhead line accessories assembly plant and a logistics centre in St. Petersburg, intended to serve the Russian market.

Capital expenditure amounted to EUR 9 million, up EUR 1.4 million from the previous year. In 2007, Ensto's investment focus was on Finland, including the initiation of an investment in a new heating line as well as production machinery for utility network construction materials. In addition to these production investments, Ensto allocated approximately EUR 2 million to the modernisation of its facilities in Porvoo, Finland, and increased its product development investments by EUR 0.5 million from the previous year.

Ensto's 2007 results were burdened by a product defect discovered at the end of November when the company was informed of individual cases in which a load break switch manufactured by Ensto Control Oy had broken down in normal use. The company devoted considerable resources to recalling defective products from domestic and export markets, the estimated total expenses being EUR 4.3 million. Since the said switches are commonly used as main switches in electrical distribution boards in Finland, the incident affects both Ensto Enclosures and Components and Ensto Building Technology.

NET TURNOVER AND OPERATING PROFIT

Ensto Group's net turnover for 2007 totalled EUR 232.7 million against a net turnover of EUR 209.1 million in 2006, i.e. an increase of 11.3% year-on-year.

Operating profit for 2007 stood at EUR 14.0 million, representing 6.0% of net turnover. Operating profit decreased by 6.3% from the 2006 levels as a result of the expenses arising from the product defect discovered in switches.

International operations' share of net turnover was EUR 153.1 million or 65.8%. Of this amount, Finland accounted for EUR 79.7 million or 34.2%, the other Nordic countries for EUR 62.4 million (26.8 %), the rest of Europe for EUR 84.9 million (36.5 %) and the rest of the world for EUR 5.8 million (2.5 %).

GROUP STRUCTURE

At the end of 2007, Ensto operated in 17 countries. The Group's head office is located in Porvoo, Finland.

In line with its international growth strategy, during the first half of 2007 Ensto founded an assembly unit in St. Petersburg, Russia and a branch office of Ensto Enclosures and Components in Würth, Germany. Furthermore, Ensto increased its holding in its Ukrainian sales company to 100% and complemented this expansion by leasing a 2,500 square-metre facility in St. Petersburg comprising office, logistics and production premises. In early 2007, Ensto outsourced its Chinese production and logistics functions and, at the end of the year, reorganised its sales functions through an external distributor.

The following foreign branch units belong to the Ensto Group:

In Sweden:

- Ensto Busch-Jaeger Oy filial Sverige, Västberga Allé 5, Hägersten, reg. no. 516403-1436
- Ensto Electric Oy filial Sverige, Västberga Allé 5, Hägersten, reg. no. 516402-8234
- Ensto Control Oy filial Sverige, Västberga Allé 5, Hägersten, reg. no. 516402-7772
- Ensto Sekko Oy filial Sverige, Västberga Allé 5, Hägersten, reg. no. 516402-7954

In Germany:

- Ensto Control, Niederlassung Deutschland, Altrheinstrasse 2, 76744 Wörth, Germany, reg. no. 15560960

STRATEGIC BUSINESS UNITS

Ensto Building Technology

Ensto Building Technology posted a net turnover of EUR 116.5 million, compared with EUR 109.1 million a year earlier, representing growth of 6.7%.

In Porvoo, Finland, Ensto initiated investments in an electrical heater production line worth approximately EUR 2.5 million. Furthermore, the company finalised the concentration of labour-intensive small batch production of lighting fixtures in Keila, Estonia.

Demand for electrical supplies increased in Scandinavia and Eastern Europe, Ensto Building Technology's main markets. The unit's sales grew in several market areas in line with the market average.

Ensto reorganised its Chinese operations, which did not meet the financial targets set for them, by outsourcing the related production and logistics functions in January 2007 and sales functions in December 2007. Ensto now operates in China through an external distributor.

The product defect discovered in electrical distribution boards' main switches had a major impact on Ensto Building Technology's sales, the related refunds shrinking its sales by EUR 1 million in December.

In 2008, demand is expected to remain at 2007 levels or grow slightly in Scandinavia, the business unit's traditional market, whereas sales are anticipated to continue their vigorous growth in Eastern Europe. The business unit's growth in net turnover is expected to outperform the market average once again.

Ensto Utility Networks

Ensto Utility Networks recorded a net turnover of EUR 82.8 million, showing a year-on-year improvement of 13.8% from EUR 72.7 million in 2006.

The business unit launched an approximately EUR 2 million investment in the automated production of utility network construction materials in Porvoo, Finland. This new production equipment will serve in the preparation of aluminium and brass components in overhead line and underground cable accessories.

83.1% of Ensto Utility Networks' net turnover came from outside Finland and slightly over half from outside the Nordic countries. Sales grew in almost all market areas, with particularly strong growth in the Nordic countries, Russia, the UK and Estonia.

In 2007, Ensto Utility Networks increased its product development investments by launching, for example, a range of cable accessories to meet demand arising from the increasing popularity of underground cabling as part of the power supply system.

Ensto Utility Networks forecasts growth in 2008 in the CIS countries, especially Russia. Sales of overhead line accessories should remain steady in its traditional markets, in line with general

market developments. With respect to underground cable accessories, Ensto's growth is expected to outperform the market average.

Ensto Enclosures and Components

Ensto Enclosures and Components recorded a net turnover of EUR 40.6 million, showing a year-on-year improvement of 19.7% from EUR 34.0 million in 2006.

A major factor affecting Ensto Group's key figures was a product defect discovered in its load break switches. The possibility of a malfunction led to the replacement of electrical distribution boards' main switches and switches supplied to equipment manufacturers both in Finland and elsewhere in Europe.

Of Ensto Enclosures and Components' total net turnover, 32.3% came from outside the Nordic countries. Sales developed favourably, particularly in the Western industrial countries and the Nordic countries where Ensto has made strong investments in the last few years in developing the sales organisation. Customised enclosure technology and terminals – the business unit's strategic core products – showed strong growth in net turnover.

Ensto's major launches in 2007 included Cubostics, a manufacturing concept for customised enclosures that includes a web-based CuboLink tool enabling the customer to customise its enclosure solutions directly via the Internet.

Ensto Enclosures and Components expects its net turnover to continue developing favourably in 2008. The business unit aims to increase its market share, primarily in its key markets, where it is seeking to develop and expand partnerships with its existing and new key customers.

BALANCE SHEET AND FINANCING

In 2007, Ensto Group's net turnover improved in all business units and market areas.

The fall in Ensto's operating profit margin compared to the previous year is attributable to the EUR 4.3 million provision made due to the quality problem discovered in its switch production. Costs arising from the recall of defective switches are mainly related to the manufacture and installation of new switches. Ensto expects to finalise replacements of defective switches during 2008.

Ensto Group's profit before extraordinary items was EUR 11.9 million (EUR 14.0 million in 2006).

Extraordinary items include a group contribution of EUR 5.5 million paid by the parent company.

Return on equity stood at 14.3% (18.2%) and return on investment at 12.0% (16.7%). Net profit for the financial period after minority interest came to EUR 11.9 million. Last year's equivalent was EUR 9.1 million.

At the end of 2007, the balance sheet total stood at EUR 187.0 million (EUR 161.5 million). The Group's equity ratio was 38.1% (35.7%).

INVESTMENTS AND DEVELOPMENT

Gross investments for the financial year amounted to EUR 9 million (EUR 7.6 million). The largest investments included a production device for utility network construction materials and a new heating line in Porvoo, Finland. In addition to these production investments, Ensto modernised its head office facilities.

Research and development expenses totalled EUR 5.8 million (EUR 5.3 million), equating to 2.5% (2.6%) of net turnover. All strategic business units increased their product development investments in line with the growth in net turnover.

With respect to systems, the largest investments included the implementation of a new enterprise resource planning (ERP) system in Poland, the implementation of a new, company-wide customer relationship management system in Ensto Building Technology, and the launch of a Group-wide Intranet.

EVALUATION OF OPERATIONAL RISKS AND UNCERTAINTIES

Ensto Group manages its risk control policies centrally. The company's strategic and operational risks are comparable to those of the sector as a whole, and can therefore be considered standard and reasonable. Its main strategic and operational risks lie in the competition, changes in customer preferences, raw material price fluctuations, interruptions in raw material supplies and credit loss risks related to accounts receivable. The Group has taken out property, loss of profits, general liability and product liability insurance to minimise its liabilities.

Ensto's financial risks – e.g. currency, interest rate and credit risk – are reasonable.

The Group's financing is arranged centrally by the parent company, EM Group Oy, and handled mainly through intra-Group loans.

QUALITY AND THE ENVIRONMENT

The management systems of Ensto's Finnish and Estonian companies are ISO 9001:2000 and ISO 14001:2004 certified.

The quality systems of our Polish, Hungarian, Norwegian and British companies are ISO 9001:2000 certified.

Ensto operates in accordance with the WEEE (Waste from Electrical and Electronic Equipment) and RoHS (Restrictions of certain Hazardous Substances) directives of the European Union and the national legislation of the countries in question. The company has also made preparations for the entry into force of the REACH chemical directive during 2007.

MANAGEMENT

Ensto's annual general meeting of 22 March 2007 elected the following as members of the company's Board of Directors: Timo Miettinen (Chairman), Risto Anttonen, Heikki Mairinoja, Ensio Miettinen, Marjo Raitavuo and Esa Saarinen.

Jukka Koskinen, M.Sc. (Eng.) acts as Ensto's President and CEO. On 1 February 2007, Markku Wederhorn, M.Sc. (Eng.) was appointed President of Ensto Utility Networks. On 1 March 2007, Aki Mänttäre, M.Sc. (Eng.) was appointed Director, Corporate HRD. On 6 August 2007, Hannu Keinänen, M.Sc. (Eng.) was appointed Director of Ensto Building Technology. Ensto's Management Group comprises the following persons: Jukka Koskinen, Seppo Martikainen, Aki Mänttäre, Markku Wederhorn, Hannu Keinänen, Keijo Mäkelä and Marjut Haverinen.

PERSONNEL

Ensto Group's average number of staff totalled 1,524 in 2007, while the year-end figure was 1,500. The corresponding figures in the previous year were 1,371 and 1,398, respectively. In addition to growth in volumes, this increase was attributable to the opening of the assembly plant in St. Petersburg.

In May 2007, the Ensto Council convened, gathering a record number of employee representatives from ten countries. The Ensto Council is an internal communications forum based on EU legislation. In the field of employee training, Ensto focused on international user training related to the new enterprise resource planning system and the new customer management system.

At the end of the year, the company launched Ensto Eagle, an internal leadership development programme, for which 20 participants were selected.

A job evaluation project (Hay Group Method) intended for higher clerical employees was continued in 2007 in Norway, Estonia and Finland. A project aimed at implementing a Group-wide HR database system also continued.

FINANCIAL ASSETS AND LIABILITIES RECORDED AT FAIR VALUE

The purpose of Ensto Group's financial policy is to hedge against the adverse effects of changes occurring in financial markets and to minimise fluctuations in the company's earnings by using various financial instruments.

The company applies hedge accounting for hedging its estimated currency-denominated purchases and sales and consolidated shareholders' equity. Derivatives primarily used in hedge accounting include forward exchange agreements and currency options. The hedged cash flow must be probable and the cash flow must ultimately have an impact on the income statement. Realised and unrealised items related to derivatives subject to hedge accounting are posted to the same income statement item as the hedged item, excluding the hedging of shareholders' equity in which the hedging result is shown directly under shareholders' equity.

ANNUAL GENERAL MEETING

Ensto's Annual General Meeting was held on 22 March 2007.

AUDITORS

The authorised public accountancy firm, PricewaterhouseCoopers, acted as the company's auditor, with Riikka Harjula, Authorised Public Accountant, acting as the responsible auditor.

SHARES AND OWNERSHIP

Shareholder information 31 December 2007

Ensto Oy's share capital comprises 781,200 Series K shares (20 votes per share) and 13,717,500 Series E shares (one vote per share). Both share series carry equal entitlement to dividends. EM Group Oy is Ensto Oy's parent company.

Ensto Oy's ownership at the end of 2007 was as follows:

Shareholders	No. of shares	% of total	% of votes
EM Group Oy	13,717,500 E	94.6	46.8
EM Group Oy	781,200 K	5.4	53.2
Shares total	14,498,700	100.0	100.0

PROSPECTS

The market and demand situation is expected to remain at 2007 levels, although developments in the latter part of the year may involve some uncertainties. Both net turnover and operating profit are expected to grow in tandem with increasing market shares. In Scandinavia, in which our traditional markets are found, construction demand is expected to remain at 2007 levels, at least during the first half of the year. Moderate growth is forecast in the construction and maintenance of electricity networks in all of our market areas, excluding the CIS countries where strong growth is expected. With our new customisation concepts, we are confident that we will meet market needs for enclosures and components. We continue to seek sales growth in both building technology and electrical network solutions, especially in Russia and other CIS countries.

BOARD'S PROPOSAL FOR PROFIT DISTRIBUTION

The parent company's profit for the year was EUR 6,482,336, giving it distributable funds of EUR 8,150,799.

The Board of Directors proposes that no dividends be paid for 2007 and that the remainder of distributable retained profit, EUR 8,150,799, be retained as non-restricted equity.

Enclosure. Key indicators 2007

ENSTO GROUP	EUR million			
	2007	2006	Change %	2005
INCOME STATEMENT				
Turnover	232.7	209.1	11.3	178.6
Operating profit	14.0	14.9	-6.3	12.5
% of turnover	6.0	7.1		7.0
Profit/loss for the financial year	11.9	9.1	31.1	7.5
Turnover by SBU				
Ensto Building Technology	116.5	109.1	6.7	85.4
Ensto Utility Networks	82.8	72.7	13.8	68.7
Ensto Enclosures and Components	40.6	34.0	19.7	31.4
Turnover by market area				
Finland	79.7	75.0	6.2	70.6
Other Nordic countries	62.4	53.6	16.5	50.7
Western Europe	32.4	27.7	17.1	11.9
Eastern and Central Europe	52.5	48.4	8.4	41.5
Rest of the world	5.8	4.4	30.3	3.9
Total assets	187.0	161.5	15.7	102.9
Gross investments	9.0	7.6	18.7	6.1
% of turnover	3.9	3.6		3.4
Research and Development costs	5.8	5.3	8.7	4.5
% of turnover	2.5	2.6		2.5
Undelivered orders	9.2	6.9	33.1	6.7
Average personnel	1,524	1,371	11.2	1,246