ANNUAL REPORT 2013

THE DRIVES FAMILY

VACON®
DRIVEN BY DRIVES

THE DRIVES FAMILY

VACON´S NEW COMMUNITY-BASED VISION

WE SEE that true value is created together. That is why we will create The Drives Family where the best people work together to develop the best products, applications and services for our customers. Vacon will be a company that brings together personnel, customers, partners, suppliers, shareholders, scholars and students – all the people who are Driven by Drives.

LOOKING AHEAD, we see that products and even industrial systems will communicate with each other and create added value in networks. The competitive edge of AC drives will be found in the software. This is where the biggest innovations and technological breakthroughs will be made.

AC DRIVES are solving some of the most exciting challenges in the world. These drives are making energy efficiency, smart buildings, electric industrial vehicles, new smart industry and renewable energy production possible.

WE WILL BRING revolutionary new products, applications and services to our customers. Whenever people think of AC drives, they think of Vacon. We provide a clear competitive edge to our customers. We already help them optimize their operations, save and produce energy efficiently and reduce greenhouse gas emissions thus making the world and our way of living more sustainable.

OUR ATTITUDE, innovation, competence and courage will make us the first choice. We will have the best people, best customers and best products in the market. We have a unique spirit and culture based on our shared values.

GLOBAL MEGATRENDS, such as urbanization, the rise in industrial automation, energy efficiency, emerging markets and renewable energy, support growth in the AC drives market. We believe that the AC drives market will grow faster than the average industrial production in the long run.

WE AIM TO GROW faster than the market and with solid profitability. This allows us to invest in future growth and to share the value within The Drives Family.

VACON®
DRIVEN BY DRIVES

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A COMPANY WITH A 100% FOCUS ON AC DRIVES

Vacon's operations are 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 make possible optimal process control and energy-efficient electric motors. Vacon's inverters play a key role when energy is produced from renewable sources. In 2013, Vacon's revenues amounted to EUR 403.0 million, and the company employed approximately 1,600 people globally.

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 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 2013 was the company's 20th year of operations.

CUSTOMERS AND INDUSTRIES

Vacon's production units are located in Finland, China, the USA, Italy and India. In addition to Finland, Vacon has R&D units in Italy, China, and the USA. Vacon has sales offices in 30 countries, and it uses multiple 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, among others, machine manufacturing, 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.

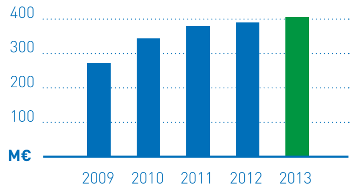
Vacon's largest customers include Eaton, Honeywell, KONE, Konecranes, Rockwell Automation, Schindler, and The Switch. Vacon is the seventh-largest manufacturer of AC drives in the world and the largest company concentrating solely on AC drives. Vacon estimates that its market share of the global AC drives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

SHAREHOLDERS

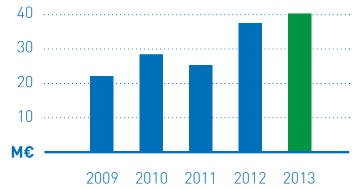
Vacon Plc's shares are listed on the NASDAQ OMX Helsinki. At the end of 2013, Vacon had 4,841 shareholders, of whom 52.0% were institutions or private investors operating in Finland and 48.0% were nominee-registered and foreign owners. The closing price of Vacon's share on the last day of 2013 was EUR 58.50, and the company's market capitalization was EUR 891.7 million (611.5 million in 2012).

VACON'S KEY FIGURES 2009-2013

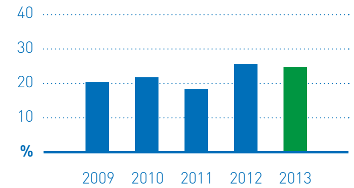
REVENUES



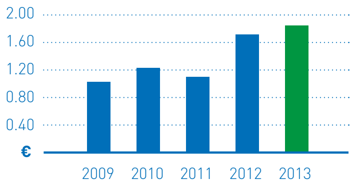
OPERATING PROFIT



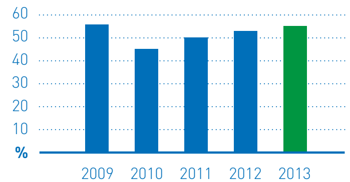
RETURN ON EQUITY



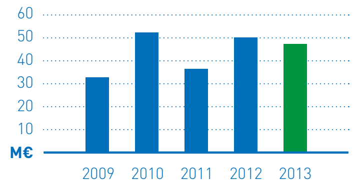
EARNINGS PER SHARE



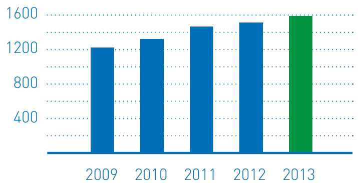
EQUITY RATIO



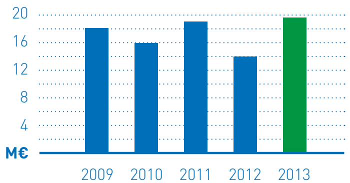
ORDER BOOK



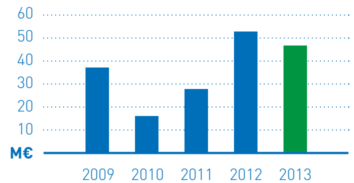
PERSONNEL AT THE END OF THE PERIOD



GROSS CAPITAL EXPENDITURE



NET CASH FLOW FROM OPERATING ACTIVITIES



THE DRIVES FAMILY

Vacon succeeded well in 2013. We were able to grow in a challenging market environment, improve our profitability, and manage working capital considerably more effectively.

To begin with, I would like to thank our personnel, customers, partners, shareholders, and everyone who has taken part in building Vacon's success last year and before. In particular, I would like to thank Vacon's founders, who established the company 20 years ago. Their vision, courage, and competence have been a source of inspiration for us.

Vacon has a tradition of setting ambitious goals for itself and openly communicating its goals to all stakeholders. The expressed goals motivate us to serve our customers even better and to strive for better results.

In November 2013, we published our new long-term financial targets, redefined strategy, and our new community-based vision. These new policies are part of the continuum that started in 1993 when Vacon was established in Vaasa, Finland. The foundation of our strategy, just as it was 20 years ago, is a 100% focus on AC drives.

An AC drive is an important product. It helps our customers improve the quality, effectiveness, and reliability of their operations. AC drives can provide tremendous savings in electricity consumption. This provides a solid foundation for both our operations and future growth.

Vacon succeeded well in 2013. We were able to grow in a challenging market environment, improve our profitability, and manage working capital considerably more effectively.

We believe that the best products and services are created together. The best competence cannot always be available within Vacon. We have always worked in close collaboration with our component suppliers and sales and service partners, among others. In the upcoming years, the importance of collaboration and information and competence sharing will be further highlighted.

Vacon's vision is to create The Drives Family, a community where the best people work together to develop the best products, applications and services for our customers. Vacon is a company which brings together personnel, customers, partners, suppliers, shareholders, scholars and students – all those who share Vacon's very own Driven by Drives attitude.

Global megatrends, such as urbanization, growth in industrial automation, energy efficiency, emerging markets, and renewable energy, support the growth of the AC drives market. We believe that, in the long term, the AC drives market will grow faster than average industrial production.

We strive to grow faster than the market and, at the same time, maintain solid profitability. This makes it possible for us to invest in future growth and to distribute added value within The Drives Family.

We have every reason to be proud of Vacon's accomplishments during its first 20 years, and last year was no exception. Nevertheless, I believe that together, we can do even better – we have a bright future ahead of us.

Best regards,
Vesa Laisi

We have every reason to be proud of Vacon's accomplishments during its first 20 years, and last year was no exception. Nevertheless, I believe that together, we can do even better – we have a bright future ahead of us.

CELEBRATING THE PAST

Just as every book has its cover, every company has its story. This is Vacon's story – and it's a good one, with 20 solid years to be proud of and celebrate. Sometimes it's worth sitting back and reflecting on where we have come from.

How Vacon came into being is a bit different from its competitors – the company was not created by a group of hardened businessmen, but rather a bunch of enthusiastic engineers who were more interested in switchboards and AC motors than making spreadsheets.

1993-2000

It all started way up north in deep, dark, cold Finland in the city of Vaasa. Let's just take a minute to think about the world in 1993. There's no internet to speak of, no low-fare air travel. In fact, some of us may remember receiving our very first email back then.

At that point, Finland was in the middle of a particularly nasty depression. But not for 13 adventurous souls who were determined to make something positive out of it. They put their heads together to think up a product that would transform the way electrical energy is processed. In a nutshell, their idea was to add software to AC drives, which up until then had been simple mechanical boxes.

That's the key vision that Vacon's 13 founders believed in, so much so that they risked everything they had, including their houses, to finance the project.

So, once the company's founding charter was signed in November 1993, work immediately started on developing Vacon's first product for the market, the VACON® CX, which made its debut in 1995. That same year, Vacon took its first steps towards global activities – with subsidiary offices opening in Germany and Sweden.

> It all started way up north in deep, dark, cold Finland in the city of Vaasa.

2000-2008

During the next few years, the Vacon team focused on things like product development, R&D and building solid customer relationships – basically all the stuff a global company needs to get right. And Vacon did it right – if we fast forward to the new millennium, Vacon was well on the map with subsidiary offices in 10 countries, 300 people and an annual turnover of EUR 80 million.

> The idea was to add software to AC drives, which up until then had been simple mechanical boxes.

Today, Vacon is the biggest AC drives focused company in the world.

By December 2000, the company was ready to go public and was listed on the Helsinki Stock Exchange. Vacon was on a roll. During the period from 2000 to 2008, Vacon offices began opening doors all over the world, with Driven by Drives popping up in the US, China, Italy and India, just to name a few.

In 2000, Vacon ushered in the first products from the VACON® NX series and in 2002, a real game-changer arrived: the VACON® NXP Liquid Cooled, one of the first liquid cooled drive solutions that could actually deliver high powers - up to 5.3 MW. And this is one of the main reasons why Vacon has become a go-to supplier in the marine industry, where high protection and compact design are so essential.

2008-2013

From 2008 onwards, segment specific drives were the way to go. Because that way, Vacon could ensure that its product portfolio has the right drive for everyone. Case in point, the VACON® 100 HVAC, which was the first of its kind to be released in 2008, and is still considered to be just about the best AC drive for air conditioning.

Today, Vacon is the biggest AC drives focused company in the world and got one of the most comprehensive portfolios in the business, great technology, great expertise and a clear purpose.

In 2013, Vacon drives helped save a staggering 55 terrawatt hours of electricity. For those who don't speak terawatt, that is the same as produced by approximately ten 700-MW nuclear power plants over an entire year or better yet, Vacon drives saved the planet 22 hours' worth of global electricity production.

Vacon's goal is still to innovate, develop products, solutions and services that make a difference and successfully address the challenges our customers will face in the years to come. Vacon is a company driven by experience and a passion for excellence - and we already know that's the key to opening new horizons for business. The future looks bright – for Vacon and our customers.

Vacon's goal is still to innovate, develop products, solutions and services that make a difference and successfully address the challenges our customers will face in the years to come.

MEGATRENDS BOOST THE AC DRIVES MARKET

THE NEED FOR ENERGY WILL GROW TO AN UNSUSTAINABLE LEVEL WITHOUT CONTINUOUS IMPROVEMENT OF ENERGY EFFICIENCY.

EMERGING MARKETS ARE THE DRIVERS OF ECONOMIC GROWTH.

THE WORLD IS FACING A SHORTAGE OF CLEAN WATER, WHICH REQUIRES MORE EFFECTIVE TREATMENT OF WATER AND WASTEWATER.

URBANIZATION IS INCREASING IN DEVELOPING COUNTRIES, IN PARTICULAR, GROWING THE BUILDING AUTOMATION AND CIVIL ENGINEERING BUSINESS.

THE NATIONS OF THE WORLD WANT TO MITIGATE CLIMATE CHANGE BY LIMITING CARBON DIOXIDE EMISSIONS, MAKING ENERGY EFFICIENCY LEGISLATION STRICTER, AND PROMOTING THE USE OF RENEWABLE ENERGY FORMS BY MEANS OF SUBSIDIES AND TAX RELIEF.

THE INTERNET OF GOODS AND SERVICES IS DRIVING THE FOURTH INDUSTRIAL REVOLUTION, AS SMART MACHINES, INVENTORY SYSTEMS AND PRODUCTION MACHINERY CONSIDERABLY IMPROVE INDUSTRIAL PROCESSES.

MECHANICAL AND HYDRAULIC SOLUTIONS ARE BEING REPLACED WITH ELECTRIC MOTORS IN DIFFERENT INDUSTRIES, MAKING IT POSSIBLE TO BENEFIT FROM VARIABLE SPEED CONTROL.

A SUSTAINABLE GROWTH MARKET

Overall, the estimated growth in the AC drives market over the long-term is greater than the growth in gross domestic product (GDP). According to an estimate by the market research institute IHS, the global market value of low-voltage AC drives was approximately USD 11.8 billion in 2013.

The biggest market area for AC drives is Asia Pacific region, which accounts for approximately 42% of the world market. Growth is expected to continue to be fastest there. The share of Europe, Middle East and Africa region in the total global market is approximately 34%, and the North and South America accounts for about 24%. (*IHS)

According to IHS, the biggest segments in the AC drives market in 2013 included building automation, conveyors, the food & beverage, the metals industry, the marine industry, energy production, and water & wastewater.

Vacon decided in 2013 to expand its product portfolio to also include medium-voltage AC drives in the future. Vacon's current AC drives operate in the low-voltage range. The global market for medium-voltage AC drives is growing, and its current value is estimated at USD 2.8 billion. The value of the global market for inverters and power converters for renewable energy production was estimated at USD 10.2 billion in 2012.

A GROWING MARKET

The long-term growth outlook of the AC drives market is good. Growth is being 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 prosperity development. AC drives help increase energy efficiency and allow renewable sources of energy to be used more extensively. The need for AC drives is also increased by other global megatrends, such as replacing mechanical solutions with electronic. Using the Internet allows industrial devices equipped with AC drives to be controlled and monitored more intelligently than before, regardless of location. In addition, the industrial Internet offers opportunities to apply new kinds of business models. There are no competing or substitute technical solutions for AC drives, and none are within sight.

AC DRIVES PLAY AN IMPORTANT ROLE IN ENERGY EFFICIENCY

Increasing energy efficiency in all processes is key to preventing climate change. Governmental and public decision-makers are also increasingly working to direct industry towards using more energy-efficient operating methods. For example, the European Union has issued a directive regarding the requirements for the ecological design of energy-using products (2005/32/EC). The directive describes methods by which energy efficiency is defined and objectives set for different product groups. The regulation permits motors with slightly lower efficiency if they have been equipped with AC drives. The requirements will come into effect with regard to electric motors on 1 January 2015.

In other countries, such as the USA, Australia, Japan, and China, similar regulations are pending. The European Committee for Electrotechnical Standardization (CENELEC) is developing an energy efficiency standard for the use of AC drives. Vacon is participating in this standardization work.

SMART GRIDS AND OPERATIONS WITHOUT ELECTRONIC DISTURBANCES

A "smart grid" is a system which combines electric power engineering with solutions from automation, information and communication technologies. With smart grids, the consumption and production of electricity can be controlled and balanced. These grids also provide increasingly accurate information on electricity consumption to utility companies and consumers, as well as the opportunity to make energy consumption more efficient. Vacon is actively participating in bodies which are discussing the implementation of smart grids and cover issues relating to the management and stability of transmission and distribution networks, among other things. In addition, Vacon continuously researches completely new end uses where AC drives would be beneficial.

The technical requirement level regarding electrical interference is currently higher in industrialized countries than in emerging countries. Nevertheless, the requirement level in these countries is also clearly rising. Vacon's AC drives have been designed to work under a variety of conditions and comply with even the strictest EMC directives issued by the EU. This strengthens the competitiveness of Vacon's products in the emerging countries as well. •

WE ARE GROWING FASTER THAN THE MARKET AND OUR PROFITABILITY IS STRONG

In November 2013, Vacon published its new long-term economic targets and its new strategy for 2014–2020. The objective is to achieve average annual revenue growth of 10% and a sustainable operating profit level of 14%.

VACON'S FINANCIAL TARGETS FOR 2014–2020:

Growth
The target is to achieve average annual revenue growth of more than 10%. This growth target is based on growing the business operations organically in a business environment where the AC drive market is growing considerably faster than average gross domestic product (GDP). Growth can be further accelerated by means of selected acquisitions.

Profitability
The long-term profitability objective is to achieve a sustainable operating profit level of 14%. Vacon concentrates on growth and measures which improve the company's effectiveness in the long term and thus help achieve greater absolute operating profit and shareholder value.

Vacon's economic objectives should not be considered market guidance for any specific year during the 2014–2020 period. The company publishes separate market guidance every year.

STRATEGIC FOCUS AREAS

Vacon's strategy is based on concentrating 100% on AC drives. The AC drives market will create good growth opportunities for the company in the future as well. We will strengthen our market leadership among companies manufacturing solely AC drives. We will introduce to the market our first medium-voltage AC drive and expand our product portfolio with system drives. Vacon will also expand its maintenance service operations and introduce new cloud-based services to customers.

A broad product portfolio will enable us to grow profitably and meet customer requirements globally. The product portfolio is based on a shared product platform and the principles of mass customization.

As a company concentrating on AC drives, Vacon will continue to expand into new customer sectors. This will provide stability in the company's operations in different market situations.

One of the cornerstones of Vacon's operations is multi-channel sales. Multi-channel capabilities are needed in order to take the extensive product portfolio in all countries and in selected customer sectors. The choice of channels is optimized to the special characteristics of individual countries.

Vacon will also accelerate growth by expanding its operations into new geographical areas and by focusing on countries with rapid market growth.

In addition to systematically improving the efficiency of operations, the main drivers of profitability include procurement from countries providing the best cost-efficiency, design to cost, local production, and growth of maintenance service operations, as well as differentiation through application software and cloud-based services.

COMPETITIVE EDGE

Our differentiation and competitive advantage is based on a 100% focus on AC drives, and we see four areas where we are and will be unique:

Product leadership
Leading technological solutions and fit for purpose products strengthen our competitive advantage and enables us to win market share. We enhance our drives excellence and continue investing in smart products and product range extension.

Profound application know-how
Commoditization of hardware continues and our products create more value to our customers when we have deep application knowhow. We continue to build application competencies which, together with our products, provide added value to customers.

Extensive services
We can differentiate against new entrants and low-cost players by having extensive AC drive related services globally for the whole product lifecycle. We expand our local service footprint and build new advanced cloud based services.

Unique organizational culture
Unique organizational culture is one of our success factors. Our brand is based on a "Driven by Drives" attitude. Our values and competent organization differentiate us from the competition.

VACON STRATEGY 2014-2020

THE DRIVES FAMILY

Vacon sees that true value is created together. That is why we will create The Drives Family where the best people work together to develop the best products, applications and services for our customers. Vacon will be a company that brings together personnel, customers, partners, suppliers, shareholders, scholars and students – all the people who are Driven by Drives.

STRATEGIC CHOICES

- 100% focus on low and medium voltage drives and inverters
- Broad product, application and service portfolio
- Multiple customer industries
- Multi-channel sales

FINANCIAL TARGETS

Growth: The target is to achieve an average annual revenue growth of over 10%.

Profitability: The long-term profitability target is to achieve a sustainable EBIT margin level of 14%.

COMPETITIVE ADVANTAGE

- Product leadership
- Profound application know-how
- Extensive services
- Unique organizational culture

VACON'S BROAD PRODUCT PORTFOLIO CAN CATER FOR EVEN THE MOST DEMANDING CUSTOMER NEEDS

Vacon's 100% focus on AC drives sets the company apart from the competition. This focus allows Vacon to seamlessly combine a dynamic and passionate attitude with product expertise, and this is how the company can serve a broad customer base.

AC drives offer optimum process control and energy efficiency in electric motors. Vacon's extensive product portfolio serves multiple industries and can be divided into six categories: Compact AC drives, Standard AC drives, Premium AC drives, Solar inverters, Wind power converters and Services.

Vacon concentrates on the essential: improving its customers' products or processes. Vacon's experience of over twenty years in the business guarantees that the company understands customers' needs and can offer the most cost-effective solution in terms of process efficiency, energy savings, automation integration, programmability and total cost of ownership.

By combining a global sales and partner network with local production in various parts of the world, Vacon is a strong business partner on all continents. Vacon works closely with original equipment manufacturers, system integrators, brand label customers, distributors, industrial end-users and value-adding resellers.

VACON 100® FLOW – INTELLIGENT PROCESS CONTROL
One example of Vacon's extensive product portfolio is VACON® 100 FLOW, which is an AC drive dedicated to improving flow control in water and wastewater as well as building automation applications. VACON 100 FLOW combines the core design of VACON 100 with dedicated functions that benefit flow control processes. VACON 100 FLOW improves the efficiency and redundancy of pump systems, offering advanced features for controlling multiple pumps simultaneously.

VACON® NXP Grid Converter line-up

PRODUCTS FOR MANY INDUSTRIES

Vacon AC drives are utilized in numerous different segments. Segment-specific needs guide Vacon's operations while developing products, services, solutions, and ways of working. These also steer strategic decision-making in sales and marketing. This enables Vacon to offer customers the best possible products and to bring genuine added value with its expertise and services.

Vacon's main segments are as follows:

- building automation
- marine and offshore
- water and wastewater
- pulp and paper
- solar
- cranes and hoists
- mining and metals
- elevators and escalators
- food and beverage
- wind

EXCELLENCE IN VARIOUS APPLICATIONS

Vacon has developed segment-specific products for applications which particularly benefit from the use of AC drives. For widely used pump, fan and compressor applications, Vacon has designed the VACON® 100 HVAC and VACON® 100 FLOW products. In addition, Vacon's portfolio includes several other application-specific products that are developed for the needs of elevators and escalators, marine and offshore, mining and metals, building automation and water treatment.

Application-specific general-purpose AC drives are immediately ready for installation and their use does not require any special expertise. This results in faster installation and commissioning times, decreased risk of errors, and customers will have the best possible product to control their processes. The latest addition to Vacon's application-specific product portfolio came in late 2013 when the company introduced the VACON® NXP Grid Converter. The VACON NXP Grid Converter is designed for the needs of marine and offshore, helping ship owners and port authorities reduce fuel consumption and emissions in ships, improve efficiency and save on operational costs.

SERVICES

Vacon's product portfolio is complemented by a comprehensive service portfolio which is based on extensive understanding of both business and process requirements. Vacon's customer-oriented approach to service means that the company is committed to offering customers the best possible drive solution. Vacon is systematically increasing its local presence in various parts of the world, ensuring service availability wherever it is needed.

Fast and flexible expert services will create tangible returns in the form of increased reliability of operations and environmental efficiency as well as decreased lifecycle costs.

VACON OPERATES IN SEVERAL CUSTOMER BUSINESS SECTORS

An AC drive is a device that is used to control the speed of an electric motor in all industry segments and in civil engineering. In addition, inverters based on the same technology are key products in the production of renewable energy.

MARINE AND OFFSHORE

The marine and offshore industry is a wide-ranging industry that includes shipbuilding, marine transport and port services related to the supply of electricity and the loading of ships. The offshore industry manufactures machinery for locating and exploiting underwater oil and gas deposits, and builds equipment for wind power or wave energy farms located at sea.

Vacon's AC drives control electric motors accurately and flexibly. Therefore, they are very important for different applications in the marine and offshore industry. Vacon's standard AC drives are certified by the major classification societies.

Vacon works in close collaboration with significant system integrators and has developed numerous pioneering solutions for the needs of vessels and ports. Vacon has many years of experience in creating electrical grids by means of grid converter technology. This technology can be applied in, for example, a ship's electrical grid, and it enables reduced emissions, fuel consumption and costs, improved performance and reduced noise and vibration.

BUILDING AUTOMATION

Heating, ventilation and air conditioning (HVAC) are the most typical applications in building automation. The proportion of energy-intensive HVAC applications in the total consumption of electricity is approximately 20% in both Europe and the USA.

In practice, Vacon has designed products and solutions for all possible applications in the building automation field, such as for controlling water heaters, pumps, fans, compressors, ventilation units, and condenser fans. Vacon's products also suit special environments, such as ventilation of parking garages and apartment building staircases.

Vacon's AC drives enable the pumps and fans used in HVAC systems to work at the optimal running speed and flow rate required by the process. Vacon's solutions make it possible to reduce the energy consumption of HVAC systems by 20–50%. With AC drives, energy can be used more efficiently, total costs can be considerably reduced and their payback period is short.

ELEVATORS AND ESCALATORS

More than half of the world's population currently lives in cities. Urbanization is increasing the need for construction, which in turn means an increased need for elevators and escalators in new buildings. This is accompanied by a growing need to curb energy consumption and improve efficiency.

Technical innovations in Vacon's AC drives help elevator and escalator manufacturers develop solutions which use energy as efficiently as possible.

Technical solutions designed by Vacon for elevators include feeding the braking energy back into the electrical grid, reducing the energy consumption of standby power, and tailored control interfaces. The smooth arrival of an elevator at floor level and rapid acceleration between floors are controlled by an AC drive.

MINING AND METALS

Population growth and dependency on natural resources have resulted in increased global demand for metals and minerals. The increase in the demand for metals and minerals is leading to growth in mining, among other things. AC drives have multiple applications both in new mines and in old ones where operations are being streamlined.

The production conditions in the mining and metals sector are among the harshest in industry, due to lack of space, dust, and extreme heat. Therefore, equipment used in industry needs to be extremely durable in order to operate reliably.

Vacon offers high-quality AC drive solutions for the demanding conditions and applications of the mining and metals industry. Our products can be used in all stages of the production process, from mine to processing plant to foundry to factory.

CRANES AND HOISTS

Since its establishment, Vacon has been supplying AC drives for major companies in the crane and hoist industry. Various cranes and hoists are widely used in all industries, ports, shipyards and construction projects.

AC drives provide cranes and hoists with numerous benefits: increased process control, improved performance, and lower operating costs.

Thanks to its extensive product portfolio, vast experience, and expertise in application software design, Vacon is able to provide solutions for a variety of hoisting applications, including main and auxiliary hoists for cranes, bridge and trolley travel, cockpit control, lifts, spreaders, and reels. Vacon's products enable accurate speed control and positioning, optimal use of power as well as feeding the braking energy back into the electrical grid.

PULP AND PAPER

Processing wood into a completed end product in the pulp and paper industry includes numerous steps, and in the paper industry in particular, it also involves chemical processes. The machines, pumps and fans of a paper mill form an extensive system where all components must work together effectively.

Pulp and paper industry processes require reliable, accurate, and efficient control. In particular, reliability is emphasized, since production interruptions are very costly.

Vacon has supplied thousands of AC drives to the pulp and paper industry since 1995. The company has extensive experience in control systems and cooperation with system integrators and OEMs. AC drives are needed in the total optimization of nearly all machines in the pulp and paper industry.

WATER AND WASTEWATER

Water and wastewater treatment plants are an integral part of a functioning modern society. Continuous population growth in the world is increasing water consumption and the need for clean water, irrigation, and water treatment.

Many industries are dependent on water. Agriculture is particularly dependent on water and uses more than 70% of the world's clean water for irrigation. Irrigation water helps produce 40% of the world's food.

Vacon has developed top applications specifically for the treatment of water and wastewater. They can be used for pump control, hose filling, pump supervision, and multiple pump control applications. Vacon also supplies AC drives to irrigation plants and some of the world's largest desalination plants in the Middle East and Australia. In many water pumping solutions, the payback period can be as short as one year or less.

FOOD AND BEVERAGE

The food and beverage industry includes a variety of business areas which produce the majority of the food and beverages consumed by the world's population. The food industry is fairly stable in global economic fluctuations, and in Europe, for example, it is the largest single industry. Regulating temperatures, for example, is one of the most important requirements of this industry. In addition, due to hygiene requirements, production machinery must be cleaned daily with high-pressure washdowns.

Space is also often limited in the production facilities of the food and beverage industry. Keeping this in mind, Vacon has a range of AC drives in splash-proof enclosures as well as decentralized AC drives which eliminate the need for electrical rooms and can fit neatly into tight spaces next to conveyor systems or packaging and bottling lines. Vacon's AC drives reduce wear on production machinery and provide optimal control in the production process.

PRODUCTION OF RENEWABLE ENERGY

The need to reduce carbon dioxide emissions generated by fossil fuels will make the sun and wind increasingly attractive sources of energy. Several factors affect the utilization of renewable sources of energy. The key factors are sustainable development, development of cost-effective technology, and public support measures for renewable energy production, which vary according to country.

Vacon offers over ten years' worth of experience, extensive knowledge, and the necessary technology to convert energy from renewable sources into electricity, which is fed into the power distribution network.

For wind power plants, Vacon manufactures power converters which ensure that the voltage and frequency of the AC power produced meet the stated requirements.

Moreover, Vacon's extensive product portfolio includes solar inverters for applications designed to convert DC power generated by solar panels into AC power by means of power inversion.

KEEPING COSTS AND EMISSIONS UNDER CONTROL IN THE MEDITERRANEAN

The marine and offshore industry continuously seeks new solutions in order to improve efficiency and reduce fuel consumption, costs, and emissions. For example, an energy-saving shaft generator which uses VACON® NXP Grid Converter technology was designed for the M/V Bore Sea which transports Airbus components across the Mediterranean.

The electricity production of ships often uses a shaft generator connected to the propeller shaft. The electricity production of ships often uses a shaft generator connected to the propeller shaft. In order to provide the ship's electrical network with the constant frequency, the main engine has to be operated at a constant speed or the use of the shaft generator has to be stopped when the speed is changed.

The propulsion machinery of the M/V Bore Sea, which transports Airbus components across the Mediterranean, uses energy efficiently. The ship uses the WE Drive solution developed by WE Tech Solutions Oy, based in Vaasa, Finland. This solution uses VACON NXP Grid Converters installed between the shaft generator and the ship's electrical network.

This improves the efficiency of energy usage, because the electricity produced is of constant voltage and frequency, regardless of the speed of the main engine.

The operation of the propulsion machinery is always optimal, while electricity is generated for the ship's electrical network using VACON NXP Grid Converter equipment without auxiliary generators. This solution eliminates the need to operate the propulsion machinery at a standard speed, which saves a minimum of 10% in fuel costs. In monetary terms, this means annual savings of approximately EUR 550,000–600,000. In addition, carbon dioxide emissions are reduced by approximately 2,000 tonnes per year. •

Photo: Bore Ltd.

EFFICIENT AIR-CONDITIONING IN AUSTRALIA

Building automation and HVAC applications, in particular, consume a considerable amount of electricity, and the machines and equipment used require plenty of space. VACON® 100 HVAC and VACON® 100 X AC drives are a good fit for building automation applications where savings in energy, costs and space are desired. For example, the VACON 100 X drives used in the new headquarters of Fox Sports Australia in Sydney was installed on the roof of the building.

The sports channel Fox Sports Australia inaugurated its new headquarters in March 2013. Pumps, fans and chillers used in the air conditioning of the building are controlled with four VACON 100 X and twelve VACON 100 HVAC AC drives. Thanks to the AC drives, the air conditioning is efficient, quiet and adjustable, which improves employee comfort and the cost-effectiveness of the building. Vacon's AC drives comply with the strictest electromagnetic compatibility (EMC) requirements, so they do not interfere with the operation of the sensitive radio and TV equipment.

The VACON 100 X drives are installed in the open air on the roof adjacent to the motors which operate the chillers and pumps. The VACON 100 X AC drives are designed for decentralized applications; in other words, they can be placed as near the motor as possible or in an otherwise suitable location. This generates considerable savings since no separate electrical rooms are needed. Long, shielded motor cables or cabinets are also not needed. The die-cast metal enclosure with an IP66 (Type 4X) protection rating, equipped with a breathable air duct, provides the best possible protection against temperature changes and dust in demanding conditions.

In addition, air conditioning at the headquarters of Fox Sports Australia uses VACON 100 HVAC AC drives designed especially for building automation. They also do their part in making the operations of the pumps, fans, and cooling equipment more efficient. •

PREMIUM RELIABILITY AND A SMOOTH RIDE IN ELEVATORS

Elevators and escalators used in buildings, mines, and industrial facilities all over the world are examples of the benefits and speed control options offered by Vacon's AC drives, such as smooth acceleration and deceleration.

Vacon's subsidiary in Italy has developed the VACON® 20 Cold Plate AC drive, paying special attention to the needs of original equipment manufacturers (OEM) at the design stage. It contains a unique passive cooling solution that allows the drive to work under even the most demanding circumstances. Heat loss from the drive is low, and the drive is particularly suitable for installation in tight spaces with little air flow. The VACON 20 Cold Plate comes with an innovative cooling solution that requires no fan, which makes the drive quiet. Quiet operation is a considerable advantage in elevator applications.

Vacon has been working in long-term cooperation with many of the most important elevator and escalator manufacturers in the world. Vacon's product portfolio also offers suitable solutions for smaller manufacturers. For example, the Italian company SMS Sistemi e Microsistemi (SMS) uses VACON 20 Cold Plate drives to meet the needs of one of their elevator clients. The reliability, controllability, and customizability of Vacon's product provided SMS with an opportunity to design an optimal solution for their own clients.

This included reducing the maximum speed in order to limit power consumption when an elevator is at full load, as well as rearranging the automatic speed profiles so that elevators would travel at the most comfortable and best speeds for the application at hand.

Vacon offers versatile solutions to meet different needs in escalators. For example, Vacon's AC drives provide convenient solutions for escalator stand-by speed control and start/stop logic. •

VACON IMPROVES SALT PRODUCTION IN JORDAN

The Arab Potash Company (APC) in Jordan is an important manufacturer of potassium chloride. Potassium chloride is used in fertilizers and in food production as additive E508, among other things.

The Arab Potash Company's production facility is located in Ghor Al Safi, approximately 110 kilometers south of Amman, the capital of Jordan. The facility has been expanded several times in order to increase and optimize production. Vacon's AC drives were installed in APC's production facility when the facility was modernized.

These drives are used to control pumps and process equipment. Vacon has supplied the facility with several 400 V and 690 V VACON® NXC, VACON® NXP and VACON® NXS series AC drives with powers ranging from 2.2 kW to 710 kW. The combined power of the installed equipment is 26 megawatts. All AC drives are in IP54 enclosures, so no additional protection is needed for them in the process environment.

Put simply, the potash recovery process at Ghor Al Safi begins with pumping salt water (brine) from the Dead Sea into huge salt ponds. Then, after solar evaporation, the concentrated brine is pumped onwards to the processing plants to produce the final product, potassium chloride.

The operation of these pumps is controlled by VACON AC drives. This improves process control, resulting in a steady flow and pressure. By accelerating the pump motors quickly but smoothly to their running speed, the drives help prevent extra mechanical stress on the parts.

Pump control using VACON AC drives also reduces energy consumption by 20%. This is achieved by continuously adjusting the speed of the motor according to the actual process needs. The power required by the motor is proportional to the speed of the equipment being driven. This means that even a small drop in speed leads to substantial energy savings. •


Photo: Arab Potash Company

EFFICIENT AND PRECISE CONTROL OF GANTRY CRANES IN INDIA

The purpose of a crane is to help perform various work stages in a factory precisely and safely. With AC drives, cranes and hoists can be controlled more accurately, effectively, and with lower operating costs.

Vacon's product portfolio offers AC drives with a very extensive power range. Therefore, they suit a variety of applications, from simple hoists to the most demanding large construction and harbor cranes.

Mukand Ltd. is India's largest manufacturer of gantry cranes and an important OEM partner for Vacon's subsidiary in India. In the latest joint project, Mukand delivered four gantry cranes equipped with VACON® NXS and VACON® NXP AC drives to a foundry operated by the Indian company Elgi. Elgi is one of the largest manufacturers of air compressors and automobile service station equipment in Asia. Elgi's products are used widely in the mining industry, transportation, the energy and chemical industry, and the pharmaceutical industry, among others.

One of the most important factors behind selecting Vacon's products was the application software designed for mechanical brake control, which enables excellent speed accuracy and braking control.

Vacon's AC drives are able to detect critical motor parameters automatically, which provides improved control during the long travel, cross travel and hoisting of the gantry crane. •

SMOOTH AND SAFE GOLD RECOVERY IN EXTREME CONDITIONS

Small-scale mining has increased rapidly in recent years, which has had side effects, particularly in Africa and South America in areas where, for example, mercury is used to recover the precious metals. In the process, mercury accumulates in bodies of water and soil, resulting in health problems in people, among other things. For example, in Peru many projects to develop more environmentally friendly and safer methods of recovering gold have been launched to solve these problems.

The Sepro Mineral Systems Corporation in Canada offers innovative solutions for the needs of small-scale mining. The company has been developing an efficient and affordable way to recover gold for many years. Vacon's subsidiary in Canada also participated in the product development work. The research cooperation resulted in the iCON mineral processing product, which makes gold recovery safer and more environmentally friendly. iCON is a good fit for small-scale mining and makes it possible to separate gold from soil without the use of toxic mercury.

Sepro Mineral Systems Corporation selected the VACON® X drive to control its mineral processing product. This AC drive was the best choice for the purpose due to its durability and reliability. VACON X is a robust AC drive series designed for demanding industrial environments. iCON i350 mineral processing products equipped with VACON X drives have already been delivered to 19 different countries.

Gold is primarily mined in remote areas where the conditions are often extreme, such as on the equator. There, temperatures can exceed 38 °C (100 °F) and the humidity can reach 99%. Alternatively, mine sites may be located at high mountain altitudes and in northern latitudes with snow, ice, and freezing temperatures. Therefore, reliability is of the utmost importance. For example, it may take more than a week for spare parts or a service technician to arrive at the mine site by sea.

VACON X products are a good fit for such environments, since they can withstand even high-pressure washing and tolerate strong sun and heat extremely well. Vacon's AC drives are easy to use, and the selection of languages in the control panel is extensive. •

IMPROVED ECO-FRIENDLINESS OF PAPER INDUSTRY IN CHINA

Today, China is the world's largest paper manufacturer. Paper and board consumption is increasing mostly in Asia and, in particular, in China. Due to the growth in its industrial production, China is paying increased attention to environmental issues.

China's most recent five-year plan emphasizes sustainable growth which places less burden on the environment. For the paper industry, this means improved energy efficiency, reduced consumption of water, reduced emissions, increased production volume, and improved quality. AC drives help improve the quality of paper and reduce the consumption of energy and water. This generates considerable savings while simultaneously reducing the burden on the environment.

Vacon's systems integrator partner Andritz has been delivering a variety of solutions for the needs of the Chinese pulp and paper industry for fifteen years. Like most Chinese paper manufacturers, Jiangsu Shuangsheng Paper Technology Development Co., Ltd. wanted a turnkey solution for its paper machines. Vacon and Andritz joined forces to deliver a comprehensive solution for the paper mill, which is located in Yancheng, in Jiangsu Province.

More than fifty VACON® NXP Common DC bus inverter units are used for accurate control of the paper machine in demanding tasks such as load distribution and torque/tension control. Eighty VACON® NXS AC drives are used to operate a range of paper machine auxiliary fans, pumps, and feeders, among others. Vacon's regenerative products feed braking electricity back into the electrical grid and thus provide significant energy savings.

Andritz is satisfied with how seamlessly Vacon's products fit their solutions. The flexible structure and customizability of Vacon's products enable convenient building of even large systems. •

SAVING ENERGY IN WASTEWATER TREATMENT IN THE UK

The British company Thames Water chose Vacon's new-generation AC drives for its wastewater treatment plant in Newbury, west of London. These drives help the company achieve significant savings in energy consumption and the treatment plant experiences considerably less downtime. The energy savings mean the costs incurred by the AC drives and their installation are paid off in less than two years.

Varicon (3D) Drives, the service partner of Vacon's subsidiary in the UK, supplied the Thames Water wastewater treatment plant with three 55 kW VACON® 100 FLOW AC drives, which are used to control the plant's three main inlet pumps. These AC drives replaced the soft starters previously used at the treatment plant.

The smooth starting of Vacon's AC drives does not require a high starting power but still enables a high torque in starting, when needed. In addition, the drives help reduce pressure shocks in the process during starting and mechanical wear on the equipment. Due to the extended life of the mechanical parts this solution offers, maintenance and repair costs remain low.

Long life and reliability of operation are factors emphasized in the design of the VACON 100 FLOW, developed particularly for pump applications in water and wastewater treatment. The device contains high-quality and environmentally friendly components, such as thin film capacitors instead of electrolyte capacitors.

VACON 100 FLOW AC drives also incorporate a good number of pump-specific features as standard, including anti-ragging and auto-cleaning options preventing pump blockages. These features can considerably reduce the likelihood of unplanned downtime. The Newbury treatment plant was able to completely eliminate problems caused by pump blockages. In addition, one or two AC drives can control a system of several pumps simultaneously. This means that the loads of the pumps can be balanced and the system's reliability improved. •

VACON OFFERS SOLID EXPERIENCE IN WIND AND SOLAR ENERGY

Renewable energy production is one of the significantly growing business sectors using the AC drive technology. In countries such as Denmark or Germany, wind power production already accounts for a large proportion of consumption today. Vacon has more than ten years of experience in this field.

Wind turbines can optimize the energy yield according to the wind speed by controlling the rotational speed of the turbine. A rule of thumb in turbine technology is that the blade tip speed should be about seven times the speed of the wind. To achieve this, wind turbine design engineers started to apply inverter drive technology to wind turbine drives in the 1990s.

Since wind turbines and solar panel systems are power plants, a lot of attention is paid to system efficiency. Even a one per cent improvement in the amount of energy produced can be crucial.

Since the wind turbine is a variable-speed device, two inverter packages back to back are needed, with one inverter controlling the speed and torque of the variable-frequency rotor and the other feeding the energy generated to the grid at a constant 50 Hz or 60 Hz frequency.

When a high proportion of electricity production is based on power electronics, requirements concerning grid compliance and consideration of faults in the grid have increased. Maintaining electrical grid stability in all circumstances is crucial. Power plants must tolerate short-term faults and maintain the grid voltage during a fault. Vacon has solid expertise in grid connection of wind and solar power plants and in managing grid faults.

For wind power applications, Vacon offers VACON® 8000 WIND power converters, which are designed for use in doubly-fed induction generators.

In 2013, Vacon delivered three 1,000 kW VACON® 8000 SOLAR inverters to the Aquiris wastewater treatment plant in Brussels, Belgium. The 3,000 kW solar power plant is the size of five soccer fields and is installed on the roof of the treatment plant. It is currently the largest solar power park in the capital of Belgium. The energy produced by the plant's 10,000 solar panels is fed into the plant's own electrical network by means of

Vacon's solar inverters. The inverters utilize Vacon's Multimaster concept so that only the number of inverters required at any given time is used, depending on the intensity of the sun's radiation. •

GOVERNANCE AND MANAGEMENT

GOOD GOVERNANCE AND MANAGEMENT PROMOTE GROWTH, RENEWAL, AND WELL-BEING

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

CORPORATE GOVERNANCE STATEMENT 2013

COMPLIANCE WITH THE CORPRATE GOVERNANCE CODE OF FINNISH LISTED COMPANIES

Vacon Plc adheres to the Finnish Corporate Governance Code for listed companies (2010) ("Corporate Governance Code") in its entirety. This Corporate Governance Statement has been compiled in accordance with Section 7, Chapter 7 of the Securities Market Act (746/2012) and Recommendation 54 of the Corporate Governance Code. The company's Audit Committee 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 2013 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 Vacon Executive 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 Vacon 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 company's new long term strategy, as approved in November 2013, is described below in a chapter regarding the Board of Directors.

The Group's Executive Management Team meets monthly, and regularly monitors and handles 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 reported and discussed 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 their development.

The Vacon Group's financial performance is monitored monthly through a Group-wide consolidation and reporting system.

The reporting system covers the income statements, balance sheet figures, and key figures of the Group, parent company, and subsidiaries, and, in addition, production indexes for the production sites. The orders received by the production sites 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 company has launched a program to develop its information systems in support of its growth targets for the future.

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 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 internal audit assists the operative management in particular, but also the Board of Directors and its Audit Committee in their duties relating to the monitoring and management of the company. The Audit Committee approves the annual internal audit plan and receives regular reports on the internal audits completed. At least once a year the internal audit presents its report also to the Board of Directors. If necessary, audits are also performed in units beyond the annual plan. The units to be audited 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. In its major subsidiaries Vacon seeks to carry out an internal audit once a year and in others at approximately three-year intervals.

The person who is in charge of the internal audit reports in this capacity to the Group's CFO, and, if needed, she/he has a direct access to the CEO and the Board of Directors. The Group's own resources as well as resources of an independent third party are used in the internal audit. The internal audit offers corrective process instructions to units when needed and implements the Group's existing and proven practices and processes in the subsidiaries.

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 made, and such plans are monitored quarterly.

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. The Executive 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 renewed its risk management policy in 2012. Said policy defines the targets aiming at ensuring:

- the safety of the personnel of the Vacon Group, its customers and third parties
- the competence of the personnel of Vacon
- the safety and high quality of Vacon's products and operating methods
- compliance with local and international laws, decrees and recommendations
- the identification of risks and taking such risks into account in decision-making
- the continuity of business operations and sustainable growth, and
- the appropriate protection of Vacon's intellectual property rights, brand and reputation.

The risk management policy is reviewed annually to ensure that it is up to date. It is available for all employees and 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 in the Board of Directors' report.

Insider administration

Vacon Plc follows the insider guidelines for the listed companies of NASDAQ OMX Helsinki and the company's own insider guidelines, which in certain aspects set stricter requirements for handling insider information than those of the NASDAQ OMX Helsinki. The insider guidelines of Vacon Plc were updated in 2013 to take into account, in particular, the provisions of the new Securities Markets Act (746/2012).

Vacon Plc has in 2013 maintained its 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 his deputy, and the auditor. In addition to these, according to a decision of the parent company's Board of Directors, other public permanent insiders are the other members and the secretary of the Executive 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 Group's management, finance and communications departments and the executive assistants of senior management. The company 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 including the date of publication. 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.

As in previous years, training events were organized also in 2013 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 re-elected by Vacon Plc's Annual General Meeting on 26 March 2013 are the authorized public accountants PricewaterhouseCoopers Oy (PwC) and the principal auditor appointed by PwC for the financial year was Markku Katajisto, APA. PwC has acted as the company's auditor as of 2011 and Markku Katajisto as the principal auditor for the same period. 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 and the Audit Committee.

The combined fees of PwC related to auditing for the entire Group were approximately EUR 178,000 (EUR 134,000 in 2012). Other fees paid to PwC by the Group were approximately EUR 288,000 (EUR 177,000 in 2012).

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 dividends, 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 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 with the exception of an undertaking by AC Invest Three B.V., a wholly owned subsidiary of Ahlström Capital Oy, to refrain from selling its shares in Vacon Plc on the market for a period of 270 days following the sale of shares on 3 December 2013.

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 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.

In 2013, Vacon Plc's Annual General Meeting was held on 26 March 2013 in Vaasa. 138 shareholders were represented at the meeting, holding a total of approximately 68% 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 other members of the Executive Management Team, other persons from the company's management and the representatives of the company's auditing firm. Documents from the Annual General Meeting 2013 are available on the company's website at www.vacon.com > Investors > Corporate Governance > Annual General Meetings > AGM 2013.

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 of Directors 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 26 March 2013 decided that the number of the members on the Board of Directors remains at seven. Pekka Ahlqvist, Jari Eklund, Jan Inborr, Juha Kytölä, Panu Routila, Mika Vehviläinen, and Riitta Viitala were re-elected as Board members. Panu Routila was elected as Chairman and Mika Vehviläinen was re-elected as Vice Chairman of the Board of Directors at the organization meeting of the Board. Jan Inborr, the former Chairman of the Board of Directors, had informed that he is no longer available for re-election as the Chairman for the term of office 2013-2014. 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 the proper supervision of accounting and control of financial matters.

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, among other things, confirms Vacon Plc's and the 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 and the achievement of goals, appoints Vacon Plc's CEO and his deputy as well as the members of the Executive Management Team. The Board of Directors decides on the composition of the subsidiaries' Boards of Directors, the principles of remuneration and incentive systems of the 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.

In November 2013, the Board of Directors approved Vacon's strategy for 2014-2020, new financial targets based on said strategy as well as a new vision. Vacon's strategy is based on a 100% focus on AC drives. Vacon will further build its broad product, application and service portfolio. It will introduce medium-voltage AC drives and system drives. The company will also expand its service business. Vacon's differentiation and competitive advantage are based on four elements: product leadership, profound application know-how, extensive services and unique organizational culture.

Financial targets relate to growth and profitability. The target is to achieve an average annual revenue growth of over 10%. The long-term profitability target is to achieve a sustainable EBIT margin level of 14%.

Vacon's vision is to create The Drives Family around its AC drives business, a community where the best people work together to develop the best products, applications and services for Vacon's customers. The Drives Family consists of all the people who are Driven by Drives.

Evaluation of independence

At the beginning of 2013, Vacon Plc's Board of Directors evaluated the independence of the 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, whose subsidiary AC Invest Three B.V. is a significant shareholder of Vacon Plc.

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 Executive Management Team attend the meetings upon invitation by the Board. The General Counsel of Vacon Plc acts as the secretary to the Board of Directors. 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 Executive 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 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 2013, the Board held 12 meetings. The average attendance percentage of the Board members was 94%.

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

Member of the Board of Directors	Number of meetings attended	Attendance rate
Panu Routila, chairman	12	100
Mika Vehviläinen, vice-chairman	9	75
Pekka Ahlqvist	11	92
Jari Eklund	12	100
Jan Inborr	11	92
Juha Kytölä	12	100
Riitta Viitala	12	100

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 2013 Annual General Meeting were as follows:

- monthly fee for the Chairman EUR 3,000
- monthly fee for each Board member EUR 1,500
- a bonus depending on the Group's revenue and operating profit, which may be a maximum of EUR 3,000 a month for a Board member and a maximum of EUR 6,000 a month for the Chairman
- a fee of EUR 500 per meeting for the members of the Board's permanent committees for their attendance in the committee meetings.

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 approximately EUR 229,000 in 2013 (EUR 186,000 in 2012). A bonus accumulated on the basis of the 2012 revenues and operating profit was paid to the members of the Board in 2013. The total fees of each member are displayed in the table below.

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

Remuneration, EUR thousand	2013	2012	2011
Member of the Board of Directors			
Panu Routila, chairman	43	25	45
Mika Vehviläinen, vice-chairman	29	23	45
Pekka Ahlqvist	26	21	45
Jari Eklund	30	25	45
Jan Inborr	42	44	90
Juha Kytölä	30	25	45
Riitta Viitala	29	23	45

COMMITTEES

Nomination and Remuneration Committee

Vacon Plc's Board of Directors has established a combined Nomination and Remuneration Committee, comprising three members of the Board. The committee prepares matters and makes recommendations for the General Meeting and the Board to decide on. The Board of Directors has confirmed the main duties and working procedures of the Nomination and Remuneration Committee in a written charter. The duties of the Nomination and Remuneration Committee include, among other things, assisting the Board in the preparation and handling of matters pertaining to the nomination and remuneration of the Board members and the executives of Vacon. The committee also handles the principles of proposed incentive plans for the personnel as well as pay-outs under said plans prior to their handling at the Board meeting.

On 26 March 2013, the Board re-elected Jan Inborr as the Chairman of the committee and Mika Vehviläinen and Riitta Viitala as members of the committee. All of them are independent of the company and its significant shareholders. The Nomination and Remuneration Committee had six meetings in 2013. The committee members attended the meetings as follows:

Member of the Remuneration and Nomination Committee	Number of meetings attended	Attendance rate
Jan Inborr, chairman	6	100
Mika Vehviläinen	5	83
Riitta Viitala	6	100

The average attendance percentage of the Committee members was thus 94%.

Audit Committee

Vacon Plc's Board of Directors has established an Audit Committee comprising three Board members.

The Board of Directors has confirmed the main duties and working procedures of the Audit Committee in a written charter. The objective of the committee is to assist the Board in its supervisory responsibilities and ensure that the Board is aware of matters which may significantly impact Vacon's financial condition or businesses. Accordingly, the Committee prepares matters relating primarily e.g. to financial reporting, internal control, auditing and compliance with laws and regulations before the handling of such matters by the Board. In addition, the committee makes decisions in certain matters as specified in its charter, for example, approves the annual plan of the internal audit.

On 26 March 2013, the Board re-elected Panu Routila as the Chairman of the committee and Jari Eklund and Juha Kytölä as members of the committee. All of them are independent of the company and its significant shareholders, with the exception of Panu Routila who is the CEO of Ahlström Capital Oy, the parent company of AC Three Invest B.V. who is a significant shareholder of Vacon Plc. All members have expertise in accounting, bookkeeping or auditing.

The Audit Committee had seven meetings in 2013 and its members attended the committee meetings as follows:

Member of the Audit Comittee	Number of meetings attended	Attendance rate
Panu Routila, chairman	7	100
Jari Eklund	7	100
Juha Kytölä	7	100

The average attendance percentage of the Committee members was thus 100%.

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 Executive 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 and responsible for the Executive Market Operations, 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 18 months' salary in addition to the salary for the six-month period of notice. 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. In accordance with the service contract of the CEO, the company has taken a life insurance for the CEO.

Executive Management Team

The Board of Directors has appointed the Vacon Executive 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.

The Executive 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, the Group structure and organization as well as major policies of administration and the HR policy issues. The Executive Management Team consists of the parent company's CEO and senior management in charge of the functions at the Group level. The Executive 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 site directors report directly to the designated members of the Executive Management Team.

In 2013, the Vacon Executive Management Team consisted of:

- Vesa Laisi, President and CEO
- Heikki Hiltunen, Deputy of the CEO, Executive Vice President, Market Operations
- Tuula Hautamäki, Senior Vice President, Human Resources
- Jukka Kasi, Executive Vice President, Product Operations
- Pia Aaltonen-Forsell, CFO, as of 1 May 2013
- Eriikka Söderström, CFO, until 5 February 2013

The Executive Management Team convened 12 times in 2013. Sebastian Linko, Director, Corporate Communications and Investor Relations, acted as the Secretary to the Executive Management Team. According to the decision by the Board of Directors, new members of the Executive Management Team will not be covered by the additional pension insurance. Thus Pia Aaltonen-Forsell who joined the Executive Management Team in 2013 is not a participant in the additional pension insurance but otherwise the members of the Executive Management Team have an equivalent pension age, additional pension insurance as well as life insurance as the CEO.

In 2012 and 2013, the total remuneration of the CEO and the other members of the Executive Management Team was as follows:

2012

EUR thousand	Regular cash salary	Performance bonus from previous year	Fringe benefits	Share bonus	Total	Number of shares assigned
CEO	352	0	0.5	99	452	1,188
Deputy to the CEO	269	0	0.5	74	344	891
Other members of the Management Team	534	0	1.9	157	693	1,881
Total	1,155	0	2.9	330	1,489	3,960

2013

EUR thousand	Regular cash salary	Performance bonus from previous year	Fringe benefits	Share bonus	Total	Number of shares assigned
CEO	400	103	0.5	361	864	3,378
Deputy to the CEO	274	71	0.5	271	616	2,354
Other members of the Management Team	535	144	1.1	421	1,101	3,249
Total	1,209	318	2.1	1,053	2,581	9,161

SALARIES AND OTHER BENEFITS PAID TO THE CEO AND OTHER 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.

The share bonuses paid in 2013 were based on the fulfillment of the criteria of the 2012 share bonus scheme.

The company's Board of Directors will in spring 2014 decide on the amount of the share bonuses to be paid on the basis of the 2013 share bonus scheme.

Bonus scheme for other 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.

Panu Routila
chairman
born 1964, M.Sc. (Econ.)
CEO of 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),
ÅR Packaging AB,
AC Cleantech Management Oy (chair),
Ripasso Energy AB

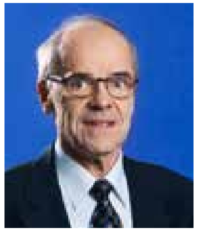
No Vacon Plc shares

Mika Vehviläinen
Vice Chairman
born 1961, M.Sc. (Econ.)
CEO, Cargotec Oyj
Board member since 2009

Previous positions:
CEO of Finnair Oyj, 2010–2013; several management positions with Nokia since 1991 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:
Confederation of Finnish Industries
Elisa Oyj
East Office of Finnish Industries Oy

No Vacon Plc shares



Pekka Ahlqvist
member
born 1946, M.Sc. (Eng.), MBA
Member of the Board of Directors
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.)
LähiTapiola, Group director, investing, asset liability management and group services
Board member since 2001

Previous positions:
Various positions in the LähiTapiola 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 the Supervisory Board)

No Vacon Plc shares

Jan Inborr
member
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.

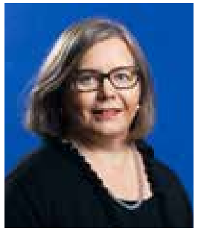
Board member at:
Antti Ahlström Perilliset Oy (chair),
BaseN Oy,
Enics AG,
Mervento Oy,
Webforum Europe Ab

No Vacon Plc shares

Juha Kytölä
member
born 1964, M.Sc. (Eng.)
Wärtsilä Ship Power, Vice President, Environmental Solutions business line
Board member since 2010

Previous positions:
CEO, Wärtsilä Finland Oy, 2006–2012; management and expert positions at Wärtsilä Group since 1989, e.g. Research and Development Manager for four-stroke engines and development, and management positions in production and environmental business operations.

Vacon Plc shares:
400



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.

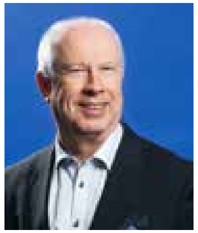
Board member at:
Ilkka-Yhtymä Oyj,
I-Mediat Oy,
Board member at the Vaasa division of the Ostrobothnia Chamber of Commerce

No Vacon Plc shares

Jaana Klinga
secretary
born 1968, Master of Laws (LL.M.)
Vacon Plc's General Counsel
Secretary of the Board since 2013

Previous positions:
Ahlström Oyj, various positions in the legal department 1996–2004 and 2007–2011. Lawyer at Hammarström Puhakka Partners Oy 2005–2006 and an Associate Lawyer at Scandinavian Law Partners and Scandinavian Law Offices firms 1991–1996.

Vacon Plc shares:
496



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 Strömberg UK Ltd. 1986–1988; and Development Engineer at Strömberg Electronics plant 1982–1986

Board member at:
The Federation of Finnish Technology Industries, Economic Information Office TAT, The Switch Engineering Oy, VNT Management Oy

Vacon Plc shares:
22,729

Heikki Hiltunen
Executive Vice President, Market Operations, 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 in Finland and Germany 1986–1992

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

Vacon Plc shares:
12,741

Pia Aaltonen-Forsell
CFO
(as of February 6, 2013)
born 1974, M. Sc.(Political Science)
Employed by the company since 2013

Previous positions:
Stora Enso Building and Living business area, Director in charge of finance, IT and acquisitions and member of the management team 2012–2013; other management and specialist positions in the Stora Enso Group since 2000: SVP Group Controller, 2009–2012; Chief Accounting Officer, 2008–2009; VP, Group Reporting, 2006–2008; Business Controller, 2004–2006 and Group/ Division Accounting Manager, 2000–2004. Accountant and Chief Accountant, Corenso United Oy Ltd, 1997–2000; Trainee, Accounting and Projects, Corenso United Oy Ltd in Finland and in France,1995–1996.

Board member at:
Helapala Oy Ab

No Vacon Plc shares

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

Previous positions:
Vacon Plc's Vice President of Process Development 2000–2009, 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 shares:
13,936

Jukka Kasi
Executive Vice President, Product Operations
born 1966, M.Sc. (Eng.)
Employed by the company since 1997

Previous positions:
Previous positions: Vice President, Corporate Development, Vacon Plc 2009–2011, 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, ABB Drives Inc. USA: AC drive designer 1992–1994, ABB Small AC drives: product design 1990–1992

Vacon Plc shares:
58,000

Eriikka Söderström
CFO
born 1968, M.Sc. (Econ.)
Employed by the company since 2009 (until February 5, 2013)

Previous positions:
CFO at Oy Nautor Ab, Corporate Controller at Nokia Siemens Networks, various financial management positions at Nokia Networks

Board member at:
Comptel Oyj

Sebastian Linko
secretary of Executive Management Team
Director, Corporate Communications and Investor Relations
born 1974, M. Sc. (Political Science)
Employed by the company since 2008

Previous positions:
Director, Corporate Communications at Enfo 2002-2008, Communications Consultant at Communications Agency Sanakunta Ltd 2000–2002, Journalist at Newspaper Turun Sanomat 2001 and Communications Trainee at Eurofacts Ltd 2001.

Vacon Plc shares:
818

SUSTAINABLE GROWTH IS CREATED TOGETHER

Responsibility is the foundation of Vacon's business operations and manifested in all of the company's operations, philosophy, and management. The company offers sustainable products and services 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. To meet these goals, Vacon works together with its stakeholders, in accordance with its new vision.

VACON DEVELOPS SUSTAINABLE ENERGY SOLUTIONS FOR THE FUTURE

A GROWING NEED TO SAVE ENERGY

Growth in industrialization and urbanization is continuously increasing the need for electric motors everywhere in the world. According to various estimates, electric motors consume as much as one third of all the energy produced in the world. Therefore, 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.

VACON'S PRODUCTS SUPPORT MEETING CLIMATE OBJECTIVES

The objective of the European Union's climate and energy package is to reduce greenhouse emissions and energy consumption by 20 percent and increase the share of renewable sources of energy in energy production to 20 percent by 2020. Vacon's products and solutions assist in achieving this goal, since they can help save energy, reduce greenhouse emissions, and utilize renewable sources of energy more efficiently.

Vacon wants to be part of creating a sustainable future and believes that its products are important in finding solutions to meet the shared climate objectives.

RESPONSIBLE OPERATIONS IN COOPERATION WITH STAKEHOLDERS

Responsibility is the foundation of Vacon's business operations and manifested in all of the company's operations, philosophy, and management. As a responsible company, Vacon develops its global operations from the perspectives of ecological and social well-being and profitable growth.

Stakeholder work is an important aspect of Vacon's responsibility efforts. Vacon engages in continuous and open dialog with its stakeholders, and such dialog also facilitates the development of the company's business operations. This dialog enables Vacon to understand the development of the society and stakeholder expectations better and to define the company's corporate responsibility objectives more extensively. Vacon believes that true value is created together.

The most important stakeholders in terms of the company's corporate responsibility are customers, personnel, shareholders and investors, subcontractors and partners, decision-makers and authorities, as well as the media. Highlighted themes in Vacon's corporate responsibility include creating sustainable energy solutions, securing well-being and profitable growth as well as the company's environmentally conscious operating methods.

DID YOU KNOW? Apart from saving energy, Vacon's AC drives produce clean energy. In the production of wind and solar power, Vacon's AC drives are used to direct electricity produced by a wind turbine or solar power plant to the distribution grid. In 2013, the amount of renewable energy produced with Vacon's products was approximately 22 TWh. This equals the annual average consumption of domestic electricity by approximately five million households in Europe.

CUSTOMERS Close cooperation, open dialog and continuous customer feedback are important for Vacon's products, services, and the development of operations as a whole.

OTHER STAKEHOLDERS Vacon's operations create employment and well-being and thus have a local impact in its countries of operation. The company works in on-going and open collaboration with the authorities, organizations, schools, universities, and research institutions.

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

DEVELOPMENT OF SUSTAINABLE ENERGY SOLUTIONS

Vacon develops and offers products that help increase energy-efficiency and the use of renewable sources of energy.

ENVIRONMENTALLY CONSCIOUS OPERATING METHODS

Vacon works to continuously reduce the harmful environmental impact caused by its operations through increased energy efficiency, reduced transportation emissions, and development of environmentally conscious solutions.

WELL-BEING AND SUSTAINABLE GROWTH

Vacon's economic responsibility aims to increase well-being through profitable growth. The company's goal is to grow its business operations and create new jobs.

MEDIA The media are an important stakeholder and a central information provider. Proper management of media relations calls for active, reliable, and transparent communication regarding the company's operations.

SHAREHOLDERS AND INVESTORS Vacon is a listed company and expected to grow profitably and succeed in the global market. In addition, the company is expected to conduct good risk management and apply a functioning governance and management system.

SUBCONTRACTORS AND PARTNERS Subcontractors must commit to Vacon's responsibility requirements and operate in an ecologically, socially and financially responsible manner. Compliance with these requirements is monitored as part of supplier evaluation.

REDEFINED STRATEGY BOOSTS SUSTAINABLE GROWTH

RESPONSIBILITY – THE FOUNDATION OF BUSINESS PERFORMANCE

For Vacon, economic responsibility means increasing well-being through profitable growth in the long term. Successful and expanding business operations have positive effects on the company's stakeholders, such as shareholders, employees, subcontractors, and ultimately, on all of society through jobs, investments, and tax income. Economic profitability also creates prerequisites for the company to take care of its social and environmental responsibility.

The year 2013 was yet another year of growth for Vacon. Geographically, the greatest growth was seen in Europe, the Middle East and Africa (EMEA), as well as in Asia Pacific (APAC), whereas in North America, Vacon's sales declined in 2013.

NEW FINANCIAL TARGETS AND A REDEFINED STRATEGY AND VISION

At the end of 2013, Vacon introduced its new long-term financial targets for 2014–2020 and its redefined strategy and vision. Vacon's target is to achieve an average annual revenue growth of over 10% . The long-term profitability target is to achieve a sustainable EBIT margin level of 14%.

DIRECT ECONOMIC IMPACT

Sales income from customers: EUR 403.0 million
Government grants: EUR 0.1 million
Other items: EUR 0.2 million
New loans: EUR 4.2 million

VACON

Purchases: EUR 266.9 million
Salaries and other personnel remuneration: EUR 66.3 million
Taxes and social expenses: EUR 26.7 million
Net financial expenses to creditors: EUR 1.0 million
Dividends to shareholders: EUR 17.2 million
Business acquisitions and expansion investments: EUR 19.7 million
Loan repayments to financiers: EUR 6.5 million

Vacon Group's revenues increased to EUR 403.0 million (EUR 388.4 million in 2012). The operating profit was 10.1% of the revenues (9.7%).

TRUE VALUE IS CREATED TOGETHER

In its redefined vision, Vacon views its business operations as part of a larger value chain. Vacon's solid financial position enables the company to bring different players together in this value chain: Vacon wants to be a company that brings together its personnel, customers, partners, suppliers, shareholders as well as students and scholars. Business development is built on this foundation of communality.

The impact of Vacon's business operations is far-reaching. For example, cooperation with subcontractors creates business opportunities and jobs in other countries of operation. Cooperation with educational institutions creates new competence and innovations for the industry. Salaries impact consumption and, in that way, the vitality of other business operations. In addition, taxes paid by Vacon and by its employees on their income affect the well-being of society as a whole. In this way, direct economic impacts, such as salaries, taxes, and dividends, also have social multiplier effects.

In 2013, Vacon paid salaries and other remunerations of a total of EUR 66.3 million and paid dividends of EUR 17.2 million to its shareholders. The amount of purchases made by the company was a total of EUR 266.9 million. Vacon spent EUR 19.7 million on investments. During the financial period, the company paid EUR 12.6 million in taxes.

THE DECISION MADE IN THE TAX PROCEEDINGS ON TRANSFER PRICING

Vacon Plc, the parent company of Vacon Group, has had tax proceedings in progress related to a tax inspection of its transfer pricing in 2007–2008. According to information received in April 2013 by Vacon from the Finnish Large Taxpayers' Office, after examining the case the tax authority has stated that it is not demanding a correction from Vacon to its taxation in 2007–2008. The tax authority has previously given up its demands in relation to 2006. Based on this decision, Vacon considers that there are no risks or uncertainties relating to this matter.

QUALITY AND ECO-FRIENDLINESS GO HAND-IN-HAND

Vacon's environmental responsibility is based on products, applications and services which help save energy and reduce greenhouse emissions, particularly carbon dioxide emissions. The company's products are used extensively in different industries to improve energy efficiency, utilize renewable sources of energy, and reduce greenhouse gas emissions. In addition, Vacon continuously seeks more ecological operating methods in its own operations.

Vacon develops increasingly sustainable energy solutions for its customers and improves the life cycle quality and eco-friendliness of its products. In 2013, Vacon concentrated specifically on collecting information on the materials of the products, expanding its ISO 14001 certification, and developing the Supplier Excellence program for subcontractors.

METICULOUS CHOICE OF MATERIALS

Vacon's product design and development are guided by the life cycle philosophy, from the selection of materials all the way to production and recycling. The product development stage includes an environmental impact assessment and definition of objectives which will be assessed throughout the product life cycle. The company works to improve the quality and reliability of its products. This will help save on, for example, service and transportation costs and reduce emissions generated. R&D applies the principle of continuous improvement.

Vacon's main principles concerning environmentally conscious product design include minimizing substances hazardous to the environment and people, improving recyclability, and optimizing energy efficiency.

In 2013, Vacon paid special attention to the choice of materials in products and to collecting information on the materials of products. Reporting harmful substances used in products is required by both the company's customers and tightening regulation. In 2013, Vacon's quality and product development organization collected information on materials in order to meet the following requirements:

- The IEC 62474 standard concerning prohibited and restricted substances
- The REACH directive concerning the registration and evaluation of chemicals used in production
- The ROHS 2 directive concerning the restriction of harmful substances in electronic devices. This will be part of the requirements for the CE marking and will become effective in 2019 for Vacon's products.

Vacon's Design for Environment checklist is part of environmentally conscious design, which ensures as early as the product development stage that products meet Vacon's internal environmental requirements as well as the requirements set by environmental legislation. The purpose of the checklist is to help use materials and resources more effectively and take all environmental considerations into account already at the beginning of product development.

Carbon footprint calculations are an increasingly common method of measuring the eco-friendliness of production. A carbon footprint analysis has already been completed for VACON® 100 HVAC. The goal in 2014 is to complete the carbon footprint calculation for the entire VACON® 100 family of products.

VACON PARTICIPATES IN THE CLIMATE DISCLOSURE LEADERSHIP INDEX

Vacon has been participating in the Climate Disclosure Leadership Index (CDP) from the Climate Disclosure Project since 2012. The Climate Disclosure Leadership Index assesses the climate reporting

DID YOU KNOW? Vacon's products and solutions provide savings every year equaling nearly one day's electricity consumption for the whole world. The energy saved considerably reduces carbon dioxide emissions.

Vacon calculated that about 55 TWh of electrical energy was saved last year with the help of Vacon AC drives. This corresponds to the amount of energy produced by approximately ten 700 MW nuclear power reactors in a year, or the annual electricity consumption of approximately 12 million households in Europe. This also corresponds to approximately 22 hours of the world's annual electrical energy production*.

In addition, in 2013, the amount of energy produced with the help of Vacon's AC drives from renewable energy sources was approximately 22 TWh. This corresponds to the annual electricity consumption of approximately 5 million households in Europe, or approximately 9 hours of the world's entire annual electrical energy production.

*Data on global electricity production: Key World Energy Statistics 2013, International Energy Agency (IEA).

of Nordic listed companies. The companies are scored based on how well they report on their actions to prevent climate change and on the results they have achieved. The results of the assessment were published in the CDP Nordic 260 Climate Change Report 2013. Vacon's score in the 2013 CDLI was 73C, which is a good medium-level result and a considerable improvement from the previous year.

HIGH-QUALITY PRODUCTS THROUGH ENERGY-EFFICIENT PRODUCTION

Environmental systems and programs

With its certified environmental systems, Vacon works to ensure the effectiveness of environmental performance, uniform quality, and the principle of continuous improvement. Vacon's plants in China and Vaasa, Finland, have ISO 14001 certifications. In 2013, Vacon continued to prepare its plants in Italy, India and the USA for ISO 14001 certification. Vacon's objectives in the upcoming years include mapping the local certificates and environmental guidelines implemented at different plants and harmonizing the practices through a global quality organization.

Environmental management is part of Vacon's operations and quality management systems. Vacon has invested in the development and harmonization of the quality systems between different countries of operation and strengthened the position of its quality organization. Quality functions became part of operations management in 2012.

Lean Six Sigma coaching was among the core operations in quality and environmental management in 2013, in the same manner as in the previous year. In 2012, Vacon trained change agents in Lean Six Sigma Black Belt coaching, and they in turn trained Vacon's employees in Finland, China, the USA, India, and Italy in 2013. The coaching strengthens the prerequisites for developing the measurement and assessment of efficiency and environmentally conscious solutions in one's own work, in accordance with the principle of continuous improvement.

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.

DID YOU KNOW? Vacon's plant in Vaasa houses a solar power plant on the roof, controlled by a VACON® 8000 SOLAR inverter. The plant's peak power is 55 kW, and it helps reduce the amount of purchased electricity and also test interoperability between solar panels and inverters. The annual estimated amount of energy that the solar power unit produces for the plant is 35 MWh.

Energy efficiency of plants

Vacon's own production processes generate very low emissions since only the final assembly and testing of the product take place in Vacon's facilities. The components are purchased from subcontractors. Energy is consumed by assembly, as well as testing the finished products. 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.

Vacon's plant in Italy operates in energy efficient facilities completed in 2011. The plant meets the B level requirement of the KlimaHaus certification, which means that its energy consumption is 50 kWh/m² or under.

In China, a new plan was drawn up in 2013 to improve the energy consumption of the plant. The plan is to be executed in 2014. The plant in China has also paid attention to the poor air quality in the Suzhou region and offered employees free bus transportation to the plant in order to reduce traffic emissions caused by the use of their own cars.

Vacon's new semi-finished products plant in India launched a GoGreen campaign at the end of 2011 with the objective of transforming practical operating methods into more sustainable and environmentally conscious ones. The campaign covers all employees of the plant, and produced good results throughout 2013 as well.

In 2013, Vacon's plant in the USA was again awarded the LEED Gold (Leadership in Energy and Environmental Design) certificate, which has been awarded to the plant since 2009. The green building LEED certificate requires that the plant adheres to ecological operating methods related to, among others, energy and water consumption as well as the materials used in the building, and emissions.

MAXIMIZING RECYCLABILITY OF MATERIALS

Vacon always pays attention to the recyclability of materials in its production. For example, 70 percent of VACON® 100 HVAC products are made of recyclable metals, primarily aluminum and steel. Vacon extracts certain plastics from serviced and scrapped devices and uses them in the manufacturing of new devices. Electronic waste that can no longer be used in production is sent to waste processing companies for disposal. Vacon also instructs its customers to process the devices in an environmentally conscious manner at the end of the product life cycle.

In Finland, the Vaasa plant continued measures related to the voluntary energy efficiency agreement of Finland's Ministry of Employment and the Economy signed by Vacon in 2010. The company is striving for 20% energy savings in its Vaasa plant's operations by 2016. The measures improving energy efficiency are reported in the agreement monitoring system annually.

ENVIRONMENTAL RESPONSIBILITY COVERS SUBCONTRACTORS

Vacon procures its components from carefully selected subcontractors from around the world. The materials and components used by Vacon have a direct effect on the environmental impact of the product life cycle. Therefore, cooperation between Vacon and its subcontractors has a central role in reducing the environmental impacts of products. Vacon sets high environmental requirements for components and materials in order to ensure the recyclability and safety of products in terms of the environment.

Vacon's Supplier Excellence program, developed in 2011, progressed to further development projects and model evaluation in 2013. The Supplier Excellence program assesses subcontractors' capability to produce products that meet Vacon's environmental requirements. Particularly with subcontractors, the focus is on identifying the use of prohibited and restricted substances and improving the transfer of information concerning materials.

In 2013, new quality tools and a more systematic monitoring model were included in this model of action. The process for collecting information on materials related to environmental responsibility was defined more closely. The Supplier Excellence model was expanded in 2013 to include the monitoring of conflict minerals as well. Vacon's products do not contain conflict minerals.

The principles of the Supplier Excellence program guide the selection of subcontractors. The operating model is holistic and includes frequent Supplier Operational Development meetings to assess and monitor subcontractors' operational prerequisites in terms of production, quality, and the environment. All Vacon's countries of operation apply the Supplier Excellence model in their operations.

PRODUCTION CLOSE TO THE CUSTOMER

Delivering components to Vacon's plants and transporting finished products to customers cause environmental emissions. In Europe, road transport is 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.

Vacon continuously studies different alternatives to reduce the volume of air cargo and thus decrease the harmful environmental effect of transport. Vacon's intraplant transportation need is reduced by the fact that, in addition to the Vaasa plant, Vacon's extensive product portfolio is manufactured at other Vacon plants as well. This means that production takes place closer to the customer, which provides savings in transportation costs and reduces emissions caused by transport.

KEY FIGURES FOR VACON GROUP'S PRODUCTION PROCESS 2009-2013

	2013	2012	2011	2010	2009
Consumption of electrical power, MWh	15,534	15,443	14,064	16,368	14,215
Electricity fed back into the test grid, MWh*	17,800	16,677	17,637	19,676	20,000
Recycling of electronic waste, tonnes	54.3	43.4	44.7	45.0	27.6
Other recyclable material, tonnes	731.3	328.5	327.6	249.7	315.0
Hazardous waste, tonnes	9.7	6.3	5.8	6.5	2.9

KEY FIGURES FOR VACON GROUP'S PRODUCTION PROCESS BY OPERATING COUNTRY IN 2013

	Vacon Group	Finland	China	India	Italy	USA
Consumption of electrical power, MWh	15,534	11,460	2,422	82	470	1,100
Electricity fed back into the test grid, MWh*	17,800	14,650	3,150	0	0	0
Recycling of electronic waste, tonnes	54.3	49.0	3.3	0.0	0.5	1.5
Other recyclable material, tonnes	731.3	652.0	50.6	0.0	14.9	13.8
Hazardous waste, tonnes	9.7	8.3	1.3	0.0	0.1	0.0

*Vacon's internal test grid recycled a larger amount of energy than the amount of 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.

MANAGEMENT BASED ON VACON'S VALUES

Vacon aims to be a leading company in its industry. This objective is reflected in the company's global HR policy. Vacon's HR policy is based on the company's values, continuous development of competence and well-being, as well as nurturing a passionate attitude. In the global and growing Vacon, creating a shared culture is one of the key success factors.

In 2013, Vacon's HR policy highlighted management development, updating the Group-level competence management model, and creating a reward strategy.

COMPETENCE DEVELOPMENT AND MANAGEMENT TRAINING AMONG THE KEY THEMES IN 2013

Competence development

Vacon defined its strategic competence areas in 2013 as the strategy was redefined. The strategic competence areas include competence in AC drive products, applications and automation, management and innovation, high-quality supply chain management, product portfolio management, product life cycle management, and multi-channel sales.

In 2013, Vacon began updating the Group-wide competence development model. The goal is to create a model which is effective in all countries of operation and in the entire Group. For Vacon to achieve its strategic objectives, having personnel with world-class know-how and competence is key. Personnel competence development is supported, for example, by offering diverse career paths and opportunities for job rotation in different countries of operation.

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.

Training programs and targeted training

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 coaching is offered to improve total quality and effectiveness.

In China, Vacon implemented the "Multi skill" program in 2013 with the aim of training personnel to master as many product lines as possible. Mastering several different product lines supports personnel competence development and enables job rotation between product lines. In addition, more extensive personnel competence brings flexibility to production at the plant.

In the USA, Vacon focused in 2013 on implementing a visual management operating model, among other things. Visual management means that employees observe their working environment and related challenges and opportunities, such as safety risks. Furthermore, the goal is to further strengthen personnel self-direction in production.

In Finland, Vacon's plant in Vaasa organized supervisor training in 2013, among other activities, to strengthen the coaching skills of supervisors and team leaders, in particular. In 2012, Vacon identified a need to improve the company's project management methods and started drawing up a career path description for project managers. In 2013, Vacon launched project management training in Finland. Two basic level courses were completed during the year, and feedback received from the course participants was excellent. Vacon's goal in 2014 is to organize 2–3 additional basic level courses and one advanced course, which will provide a foundation for project competence certification.

Vacon Leadership Excellence training for senior management was completed at the Group level. It was offered in cooperation with Aalto University Executive Education Oy and the London Business School.

Vacon organized Group-wide management training sessions based on the company's values in order to train coaches within the company. They, in turn, provided management training in different countries of operation. The training topics covered Vacon's values: Stronger together, Trust and respect, Taking ownership, and Passion for excellence. The management training will continue in 2014 with Vacon's management principles as a theme.

Matrix management in the new organization

In 2013, management development training highlighted successful matrix management in support of the reorganization carried out in the previous year. In 2012, Vacon's organization was reformed to form an entity of Product Operations and Market Operations, to serve the Group's different operating areas globally. In the fall of 2013, Vacon organized a matrix management training program in cooperation with the Hanken School of Economics. Matrix management was a recurring theme in training sessions organized in Vacon's other countries of operation as well.

Frequent assessment and target-orientation

At Vacon, the competence development of each employee is monitored in development discussions which the supervisor and the employee have once or twice per year. The development discussions review the past period and set development targets and objectives for the next period. In 2013, Vacon implemented a new development discussion practice.

COOPERATION WITH EDUCATIONAL INSTITUTIONS BRINGS IN NEW TALENT

For Vacon, it is important to maintain, develop, and increase world-class competence in the company. Therefore, Vacon seeks new talent by establishing contact with students at student events and at fairs as well as in company visits and lectures. Vacon collaborates especially with students of technology. For students at vocational colleges and institutes of higher education, as well as those in the final stages of their studies, the company offers internship opportunities, summer jobs and thesis work positions.

Vacon in India has been involved in recruitment work with a local institute focusing on industrial automation education since 2010, and with the International School of Business and Research in Bangalore since 2011.

In China, Vacon works in close collaboration with local educational institutions in Suzhou and Nanjing. Vacon also has representation on the board of the institution in Suzhou.

In the USA, Vacon's research and product development unit was completed in North Carolina in 2013. At the same time, cooperation was launched with local educational institutions.

In Finland, Vacon promotes the technical field and encourages young people to take interest in studying it. Therefore, the company participates in the Energy Ambassador campaign, which has received both national and international visibility. Vacon is also visible locally by participating in the TeknoTET work practice program for ninth-graders, by working with its own sponsor class, and by supporting sports activities aimed at the young and children. In addition, Vacon maintains active relationships with Finnish institutes of higher education and other educational institutions.

SYSTEMATIC WORK TO INCREASE WELL-BEING

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

PERSONNEL INVOLVED IN REDEFINING VACON'S VISION

Vacon redefined its vision and it was published in November 2013. The vision was generated together with the personnel in a process which started in the spring of 2013. Vacon wanted to involve its entire personnel in defining the vision, so that each Vacon employee could feel more connected to it. In this way, the vision will be a source of inspiration for the entire personnel.

The vision created together conveys a powerful sense of communality. Vacon's redefined vision is to build a close-knit community – The Drives Family – around its AC drives business. In the vision, the company brings together personnel, customers, partners, suppliers, shareholders, students and scholars – all the people who are Driven by Drives. The Drives Family is a community where the best people work together to develop the best products, applications and services for our customers.

Vacon aims to grow faster than the market and with solid profitability. This allows the company to invest in future growth and to share the value within The Drives Family. True value is created together.

of these surveys and studies. In addition, supervisors and employees discuss matters concerning well-being and coping at work in development discussions, which are conducted at frequent intervals. Vacon considers well-being at work to be a holistic matter which covers both mental and physical well-being.

Vacon invested in the physical well-being and work-life balance of its employees in 2013 as well. In China, Vacon organized one-day events supporting working ability and a sports day. Vacon also participated in the Suzhou mini marathon. In the USA, Vacon prepared for the health care reform dubbed "Obamacare" in 2013. Vacon has been actively working with insurance companies in the USA and is able to offer better-than-average occupational health services without extra cost to its employees. In Finland, Vacon's plant in Vaasa focused on maintaining personnel's good physical condition in 2013. In addition, an operating model for work-life balance was created and implemented in Finland.

COMPREHENSIVE ASSESSMENT OF OCCUPATIONAL SAFETY RISKS

Vacon is a forerunner in occupational safety. The company aims to create a working environment with zero accidents. Vacon's management and personnel develop occupational safety in on-going cooperation. The plants in Vaasa, Bangalore in India, and Suzhou in China apply the OHSAS 18001 standard in managing occupational health and safety matters.

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.

In 2013, implementation of the visual management operating model continued in all Vacon's plants. The operating model includes five indicators, one of which is safety. The status of each indicator can be reviewed on visual management boards, and production monitors the indicators on daily, weekly, and monthly levels. In practice, visual management means that employees themselves monitor their work environment and potential safety hazards, among other things. The results of implementing the operating model have been very positive.

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

All Vacon's plants in Finland, the USA, China, India, and Italy have occupational safety committees which are responsible for maintaining and developing safety at work.

VACON'S MANAGEMENT PRINCIPLES GUIDE SUPERVISORY WORK

LEAD BY GOOD EXAMPLE
Promote excellent performance around you and consistently build a management culture which adheres to Vacon's values and strategy. Be open and honest, and encourage self-direction in management.

MOTIVATE AND EMPOWER
Motivate your coworkers to the best accomplishments by coaching and supporting them. Listen, be open to new suggestions and solutions. Delegate sufficient authority to get things done. Give recognition for accomplishments and celebrate them.

CREATE A WINNING TEAM
Build team spirit, promote an attitude of motivation, and continuously improve cooperation. Develop the skills needed in the team and a diverse composition of the team to ensure good performance.

SET DEMANDING OBJECTIVES
Set clear and demanding objectives and monitor how they are met. Be clear and objective in terms of responsibility and quality of work.

JOB SATISFACTION HIGHLIGHTS THE COMPANY'S VALUES AND INTERNAL COMMUNICATION

The level of job satisfaction is monitored frequently by means of a Group-wide job satisfaction survey. The latest job satisfaction survey was completed at the end of 2012, and the next one will be conducted in March 2014. The response rate has been fairly high – in 2012, 89 percent of Vacon's employees responded in the survey.

In the latest job satisfaction survey, the personnel felt they understood the company's values and considered them to be good. Pressure at work was considered to be slightly lower and cooperation and the flow of information were better. Employees' willingness to take personal responsibility was at an excellent level based on the survey. Management in the company was considered to have improved. The induction of new employees was also seen as effective.

According to the survey, areas for improvement included fairness, security and stability provided by the employer, the meaningfulness and purpose of work, as well as the competitiveness of salaries. Vacon's image as an employer was also considered to be an area for improvement.

In 2013, extensive measures were taken to further improve job satisfaction. In the USA, Vacon organized events to discuss the importance of Vacon's values in one's own work and the development of Vacon's corporate culture. Communication also received a special focus in the USA in order to help all employees become familiar with the business operations and Vacon's objectives. Likewise in Finland, the Vaasa plant focused on developing internal communication and a motivating work atmosphere, and paid attention to the pleasantness of the common areas. In China, Vacon also developed internal communication by means of frequent briefings and daily rounds in the plant during which employees had the opportunity to share their concerns with their supervisors.

ETHICAL GUIDELINES AND HUMAN RIGHTS

In its operations, Vacon adheres to local laws and regulations, acts ethically and produces high-quality work. The company bears its 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, among other things:

- 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 relevant laws and industry norms in terms of working hours and compensation;
- refraining from using child labor, 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.

NUMBER OF VACON PERSONNEL INCREASED

The number of Vacon Group's employees increased by 83 in 2013. Most new employees were recruited in the Europe, the Middle East, and Africa region. At the end of 2013, Vacon had 1,596 employees.

A NEW REWARD STRATEGY

Vacon redefined its reward strategy in 2013. The foundation of the reward strategy is maintaining and strengthening the competence required by Vacon's business strategy and applying a working method which complies with Vacon's values. Personnel input is rewarded by means of a competitive salary which consists of a base salary, benefits and, for example, various incentives. All employees are 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.

The compensation and employment contract are based on general agreements, known global assessment and compensation models, as well as employee performance. The compensation system is harmonized and fair.

In addition to salary, Vacon also provides opportunities for diverse development and career advancement in an international company, offers interesting duties, and develops a good working atmosphere and motivating management.

In 2014, Vacon will concentrate on communicating the reward strategy openly and transparently, so that employees gain an even better understanding of the basis of their compensation.

ELECTRONIC MONITORING OF CUSTOMER SATISFACTION

Vacon aims to respond quickly and effectively to customer feedback and needs. This can only be accomplished through seamless, trust-based cooperation. Vacon wants to engage in open dialog with its customers and therefore the monitoring of customer satisfaction has also been developed systematically. Customer satisfaction is monitored and measured on a monthly basis.

In 2013, Vacon continued the implementation and development of the Customer Relationship On-Line (CROL®) process globally. CROL® is an electronic tool for measuring and monitoring customer satisfaction.

The goal of the CROL® process is to improve cooperation with customers and monitor customer satisfaction on an on-going and systematic basis that results in tangible development measures. The process has already generated the desired benefits. Customer feedback received through the process clearly indicates how satisfied the customer is immediately after a sales, ordering, delivery or service measure. The electronic feedback goes directly to the account manager, and the company can react to the feedback quickly. The results and customer feedback are reported to the company management, which utilizes the reporting in strategic planning.

Developing electronic customer service is one of the main focus areas of Vacon's operations development.

RESPONSIBILITY FOR A SAFE USE OF A PRODUCT DURING ITS LIFE CYCLE

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 commissioning, 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 90 service centers in 50 countries ensures service and other maintenance services for all Vacon's products. Preventive maintenance safeguards the use and prolongs the life of an AC drive. In addition to this, Vacon offers 24/7 technical service over the phone every day of the year.

COURT PROCEEDINGS IN CHINA COMPLETED

The legal process that began in Vacon's subsidiary in China in 2011 was completed at the end of 2013. The court proceedings concerned importing components to China under a false customs tariff heading. A higher court instance ordered Vacon to pay a total of EUR 6.3 million in compensation. The compensation contained unpaid customs duties and a fine ordered earlier. The higher court instance also confirmed a customs duty of 10 percent on the components.

In the future, Vacon will be stricter concerning local customs regulations. In its global operations, Vacon's unambiguous policy is to comply with both local and international legislation, rules, and regulations.

SUPPORT FOR WORK WITH YOUNG PEOPLE

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 the operations of Finnish cleantech companies in international markets. Local decision-makers in locations where Vacon operates are important players in the building of a regional development environment.

In China, Vacon works in close collaboration with the authorities of the city of Suzhou. The collaboration became even closer in 2013, and Vacon also participates in charity work in the city of Suzhou by, among other activities, helping the poorest families of the city.

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

In 2013, Vacon began cooperation with the Finnish tennis player Jarkko Nieminen. Vacon also works in cooperation with rally driver Mikko Hirvonen and golf pro Ari Savolainen. In addition, Vacon sponsors the Alpine Ski Team Finland. Locally, the company partners with Hockey-Team Vaasan Sport Oy.

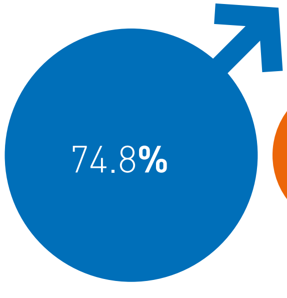
Vacon selects the sponsorship recipients in accordance with its sponsorship policy. Vacon supports young, emerging collaboration partners who share similarities with Vacon's brand and values.

Politically, Vacon is independent and therefore does not support political parties in Finland or elsewhere in the world.

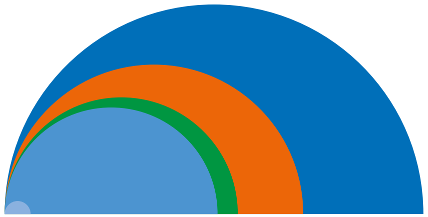
PERSONNEL BY INDUSTRY

PRODUCTION	46.2%
SALES AND MARKETING	28.5%
R&D	17.8%
SUPPORT FUNCTIONS	7.5%

GENDER DISTRIBUTION

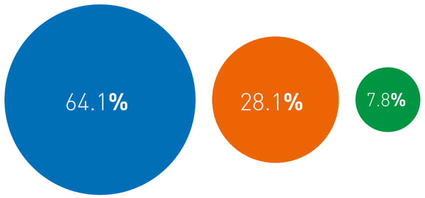


PERSONNEL LEVEL OF EDUCATION



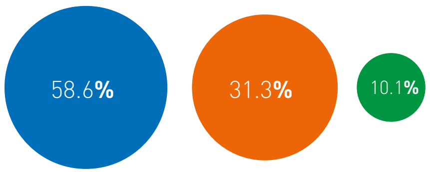
BACHELOR'S OR ENGINEERING DEGREE	35.2%
VOCATIONAL EDUCATION	26.1%
SECONDARY SCHOOL	19.6%
MASTER'S DEGREE	17.9%
LICENTIATE OR DOCTORAL DEGREE	1.3%

PERSONNEL BY AREA



EUROPE, THE MIDDLE EAST AND AFRICA	64.1%
ASIA PACIFIC	28.1%
NORTH AND SOUTH AMERICA	7.8%

NEW RECRUITMENT BY AREA



EUROPE, THE MIDDLE EAST AND AFRICA	58.6%
ASIA PACIFIC	31.3%
NORTH AND SOUTH AMERICA	10.1%

ACCIDENTS AND CLOSE CALLS, FINLAND

CLOSE CALLS	56
ACCIDENTS	19

Personnel	2013	2012	2011	2010	2009
Number of personnel at the end of the period	1,596	1,513	1,468	1,339	1,228
Europe, the Middle East, and Africa, %	64.1	64.3	67.4	69.1	71.2
North and South America, %	7.8	7.4	7.1	6.4	6.6
Asia Pacific	28.1	28.3	25.5	24.5	22.2
Women, %	25.2	25.6	26.2	27.2	27.5
Men, %	74.8	74.4	73.8	72.8	72.5
Share of R&D personnel, %	17.8	17.8	15.7	15.0	13.8

Personnel key figures	2013	2012	2011	2010
Number of Group employees, average	1,553	1,468	1,470	1,301
Average age of personnel, years	37.1	36.7	36.3	36.2
Average years of service, years	6.6	6.2	5.8	5.7

VACON PLC'S CORPORATE RESPONSIBILITY REPORTING IN ACCORDANCE WITH APPLICATION LEVEL C OF THE GRI GUIDELINES

Application levels of the GRI reporting guidelines*

Application level	C
G3 profile information	To be reported: 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 ten 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

Content index key

Indicator type	Level of GRI reporting
C = Core indicator	X = Reported in accordance with GRI
A = Additional Indicator	O = Reported in part
	- = Not reported for 2012

Vacon's corporate responsibility reporting and scope

Vacon publishes its corporate responsibility report annually as part of the company's annual report. The reporting period is one calendar year. The previous report was published on 5 March 2013.

The 2013 corporate responsibility reporting covers, as applicable, Vacon's production units in Finland, China, the United States and Italy, as well as the semi-finished products plant in India. Economic responsibility reporting covers the entire Group. Social responsibility reporting covers the entire Group, as applicable. 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, the content of the corporate responsibility report currently meets the criteria of Application level C.

Vacon's Director Corporate Communications and Investor Relations Sebastian Linko is responsible for the company's corporate responsibility reporting, tel. +358 40 8371 634, firstname.lastname@vacon.com.

	GRI-compliant content	Application of GRI	Comments	Pages
Strategy and analyses				
1.1	Review by the CEO	X		6-7
Organization				
2.1	Name of the organization	X		4
2.2	Primary brands, products, and/or services	X		14-15,18-19, 20-27
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		4, Back cover
2.6	Nature of ownership and legal form	X		4
2.7	Markets served	X		6-7, 10-11
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		60-63
2.10	Awards received in the reporting period	X	Vacon did not receive awards in the reporting period	

		GRI-compliant content	Application of GRI	Comments	Pages
Report profile, scope and boundary					
	3.1-3.3	Reporting period, date of most recent previous report, and reporting cycle	X		54
	3.4-3.5	Contact point for questions regarding the report or its contents, process for defining report content	X		54
	3.6-3.8	Boundary of the report	X		54
	3.10-3.11	Re-statements of information provided in earlier reports and significant changes from previous reporting scope or measurement	X	No significant changes in the measurement methods.	54
GRI content index					
	3.12	GRI content index	X		54-57
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, 40-41, 50-51
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	O	Vacon develops products and solutions to solve the challenges posed by climate change.	4, 10-11, 40-41
C	EC3	Coverage of the organization's defined benefit plan obligations	O	Vacon also adheres to the legislation of the countries in which it operates regarding pension obligations.	33-35
C	EC4	Significant financial assistance received from government	O		42
Market presence and economic impact					
C	EC5	Range of ratios of standard entry-level wage compared to local minimum wage at significant locations of operation	O	For more information, please see 'Ethical guidelines and human rights'.	50
C	EC6	Spending on locally-based suppliers at significant locations of operation	O	Vacon aims to make strategically effective procurements and invests in a global network	12-13, 40-41, 42
C	EC7	Procedures of local hiring	X		48, 52
Indirect economic impact					
C	EC8	Development and impact of infrastructure investments and services	O		42
Environmental responsibility					
Materials					
C	EN1	Materials used by weight or volume	O		43-46
C	EN2	Percentage of materials used that are recycled input materials	O		46

		GRI-compliant content	Application of GRI	Comments	Pages
Energy					
C	EN3-4	Direct and indirect energy consumption by primary energy source	O		46
A	EN5	Energy saved due to conservation and efficiency improvements	X		43-44
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		43-44
Water					
C	EN8	Total water withdrawal by source	O	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	O	Emissions are mainly generated by the production of the energy used. Vacon's products and solutions reduce energy requirements and the generation of greenhouse gases.	40, 43-44
C	EN22	Total weight of waste by type and disposal method	X		46
A	EN24	Volume of hazardous waste treated	X		46
Products and services					
C	EN26	Initiatives to mitigate environmental impacts of products and services	X		43-45
C	EN27	Percentage of products sold and their packaging materials that are reclaimed by category	O		45
Compliance					
C	EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	O	None in 2013.	
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	O	The majority of internal meetings, training sessions, etc. are held via videoconferencing.	45
Overall					
A	EN30	Total environmental protection expenditures and investments by type	O	Development of production and logistics is underway.	4-5, 43-46
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, 50-51
A	PR2	Compliance with product safety legislation and regulations	X		51
C	PR3	Type of product and service information required by procedures	X		43, 51
A	PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling	X		51

		GRI-compliant content	Application of GRI	Comments	Pages
A	PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	X		50-51
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	O		52-53
A	LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees	X		50
C	LA4	Percentage of employees covered by collective bargaining agreements	O		50
C	LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements	O		50
A	LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees	X		49
C	LA7	Rates of injury, occupational diseases, lost days and absenteeism by region	O		52
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		48-49
C	LA10	Average hours of training per year per employee by employee category	O		47-48
A	LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	O		47-48
A	LA12	Percentage of employees receiving regular performance and career development reviews	X		48
C	LA13	Breakdown of governance bodies and employees according to gender, age group and minority group membership	X		37, 50, 52-53
Human rights					
C	HR1-HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	O	See the Ethical Guidelines applicable to all Vacon's suppliers.	44-45, 50
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	O	Human rights training is included in Vacon's orientation program. See the Ethical Guidelines.	50
C	HR4	Total number of incidents of discrimination and actions taken	X	None in 2013. See the Ethical Guidelines.	50
C	HR6-HR7	Operations identified as having significant risk for incidents of child labor or forced labor, and measures taken to contribute to the elimination of child labor or forced labor	O	None in 2013. See the Ethical Guidelines.	50
Society					
C	SO3	Percentage of employees trained in organization's anti-corruption policies and procedures	O	See the Ethical Guidelines.	50
C	SO5	Public policy position and participation in public policy development and lobbying	X		51
A	SO6	Total value of financial and in-kind contributions to political parties	X		51

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 2013

GENERAL REVIEW OF 2013

In 2013, Vacon increased its revenues and improved its profitability in the challenging state of the market. In the company's assessment, the growth in the AC drive market remained slow in 2013.

According to the IHS market research institute, the global market value of low-voltage AC drives in 2013 was approximately USD 11.8 billion, and the market growth in the upcoming years is estimated to be 7% annually. Overall, the estimated growth in the AC drives market over the long-term is greater than the growth in Gross domestic product (GDP).

The largest market area for AC drives is the Asia Pacific (APAC) region, which accounts for approximately 42% of the global market. The share of Europe, the Middle East and Africa (EMEA) of the global market is approximately 34% and the share of North and South America is around 24%. (* Source: IHS)

In January-December 2013 Vacon's revenues increased from the period for comparison. Revenues increased e.g. for products for building automation and renewable energy production. In 2013 revenues rose in the EMEA and APAC regions, but fell in North and South America. Vacon has taken additional measures to put orders and revenues in North and South America on a growth track in 2014.

In 2013, the company's profitability clearly improved from the period for comparison. A particular factor in the improvement in the profitability in 2013 was the cost benefits obtained from transferring material sourcing to lower-cost countries.

In 2013, Vacon celebrated its 20th anniversary. While Vacon reached this milestone, it also set its sights on the future. In November 2013, Vacon published its new long-term financial targets and redefined strategy for 2014–2020.

In November 2013, Vacon also announced its plan to expand its product portfolio to the medium voltage AC drives market. In contrast to Vacon's current low voltage AC drives, medium voltage AC drives typically operate on voltages of several kilovolts and at power levels of several megawatts. The global market for medium voltage AC drives is growing, and is currently estimated at USD 2.8 billion (IHS). The first pilot deliveries of Vacon's medium voltage AC drives are scheduled to take place in 2014.

In October 2013, Vacon introduced to the market the new VACON® NXP Grid Converter drive. It is the next development stage in energy optimization and for its part ensures that, for example, ship and port owners are able to improve energy efficiency and profitability.

Vacon Plc, the parent company of Vacon Group, has had tax proceedings in progress related to a tax inspection of its transfer pricing in 2007 - 2008. According to information received in April 2013 by Vacon from the Finnish Large Taxpayers' Office, after examining the case the tax authority has stated that it is not demanding a correction from Vacon to its taxation in 2007 - 2008. The tax authority has previously given up its demands in relation to 2006. Based on this decision, Vacon considers that there are no risks or uncertainties relating to this matter.

Also in October 2013, Vacon received a final decision in the court proceedings in China related to the import of components with the wrong customs tariff classification. The superior court has ordered Vacon to pay a total of approximately EUR 6.3 million in compensation. The compensation contained unpaid customs duties and the imposed penalty. Vacon has already made provisions for the court case in China in its financial statements for 2010 and 2011 and thus, the compensations do not have a material impact on Vacon's results.

In its global operations, Vacon's unambiguous policy has always been, and will always be, compliance with both local and international legislation, rules and regulations.

RESULT

Orders and revenues

Vacon's order intake was in 2013 nearly on the same level as in the previous year. Orders in the EMEA and APAC regions increased a little in 2013. Orders in North and South America declined in January-December 2013.

The order intake in January-December totalled EUR 399.8 (401.9) million. The order book declined 6.4% from the beginning of the year, standing at EUR 46.8 (50.0) million at the end of the year.

In January-December 2013 Vacon's revenues increased from the period for comparison. Revenues increased e.g. for products for building automation and renewable energy production. In 2013 revenues rose in the EMEA and APAC regions, but fell in North and South America. The region with strongest growth in 2013 was the EMEA region, where revenues rose 7.3%. Vacon's own sales network in Europe had outstanding success in the challenging state of the market. The customer sectors that achieved the biggest growth in the EMEA region in 2013 were marine and offshore and renewable energy production. In the APAC region revenues increased 4.7% in 2013. Revenues grew particularly in building automation. Sales to domestic clients in China failed to develop in line with expectations. Revenues in North and South America fell 7.7% in 2013. Revenues fell in many industrial sectors.

Vacon's revenues in 2013 from OEM, system integrators and distributors increased from the previous year, whereas direct sales and brand label clients saw a fall in their percentage of revenues.

Operating profit and result

In 2013 Vacon's profitability clearly improved. The cost benefits from transferring material sourcing to lower-cost countries were a particular factor in this improvement. In January-December the operating profit excluding one-time items was EUR 40.6 million and 10.1% of revenues (operating profit excluding one-time items EUR 36.5 million and 9.4%). In 2013 there were no one-time items. In 2012 one-time items had a net impact of EUR 1.5 million on the company's operating profit. Earnings per share were EUR 1.84 (1.72) in January-December 2013.

Balance sheet and cash flow

The balance sheet remained strong and the net cash flow from operating activities in the January-December period totalled EUR 46.7 (52.3) million.

The company has no net debt. Thanks to the strong net cash flow from operating activities the company's gearing was -14.7% (-9.5%). Net debt at the end of the year was EUR -17.2 million and cash funds totalled EUR 35.9 million. The balance sheet total stood at EUR 216.4 (206.7) million. The equity ratio was 55.0% (53.0%). The Group's equity structure and liquidity remained strong. Interest-bearing debt at year end totalled EUR 18.7 (20.7) million.

INVESTMENTS

Gross investments by the Group during the January-December totalled EUR 19.7 (14.0) million. Expenditure focused particularly on developing production and information systems.
The company has launched a programme to develop its information systems in support of its growth targets for the future. The costs for this resulted in an increase in investments compared to the period for comparison.

RESEARCH AND DEVELOPMENT

R&D expenditure in January-December totalled EUR 27.3 (25.1) million, and EUR 5.9 (4.5) million of this was capitalized as development costs. R&D costs accounted for 6.8% (6.5%) of Group revenues.

In its R&D activities in 2013, Vacon has invested particularly in developing medium voltage AC drives, expanding the power range for the VACON® 100 product family, and developing the VACON® NXP System Drive products.

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.

CHANGES IN THE EXECUTIVE MANAGEMENT TEAM

In January 2013, Vacon announced changes in Vacon Plc's Executive Management Team. Vacon's CFO Eriikka Söderström resigned from the company as of 6 February 2013. Pia Aaltonen-Forsell was appointed as her replacement. Aaltonen-Forsell took the position of the new CFO and member of the Executive Management Team on 1 May 2013.

In November 2013, Vacon announced that the company's CFO Pia Aaltonen-Forsell would be on maternity leave as of February 2014. Ann-Louise Brännback, M.Sc. (Econ.), was appointed acting CFO and a member of Vacon Group's Executive Management Team for the duration of Aaltonen-Forsell's maternity leave.

RESPONSIBILITY

Personnel

Vacon aims to be a leading company in its industry. This objective is reflected in the company's global HR policy. Vacon's HR policy is based on the company's values, continuous development of competence and wellbeing, as well as nurturing a passionate attitude. In the global and growing Vacon, creating a shared culture is one of the key success factors.

In 2013, Vacon's HR strategy highlighted management development, updating the global competence management model, and creating a reward strategy.

Vacon's personnel increased by 83 people during 2013. At the end of December the Group employed 1,596 (1,513) people, and 744 (708) of them were in Finland and 852 (805) in other countries. The average age of personnel was 37.1 (36.7) years. The average length of employment was 6.6 (6.2) years. 25.2% (25.6%) of employees were women and 74.8% (74.4%) were men.

Personnel key figures:

	2013	2012
Office personnel	1,016	955
Factory personnel	537	513
Total	**1,553**	**1,468**

Vacon has defined a new vision for its operations that was published in November 2013. The vision was created with personnel in a process that began in spring 2013.

According to its vision Vacon considers that true value is created together. That is why Vacon is creating the Drives Family, a close community where the best people work together to develop the best products, applications and services for its customers. Vacon is a company that brings together personnel, customers, partners, suppliers, shareholders, scholars and students – all the people who are Driven by Drives.

Vacon defined its strategic competence areas in 2013 as the strategy was redefined. The strategic competence areas include competence in AC drive products, applications and automation, management and innovation, high-quality supply chain management, product portfolio management, product life-cycle management, and multi-channel sales.

In 2013, Vacon began updating the Group-wide competence development model. The goal is to create a model that is effective in all countries of operation and in the entire Group. For Vacon to achieve its strategic objectives, having personnel with world-class know-how and competence is key.

Vacon applies a proactive approach to occupational health and well-being. The company conducts various surveys and studies 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.

The level of job satisfaction is also monitored frequently by means of a Group-wide job satisfaction survey. In 2013, extensive measures were taken to further improve job satisfaction.

Vacon is a forerunner in occupational safety. The company aims to create a working environment with zero accidents. Vacon's management and personnel develop occupational safety in on-going cooperation.

In 2013, Vacon defined a new reward strategy that is based on maintaining and strengthening the competence required by Vacon's business strategy and applying a working method that complies with Vacon's values. Personnel input is rewarded by means of a competitive salary that consists of a base salary, benefits and various incentives. Employment contracts are based on local legislation in each country and on applicable national and international agreements. In addition to applicable legislation and regulations, the compensation is based on known global assessment and compensation models, as well as employee performance. The compensation system is harmonized and fair.

All employees are 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.

Environment

Vacon's environmental responsibility is based on products, solutions, and applications that help save energy and reduce greenhouse emissions, particularly carbon dioxide emissions. The company's products are used extensively in different industries to improve energy-efficiency, utilize new sources of energy, and reduce greenhouse gas emissions. In addition, Vacon continuously seeks more environmentally conscious operating methods in its own operations.

Vacon's AC drives helped save approximately 55 TWh (50 TWh in 2012) of electrical energy in 2013. This equals the annual energy production of approximately ten 700 MW nuclear reactors, or the domestic electricity consumption of approximately 12 million households in Europe. In addition, it equals approximately 22 hours in the annual electricity production of the world*.

Furthermore, Vacon's products were used to produce approximately 22 TWh (20 TWh) of energy from renewable sources in 2013. This equals the average annual consumption of domestic electricity in approximately 5 million households in Europe, or approximately nine hours in the total annual energy consumption of the world*.

An AC drive controls the rotation speed of an electric motor to accommodate the real process need, which typically reduces energy consumption by 20–50%. According to studies, the payback time of AC drives has continuously shortened. For example, in pump and fan applications the payback time can be even under one year.

Vacon develops increasingly sustainable energy solutions for its customers and improves the life-cycle quality and eco-friendliness of its products. In 2013, Vacon concentrated specifically on collecting information on the materials of the products, expanding its ISO 14001 certification, and developing the Supplier Excellence program for subcontractors.

Vacon's product design and development are guided by the life cycle philosophy, from the selection of materials all the way to production and recycling. The product development stage includes an environmental impact assessment and definition of objectives that will be assessed throughout the product life-cycle.

In 2013, Vacon paid special attention to the choice of materials in products and to collecting information on the materials of products. Reporting harmful substances used in products is required by both the company's customers and tightening regulations. Vacon's Design for Environment checklist is part of environmentally conscious design, which ensures as early as the product development stage that products meet Vacon's internal environmental requirements as well as the requirements set by environmental legislation.

Vacon procures its components from carefully selected subcontractors from around the world. The materials and components used by Vacon have a direct effect on the environmental impact of the product life cycle. Therefore, cooperation between Vacon and its subcontractors has a central role in reducing the environmental impacts of products. Vacon sets high environmental requirements for components and materials in order to ensure the recyclability and safety of products in terms of the environment.

Vacon's Supplier Excellence program, developed in 2011, progressed to further development projects and model evaluation in 2013. The Supplier Excellence program assesses subcontractors' capability to produce products that meet Vacon's environmental requirements. Particularly with subcontractors, the focus is on identifying the use of prohibited and restricted substances and improving the transfer of information concerning materials.

In 2013, new quality tools and a more systematic monitoring model were included in this model of action. A process was defined for collecting information on materials related to environmental responsibility. The Supplier Excellence model was expanded in 2013 to include the monitoring of conflict minerals as well. Vacon's products do not contain conflict minerals.

With the certified environmental systems, Vacon works to ensure the effectiveness of environmental performance, uniform quality, and the principle of continuous improvement. Vacon's plants in China and Vaasa, Finland, have ISO 14001 certifications. In 2013, preparations for the ISO 14001 certification continued at the plants in Italy, India and the USA.

Vacon continuously studies different alternatives to reduce the volume of air cargo and thus decrease the harmful environmental effect of transport. Vacon's intra-plant transportation need is reduced by the fact that, in addition to the Vaasa plant, Vacon's extensive product portfolio is manufactured at the other Vacon plants as well. This means that production takes place closer to the customer, which provides savings in transportation costs and reduces emissions caused by transport.

For example, in 2013 Vacon also began manufacturing product solutions for the production of solar power in its plant in Bangalore, India. The manufacturing of the VACON® 100 range of products began at Vacon's plant in Chambersburg, PA, in the USA.

COMPANY OWNERSHIP AND CORPORATE GOVERNANCE

Shares and shareholders

Vacon had a market capitalization at the end of December of EUR 891.7 (611.5) million. The closing share price on 31 December 2013 was EUR 58.50. The lowest share price during the January-December period was EUR 40.00 and the highest EUR 59.90.

A total of 2,355,619 Vacon shares (15.5% of the share stock) were traded on the stock exchange during 2013, in monetary terms EUR 122.5 million. According to the shareholder register updated on 31 December 2013, Vacon had 4,841 registered shareholders. Shares that were nominee registered and in foreign ownership amounted to 48.0% (51.2%) of the share stock.

Flagging notifications in 2013

Vacon Plc received on 22 April 2013 a disclosure under Chapter 9, Section 5 of the Securities Markets Act, according to which the holding of Montanaro Asset Management Ltd in Vacon Plc has exceeded the threshold of 1/20 (5%). According to the disclosure Montanaro Asset Management Ltd holds 791,681 Vacon Plc's shares, which is 5.18% of Vacon Plc's shares and votes. Exceeding the above mentioned threshold is the result of the purchasing of shares on 18 April 2013.

*Data on global electricity production: Key World Energy Statistics 2013, International Energy Agency (IEA).

Own shares

Under the authorization given by the 2012 AGM, in 2013 Vacon allocated 32,728 of its own shares as bonuses under the share bonus scheme. In 2013 1,338 shares were returned to the company in accordance with the rules of the share bonus scheme

On 31 December 2013 Vacon Plc held a total of 51,837 of its own shares, which it had acquired at an average price of EUR 38.44 a share. These shares account for 0.3% of the share capital and voting rights, so they have no significant impact on the distribution of ownership or voting rights in the company.
In 2013, the Board of Directors did not exercise the authorizations given by the Annual General Meeting on 26 March 2013 to purchase the company's own shares or issue shares.

Board of Directors and President and CEO

Until the Annual General Meeting held on 26 March 2013, the Board of Directors included Pekka Ahlqvist, Jari Eklund, Jan Inborr, Juha Kytölä, Panu Routila, Mika Vehviläinen, and Riitta Viitala. The Annual General Meeting re-elected all of them as members of the Board of Directors. Panu Routila was elected as 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 Heikki Hiltunen was Executive Vice President and deputy to the CEO. Vacon Plc's management is described in greater detail in the section covering the Group's governance and management system in the company's Annual Report. The information is also available on the company's website at www.vacon.com.

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.

BUSINESS STRATEGY

Vacon is the world's largest company focusing solely on the design and manufacture of AC drives. This focus is a clear competitive advantage to Vacon.

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 redefined strategy and objectives

In November 2013, Vacon hosted a Capital Markets Day in Helsinki. In the event Vacon's management presented the company's vision, new long-term financial targets and redefined strategy for 2014–2020.

Vacon's financial targets for the years 2014–2020

Growth:The target is to achieve an average annual revenue growth of over 10%. The growth target is based on growing the business organically in a market environment where the AC drives market grows clearly faster than the average Gross Domestic Product (GDP). Selective acquisitions can be used to further accelerate the growth.

Profitability: The long-term profitability target is to achieve a sustainable EBIT margin level of 14%. Vacon focuses on growth and on measures that improve the company's efficiency in the long term and thus deliver a higher absolute EBIT and shareholder value.

Vacon does not consider the long term financial targets as market guidance for any given year during the period 2014-2020. The company will disclose separate market guidance annually.

Strategic focus and competitive advantage

Vacon's strategy is based on a 100% focus on AC drives. The AC drives market provides a good growth opportunity for the company also in the future.

Vacon will further build its broad product, application and service portfolio. It will introduce medium-voltage AC drives and system drives. The company will also expand its service business.

As a focused company, Vacon will further expand its portfolio of customer industries. This provides stability over the cycle. Vacon will also accelerate growth by expanding its operations to new geographical areas and by focusing on high market growth countries.

One of the cornerstones of Vacon's strategy is multi-channel sales. Multiple channels are needed to bring the wide product offering to all countries and selected customer industries. Channel selection is optimized based on individual country characteristics.

In addition to systematically improving operational efficiency, the main drivers for profitability are the best cost country sourcing, design to cost, regional production and service business growth, as well as differentiation with application software and cloud based services.

Vacon's differentiation and competitive advantage are based on four elements: Product leadership, Profound application know-how, Extensive services and Unique organizational culture.

Vacon has production units in five countries, R&D units in four countries, and sales offices in a total of 30 countries. An extensive presence on different continents provides good prerequisites for customer service, enabling, for example, quick delivery times. An extensive sales network offers sales the necessary local touch.

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 principles at Vacon are provided in the notes to the financial statements and the risk management section in the Annual Report, as well as the statement of the Group's governance and management.

COMMON RISKS AND UNCERTAINTIES AFFECTING THE COMPANY'S OPERATIONS

Vacon is exposed to risks that may arise from its operations or changes in the business environment. Typical and common risks to which Vacon's business operations are exposed relate to uncertainty in demand and intensifying competition on price, to losing customers, credit losses, goodwill, transfer pricing, the availability of raw materials and components, and to fluctuations in the values of foreign currencies.

The availability and quality of raw materials and components and changes in their prices can affect the profitability and scale of the company's business. Purchase agreements for raw materials and components are mainly annual agreements, which contain price and exchange rate clauses for changes in the global market prices of raw and other materials.

Vacon's order book has always been short term in nature, so there are no major risks connected with the timing of deliveries or their cancellation.

Vacon has thousands of customers worldwide. The ten largest customers accounted for some 40 % of Vacon's revenues in 2013. Vacon is continuously assessing the creditworthiness of its customers and their ability to pay their debts. Vacon is able to adjust its production capacity to market demand. Replicating production at the company's different factories and the program for transferring material sourcing to countries with the best cost levels further improve production and delivery certainty.

The company estimates that its cash funds and available credit facilities are sufficient to ensure its liquidity.

Management assesses non-current assets in the statement of financial position annually for any risk of impairment. Goodwill is tested annually for impairment.

Some of the most significant financial risks affecting the result are foreign exchange risks. Exchange rate fluctuations may have an impact on business, although the international expansion of business operations reduces the relative importance of individual currencies. The biggest exchange rate risks against the euro relate to the US dollar and the Chinese renminbi. The Group uses forward exchanges, currency options, foreign currency loans and interest rate swaps in managing financial risks. Derivative financial instruments are made for hedging purposes and hedge accounting is not applied to them.

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 profit for the period in dividends. The financing required for growth in operations is taken into account when deciding on the dividend.

PROSPECTS FOR 2014

Market research institute IHS estimates that the AC drive market will grow at an average rate of 7% in the period 2012-2017. Global megatrends, such as urbanisation, growth in industrial automation, energy efficiency, developing markets and renewable energy boost growth in the AC drive market. Growth in the AC drive market varies from year to year, even from one quarter to another, but as a general estimate, the AC drive market is growing faster than global average growth in gross national product.

Overall market developments are exposed to various uncertainties in 2014. Vacon estimates that the AC drive market will increase some 5-10 % in 2014, depending on overall market developments. The company has expanded and renewed its product offering in the past few years, which places the company in a strong position to grow faster than the AC drive market in 2014. Vacon's goal is to improve its profitability in 2014. Key factors in this will be the cost benefits from transferring material sourcing to lower cost countries, and raising overall efficiency in its operations.

MARKET GUIDANCE FOR 2014

Vacon estimates that its revenues will increase 5–15% and its operating profit percentage excluding one-time items will be 11–13% in 2014.

Revenues in 2013 totalled EUR 403.0 million and the operating profit percentage excluding one-time items was 10.1%.

BOARD PROPOSAL FOR DISTRIBUTION OF PROFIT

The parent company's profit for the 2013 financial year was EUR 23.7 million and the distributable equity of the parent company at the end of the financial year was at EUR 76.6 million. The Board of Directors proposes to the Annual General Meeting of Shareholders, to be held on 27 March 2014, that a dividend of EUR 1.30 per share be paid from the parent company's profit for the 2013 financial year and the remainder of the profit for the financial year be transferred to retained earnings. Under this proposal, a total of EUR 19.8 million would be paid in dividend.

The dividend will be paid to shareholders who are registered on 1 April 2014, the record date for the dividend payment, in the list of shareholders maintained by Euroclear Finland Oy. The dividend payment date is 8 April 2014.

CONSOLIDATED FINANCIAL STATEMENTS

	IFRS	restated* IFRS	IFRS	IFRS	IFRS
	2013	2012	2011	2010	2009
Per share data					
Earnings per share, EUR	1.84	1.72	1.10	1.22	1.01
Equity per share, EUR	7.58	6.99	6.28	5.90	5.25
Dividend per share, EUR **)	1.30	1.10	0.90	1.00	0.70
Dividend payout ratio, % **)	70.68	64.09	81.47	82.13	69.02
Effective dividend yield, % **)	2.2	2.7	2.9	2.6	2.6
Price/earnings ratio	31.8	23.4	28.0	32.0	26.3
Share price development					
Lowest during the year, EUR	40.00	31.11	27.21	24.90	15.30
Highest during the year, EUR	59.90	42.54	48.73	39.75	28.90
Closing price at end of year, EUR	58.50	40.20	30.90	39.00	26.70
Average price for the year, EUR	51.71	38.36	38.50	32.49	21.51
Market capitalization, MEUR	891.7	611.5	471.5	593.4	406.1
Trading volume, share	2,355,619	3,150,916	2,975,467	2,670,146	4,493,871
Trading volume, %	15.5	20.7	19.5	17.6	29.6
Adjusted average number of shares during the financial year ***)	15,235,941	15,254,256	15,246,387	15,213,083	15,204,263
Number of shares at end of year ***)	15,243,163	15,211,773	15,259,992	15,214,435	15,209,989
Own shares	51,837	83,227	35,008	80,565	85,011

*) Restated figures in accordance with IAS 19R. More information on amendments to IFRS standards is provided in the accounting principles of the consolidated financial statements.
**) The 2013 dividend is as proposed by the Board of Directors to the Annual General Meeting.
***) The average number of shares in the financial period was 15,235,941. The number of shares outstanding is 15,243,163.

	IFRS	restated* IFRS	IFRS	IFRS	IFRS
	2013	2012	2011	2010	2009
Group's financial ratios					
Revenues, MEUR	403.0	388.4	380.9	338.0	272.0
Change in revenues, %	3.8	2.0	12.7	24.3	-7.2
Operating profit excluding non-recurring items, EUR million	40.6	36.5	34.8	32.4	22.5
Change in the operating profit excluding non-recurring items, %	11.3	4.9	7.5	43.6	-35.0
Operating profit excluding non-recurring items, % of revenues	10.1	9.4	9.1	9.6	8.3
Operating profit, MEUR	40.6	38.0	24.7	28.6	22.5
Change in operating profit, %	6.9	53.6	-13.4	26.8	-35.0
Operating profit as % of revenues	10.1	9.8	6.5	8.5	8.3
Profit before taxes	39.7	37.1	27.0	27.5	22.0
Profit before tax, % of revenues	9.8	9.6	7.1	8.1	8.1
Return on equity, %	25.4	26.1	18.7	22.1	20.5
Return on investments, %	33.0	33.5	26.9	27.0	23.1
Interest-bearing net liabilities, MEUR	-17.2	-10.3	12.4	9.8	1.6
Gearing, %	-14.7	-9.5	12.7	10.7	2.0
Working capital, MEUR	31.4	33.0	45.1	45.9	31.2
Equity ratio, %	55.0	53.0	50.0	46.0	56.5
Gross capital expenditure, MEUR	19.7	14.0	18.7	15.9	18.2
Gross capital expenditure as % of revenues	4.9	3.6	4.9	4.7	6.7
R&D costs, MEUR	27.3	25.1	25.1	20.8	17.6
R&D costs as % of revenues	6.8	6.5	6.6	6.2	6.5
Personnel at the end of the period	1,596	1,513	1,468	1,339	1,228
Order book, MEUR	46.8	50.0	36.6	52.1	32.0

$$\text{Earnings per share} = \frac{\text{Profit for the financial year attributable to equity holders of the parent company}}{\text{Adjusted average number of shares}}$$

$$\text{Equity per share} = \frac{\text{Total equity - share of non-controlling interests}}{\text{Adjusted number of shares at the end of the year}}$$

$$\text{Dividend per share} = \frac{\text{Dividend for the financial year}}{\text{Adjusted number of shares at the end of the year}}$$

$$\text{Dividend payout ratio, \%} = \frac{\text{Dividend for the financial year x 100}}{\text{Profit for the financial year attributable to equity holders of the parent company}}$$

$$\text{Effective dividend yield, \%} = \frac{\text{Dividend per share x 100}}{\text{Adjusted closing share price at end of year}}$$

$$\text{Price/earnings ratio} = \frac{\text{Adjusted closing share price at end of year}}{\text{Earnings per share}}$$

$$\text{Return on equity, \%} = \frac{\text{Profit for the period x 100}}{\text{Total equity, average at the beginning and end of the year}}$$

$$\text{Return on investments, \%} = \frac{\text{(Profit before taxes + interest and other financial expenses) x 100}}{\text{Total equity and liabilities – non-interest-bearing liabilities, average at the beginning and end of the year}}$$

$$\text{Equity ratio, \%} = \frac{\text{Total equity x 100}}{\text{Total equity and liabilities – advances received}}$$

$$\text{Gearing, \%} = \frac{\text{(Interest-bearing liabilities – cash, bank balances, and financial assets) x 100}}{\text{Total equity}}$$

Working capital = Inventories + non-interest-bearing current receivables - non-interest-bearing current liabilities

R&D costs = R&D costs recognized 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

$$\text{Trading volume, \%} = \frac{\text{Number of shares traded during the year x 100}}{\text{Adjusted average number of shares}}$$

EUR thousand	Note	Jan 1–Dec 31, 2013	%	restated Jan 1–Dec 31, 2012	%
Revenues	3	402,983	100.0	388,368	100.0
Other operating income	4	285		229	
Change in inventories of finished goods and work in progress		1, 511		-1,929	
Materials and services	5	-204,218		-201,459	
Employee benefit related expenses	7	-82,097		-76,730	
Depreciation/amortization	8	-13,669		-13,708	
Other operating expenses	6	-64,148		-56,756	
Operating profit		**40,647**	**10.1**	**38,016**	**9.8**
Financial income	11	3,095		4,754	
Financial expenses	11	-4,085		-5,649	
Profit before taxes		**39,658**	**9.8**	**37,120**	**9.6**
Income taxes	12	-10,958		-10,270	
Profit for the period		**28,699**	**7.1**	**26,850**	**6.9**
Attributable to:					
Equity holders of the parent company	13	28,025		26,180	
Non-controlling interests		675		670	
Earnings per share calculated on profit belonging to the equity holders of the parent company:	13				
Basic earnings per share, EUR		1.84		1.72	
Diluted earnings per share, EUR		1.84		1.72	

Consolidated statement of comprehensive income (IFRS)

EUR thousand		
Profit for the period	28,699	26,850
Other items in the statement of comprehensive income:		
Remeasurements	-877	-465
Items not reclassified to profit or loss	-877	-465
Translation difference	-365	117
Items that may be subsequently reclassified to profit or loss	-365	117
Comprehensive result for the financial period, total	**27,458**	**26,502**
Attributable to:		
Equity holders of the parent company	26,874	25,832
Non-controlling interests	584	670

Assets, EUR thousand	Note	Dec 31, 2013	%	restated Dec 31, 2012	%	restated* Jan 1, 2012
Non-current assets						
Goodwill	14	8,891		9,153		9,234
Development costs	14	20,277		18,654		17,438
Other intangible assets	14	8,241		6,838		9,257
Property, plant and equipment	15	26,617		24,397		25,073
Available-for-sale financial assets	18	3,692		3,692		3,692
Deferred tax assets	12	7,295		7,173		5,731
Other financial assets	18	3,244		3,102		2,320
		78,258	36.2	73,009	35.3	72,745
Current assets						
Inventories	19	27,090		25,741		28,186
Trade and other receivables	20	75,062		76,910		80,871
Cash and cash equivalents	21	35,945		31,074		16,305
		138,097	63.8	133,725	64.7	125,362
Total assets		**216,355**	**100.0**	**206,734**	**100.0**	**198,107**

Total equity and liabilities, EUR thousand	Note	Dec 31, 2013	%	restated Dec 31, 2012	%	restated* Jan 1, 2012
Equity attributable to equity holders of the parent company						
Share capital	22	3,059		3,059		3,059
Share premium		4,966		4,966		4,966
Other reserves		2,443		75		73
Own shares		-1,993		-2,891		-859
Fair value reserve		2,492		2,348		2,348
Retained earnings		104,584		98,741		86,178
		115,552	53.4	106,299	51.4	95,765
Non-controlling interests		1,866	0.9	2,002	1.0	1,931
Total equity		**117,418**	**54.3**	**108,301**	**52.4**	**97,697**
Non-current liabilities						
Deferred tax liabilities	12	6,007		5,910		5,999
Employee benefits	24	3,458		2,149		1,673
Interest-bearing liabilities	25	14,924		17,855		20,221
		24,389	11.3	25,913	12.5	27,893
Current liabilities						
Trade and other payables	26	57,660		54,740		53,067
Income tax liabilities		1,737		3,785		1,650
Provisions	27	11,364		11,107		9,278
Interest-bearing liabilities	25	3,788		2,888		8,522
		74,549	34.5	72,521	35.1	72,518
Total liabilities		**98,937**	**45.7**	**98,434**	**47.6**	**100,410**
Total equity and liabilities		**216,355**	**100.0**	**206,734**	**100.0**	**198,107**

*) According to IAS 1.10, the consolidated statement of financial position for the beginning of the comparison period should be presented when the Group has applied the revised IAS 19 standard, which has been applied retroactively as per IAS 8 in accordance with the transition regulations, as of the beginning of the financial period on January 1, 2013.

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

EUR thousand	Jan 1–Dec 31, 2013	restated Jan 1–Dec 31, 2012
Cash flow from operating activities		
Profit for the period	28.699	26.850
Adjustments:		
Depreciation/amortization	13,669	13,708
Financial income and expenses	990	895
Taxes	10,958	10 270
Other adjustments	1,912	-1,424
Changes in working capital:		
Change in inventories	-2,380	2,015
Change in non-interest-bearing receivables	-1,459	6,888
Change in non-interest-bearing liabilities	6,111	3,977
Interest received	392	293
Interest paid	-340	-791
Other financial items	693	-893
Taxes paid	-12,555	-9,483
Net cash flow from operating activities	**46,689**	**52,305**
Cash flow from investing activities		
Acquisition of subsidiary	-1,484	-506
Investments in property, plant and equipment	-8,908	-5,834
Investments in intangible assets	-11,174	-5,993
Other investments	324	-519
Net cash flow investing activities	**-21,242**	**-12,852**
Cash flows from financing activities		
Proceeds from long-term borrowings	0	507
Repayments on long-term loans	-5,745	0
Proceeds from short-term borrowings	4,230	13,000
Repayments on short-term loans	-736	-20,978
Purchase of own shares	0	-2,326
Dividends paid	-17,278	-14,627
Net cash flow from financing activities	**-19,529**	**-24,425**
Change in cash and cash equivalents	**5,918**	**15,028**
Cash and cash equivalent at start of year	31,074	16,305
Translation differences in cash and cash equivalents	-1,047	-260
Cash and cash equivalent at end of year	**35,945**	**31,074**

	Equity attributable to equity holders of the parent company							Non-controlling interests	Total equity
EUR thousand	Share capital	Share premium	Other reserves	Own shares	Revaluation fund	Retained earnings	Total		
Equity on Jan 1, 2012	3,059	4,966	73	-859	2,348	86,194	95,781	1,931	97,713
Accounting principle revision (IAS 19)						-16	-16		-16
Adjusted equity on Jan 1, 2012	3,059	4,966	73	-859	2,348	86,178	95,765	1,931	97,697
Other adjustments			3			-174	-171	36	-135
Profit for the period						26,180	26,180	670	26,850
Other items in the statement of comprehensive income:									
Remeasurements						-465	-465		-465
Translation difference						117	117		117
Comprehensive result for the financial period, total						25,832	25,832	670	26,502
Share bonuses				294		948	1,242		1,242
Dividends paid						-13,734	-13,734	-606	-14,340
Purchase of own shares				-2,326			-2,326		-2,326
Acquisition of non-controlling interests						-309	-309	-30	-338
Equity on Dec 31, 2012	**3,059**	**4,966**	**75**	**-2,891**	**2,348**	**98,741**	**106,299**	**2,002**	**108,301**
Total equity Jan 1 2013	3,059	4,966	75	-2,891	2,348	98,741	106,299	2,002	108,301
Other adjustments *			2,367		144	-2,993	-482		-482
Profit for the period						28,025	28,025	675	28,699
Other items in the statement of comprehensive income:									
Remeasurements						-877	-877		-877
Translation difference						-274	-274	-91	-365
Comprehensive result for the financial period, total						26,874	26,874	584	27,458
Share bonuses				899		4	903		903
Dividends paid						-16,768	-16,768	-510	-17,278
Acquisition of non-controlling interests						-1,275	-1,275	-209	-1,484
Equity on Dec 31, 2013	**3,059**	**4,966**	**2,443**	**-1,993**	**2,492**	**104,584**	**115,552**	**1,866**	**117,418**

*) Reserve fund transfer of EUR 2.4 million within equity

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 30 (29) 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 5, 2014. 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, 2013, 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 corporations, complementing the IFRS standards.

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.

New and revised standards applied

The Group complies with the IFRS standard amendments effective on January 1, 2013 concerning the following standards: IAS 19 Employee benefits, IFRS 7 Financial instruments, and IFRS 13 Fair value measurement. The accounting principles have been updated in accordance with the amended standards.

The amendment to the IAS 19 standard eliminates the corridor approach used by the company. According to the standard, all actuarial gains and losses are recognized through the items caused by the remeasurements of the comprehensive income statement. Past service costs are immediately recognized as pension expenses in personnel expenses. The measurement of expected return is discontinued and a discount rate will also be used when measuring the return on assets. As a result of the amendment, the pension obligation on December 31, 2012 increased by EUR 0.2 million and equity decreased by EUR 0.2 million.

The amendment to the IFRS 7 standard specifies the notes requirements concerning net financial instruments presented in the financial statements and netting arrangements or similar agreements. The amendment will not have material impact on the consolidated financial statements.

The IFRS 13 Fair Value Measurement standard contains harmonized requirements concerning the measurement of fair value and Notes, applicable to all IFRS standards. The amendment will not have material impact on the consolidated financial statements.

Estimates

When preparing the IFRS-compliant consolidated financial statements, the company's management is required to make estimates and assumptions. These affect the amount of assets, liabilities, income, and expenses to be recorded. 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 an 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.

Transactions completed with non-controlling interests that 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, nonrealized 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.

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 euro (thousand), which is the business and presentation currency of the Group's parent company.

Separate companies' transactions carried out in foreign currencies are recognized 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 euro 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 recognized 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 recognized in other items in the statement of comprehensive income. Translation differences generated before January 1, 2004, which is when the Group adopted the IFRS standards, have been recognized, in accordance with the exemption allowed by the IFRS 1 standard, in retained earnings at the adoption of the IFRS standards, and they will not be recognized through profit and loss later when the subsidiary is sold.

The cash flows of foreign subsidiaries have been translated into euro 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 statement of financial position, they are included in short-term 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 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 contracts

Derivative contracts are originally booked at acquisition cost, which matches their fair value. In subsequent financial statements, derivative contracts are measured at fair value. Publicly quoted market prices and rates, as well as generally used measurement models, are used to define the fair value of derivatives. The information and assumptions used in the measurement models are based on verifiable market prices and values. The fair values of derivative contracts expiring within a year are shown in the statement of financial position under current receivables or liabilities, and contracts with longer maturity under non-current receivables or liabilities. The Group does not apply hedge accounting. The changes in the fair value of the hedging instrument are recognized in the financial items of the income statement if they by nature are instruments hedging financial items.

Goodwill and other intangible assets

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 life, if there are any, are tested for impairment during the last quarter.

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. More information about the sensitivity of the recoverable amount in goodwill to changes in the assumptions applied is given in Note 14.

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. Such development costs are capitalized in intangible assets starting from the moment the development stage expenses can be reliably determined; completing the products is technically feasible; the Group can use or sell the product; the Group can prove that the product will generate potential future financial benefits; and the Group has both the intention and resources to finalize the development work and use or sell the product. The activated development costs are amortized over their economic life, however usually within 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 the product concept has been tested and found feasible in either simulations or testing and is therefore likely to become available for sale later. After that, it moves on to the development stage and the expenses are capitalized in the statement of financial position. The values of the capitalized goods are tested for impairment during the last quarter. Goods that are not yet ready to use are tested.

Property, plant and equipment

Machinery and equipment represent the largest component of property, plant and equipment. In the statement of financial position, these are measured at original acquisition cost less accumulated depreciation. The acquisition cost includes expenses which are immediately incurred by the acquisition of tangible assets. 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. The impairment loss is recognized immediately through profit and loss. For impairment assessment, the asset items are categorized at the lowest levels where cash flows can be separately itemized. At the recognition of impairment losses, the economic life of the asset item being amortized will be reassessed. An impairment recognized on asset items other than goodwill is canceled if a change has taken place in the estimates that have been used when assessing the amount of money recoverable from the asset item. Nevertheless, the cancellation of the impairment loss will not exceed the carrying value excluding the recognition of the impairment loss. Impairment loss recognized from goodwill is not canceled in any situation.

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 in 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 in the statement of financial position at the acquisition cost or at the lower net realizable value using the FIFO method (first in, first out).

The component acquisition cost includes all purchasing costs, including direct transportation, handling, and other costs. 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 in 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 schemes are defined as contribution plans. The parent company and some foreign subsidiaries have defined benefit plans.

Typically, the amount of the pension benefit the employee will receive is determined in defined benefit plans. It usually depends on one or more factors, such as the employee's age, service years, and salary. The liability recognized in the statement of financial position for defined benefit plans is the present value of the defined benefit obligation at the end of the financial period less the fair value of plan assets. Independent actuaries calculate the defined benefit obligation annually using the Projected Unit Credit Method. The discount rate used is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The bonds are in the same currency in which the benefits are paid, and their maturity is the same as the maturity of the related pension obligation. In countries where there is no deep market in such bonds, market yields on government bonds are used.

The pension expense from the period's performance and the net interest rate of the net liability in the defined benefit plan are recognized through profit and loss and presented in expenses and financial items attributable to employee benefits. The items caused by the re-measurement of the defined benefit net liability (such as actuarial gains and losses and return on plan assets) are recognized in other comprehensive income items for the period in which they were incurred.

Under defined contribution plans, the Group pays mandatory, contractual or voluntary contributions to publicly or privately managed pension insurance arrangements.

After these contributions, the Group no longer has other payment obligations. The contributions are recognized as employee benefit expenses when they fall due. Prepaid contributions are recognized as assets to the extent that a cash reimbursement or a deduction of future payments is available.

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.

Principles of recognition

Sales are presented at the fair value of the return. 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. Return and costs of long-term projects are recognized as income and expenses based on the percentage-of-completion. The percentage-of-completion is measured from the share of the to-date costs of the estimated total costs of the project. Expenses related to an unrecognized project are recognized as unfinished long-term projects under inventories. If the expenses incurred and profits recognized are greater than the amount billed for the project, the difference is presented in item 'Trade and other receivables' in the statement of financial position. If the expenses incurred and profits recognized are smaller than the amount billed for the project. the difference is presented in item 'Trade and other payables'. If it is likely that the overall costs of the project will exceed the overall income, the expected losses are immediately recognized as expenses.

Operating profit

The concept of operating profit is not defined in the Presentation of Financial Statements standard. 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 recognized under financial items.

Government grants

Subsidies received from the government or other parties are recognized as income in the income statement, with matching expenses recognized. Subsidies are recognized as deductions of the corresponding expenses. Subsidies associated with tangible and intangible assets are deducted from the asset acquisition price and the net acquisition cost is capitalized in the 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 management team an opportunity to receive the company's 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. More detailed terms and conditions about the share bonus scheme are presented in greater detail in Note 23. Share-based payments.

Provisions

Items related to contracts and other effective obligations that are likely to require financial resources are recognized in the statement of financial position as provisions, if their amount can be reliably assessed. Currently, these only include warranty provisions and any negative contracts and outstanding reclamations. The anticipated future warranty costs of delivered products are recognized 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 and deferred 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 balance sheet date or a tax rate which has been in practice approved on the reporting period closing date. The most significant tax assets and liabilities consist of tax losses carried forward, accelerated depreciations in taxation, capitalizations of development costs, measuring assets at fair value at acquisition, provisions and financial instruments.

Deferred tax assets from tax losses carried forward are recognized in cases where it is likely that the loss can be used against 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 is materialized. A contingent liability is also an existing obligation that 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:

- Effective January 1, 2014: The amendment concerning the netting of assets and liabilities in IAS 32: Financial Instruments: Presentation. The amendments concern the application guideline of IAS 32. They clarify certain requirements concerning the deduction of financial assets and liabilities from each other in the statement of financial position. The amendment will not have material impact on the consolidated financial statements.
- Effective January 1, 2014: The amendment concerning recoverable amount disclosures for non-financial assets in IAS 36: Impairment of Assets. The amendment concerns the recoverable amount disclosures for non-financial assets, which must be presented on impaired asset items if their value is based on the fair value less costs incurred by the disposal. The amendment will not have material impact on the consolidated financial statements.
- Effective July 1, 2014: Annual Improvements 2010–2012 and 2011–2013. The improvements will cause amendments to the following standards: IFRS 2 Share-based Payments, IFRS 13 Fair Value Measurement, IAS 16 Property, plant and equipment, as well as IAS 38 Intangible assets and IAS 24 Related Party Disclosures. The standard improvements will not have material impact on the consolidated financial statements. The revised standards have not yet been approved for application in the EU.
- IFRS 9 Financial Instruments and amendments thereto (IASB has postponed the effective date of the standard to financial periods starting on January 1, 2015, or thereafter (previously, January 1, 2013)): The new standard will be published in three stages and will replace the currently effective IAS 39 Financial Instruments: Recognition and Measurement. The first stage amendments concern the classification, recognition and valuation of financial assets and liabilities. The different valuation methods for financial assets have been preserved but they have been simplified. Financial assets are divided into two main categories, based on the valuation methods: those measured at amortized acquisition cost and those measured at fair value. The classification depends on the company's model of operation and on the characteristics of cash flows based on the agreement. In terms of financial liabilities, the majority of IAS 39 regulations have been included in the new standard unchanged. Due to the unfinished sections, the final impact of the standard on the consolidated financial statements can so far not be estimated. The standard has not yet been approved for application in the EU.

3. 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 are organized into the following main areas: Market Operations, Product Operations and Support Functions. In order to ensure customer-orientation, the operations are controlled by sales channel: distributors, system integrators, end customers, original equipment manufacturers (OEM), and brand label customers.

Vacon's highest operative decision-maker is Vacon Plc's President and CEO, who assesses the financial status of the Group and its development as a whole.

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	2013	2012
EMEA	242,056	225,546
Americas	70,739	76,648
APAC	90,188	86,174
Total	**402,983**	**388,368**

EUR thousand, 2013	Revenues from external customers	Non-current assets
Finland	24,733	38,575
Other countries	378,250	32,387
Total	**402,983**	**70,963**

EUR thousand, 2012	Revenues from external customers	Non-current assets
Finland	23,312	32,750
Other countries	365,056	33,218
Total	**388,368**	**65,968**

By the end of the year, revenues recognized from long-term projects in progress totaled EUR 3.4 million (2.9 million) and the operating profit was EUR 1.5 million in total (1.0 million). Prepayments received from long-term projects in progress were EUR 6.6 million (2.0 million) at the end of 2013. The invoice portion of long-term projects that exceeds the amount of expenses and profit was EUR 0.3 million in 2013. Receivables generated by recognitions, less prepayments received, totaled EUR 0.9 million in 2012.

4. OTHER OPERATING INCOME

EUR thousand	2013	2012
Rental income	28	79
Insurance compensations	12	92
Government grants	106	23
Other	139	36
Total	**285**	**229**

5. MATERIALS AND SERVICES

EUR thousand	2013	2012
Materials and consumables		
Purchases during the financial year	197,335	194,114
Change in inventories	-311	729
External services	7,194	6,616
Total	**204,218**	**201,459**

6. OTHER OPERATING EXPENSES

EUR thousand	2013	2012
Delivery costs and commissions	7,350	7,710
Sales and marketing expenses	13,018	8,599
Rents	10,646	10,128
Administrative expenses	21,021	18,675
Other costs	12,114	11,643
Total	**64,148**	**56,756**

7. EMPLOYEE BENEFIT RELATED EXPENSES

EUR thousand	2013	2012
Salaries	64,010	59,505
Share bonuses granted paid in shares	1,432	1,242
Share bonuses granted paid in cash	903	1,908
Pensions		
Defined benefit plans	513	349
Defined contribution plans	9,744	8,741
Other personnel costs	5,494	4,985
Total	**82,097**	**76,730**
Office personnel	1,016	955
Factory personnel	537	513
Average number of personnel	**1,553**	**1,468**

Management employee benefits, salaries, and remuneration are presented in Note 31. Related party transactions. Share bonuses granted to the management are presented in Note 23. Share-based payments.

8. DEPRECIATION AND AMORTIZATION

EUR thousand	2013	2012
Depreciation by asset group		
Intangible assets		
Development costs	4,303	3,250
Intangible rights	1,908	3,415
Other intangible assets	1,030	641
Total	7,241	7,307
Property, plant and equipment		
Buildings	25	33
Machinery and equipment	6,403	6,369
Total	6,428	6,402
Depreciation and amortization Total	**13,669**	**13,708**

9. AUDITOR'S FEES

EUR thousand	2013	2012
Audit fees	225	203
Tax consulting	244	115
Other services	270	62
Total	**739**	**380**

10. R&D COSTS

The income statement includes research and development costs recognized as expenses of EUR 21.3 million in 2013 (EUR 20.6 million in 2012).

11. FINANCIAL INCOME AND EXPENSES

EUR thousand	2013	2012
Interest income from loans and other receivables	392	283
Exchange rate gains on loans and other receivables	2,641	4,270
Other financial income	62	201
Total	**3,095**	**4,754**
Interest expenses on financial loans valued at amortized acquisition cost	-444	-702
Exchange rate losses on loans and other receivables	-3,448	-4,849
Other financial expenses	-193	-98
Total	**-4,085**	**-5,649**
Financial income and expenses, total	-990	-895

Items above the operating profit include exchange rate differences of EUR 0.1 million from hedge accounting derivative contracts and of EUR -1.5 million from trade receivables (in 2012, EUR -1.1 million from derivative contracts and EUR 0.4 million from trade receivables).

12. INCOME TAXES

EUR thousand	2013	2012
Taxes based on the taxable income for the financial year	-10,958	-10,972
Taxes on the previous year	251	-673
Deferred taxes:		
Generated and dissolved temporary differences	-829	1,375
Impact of changes to the Finnish tax rate	578	0
Total	**-10,958**	**-10,270**

Taxes related to other items in the statement of comprehensive income

EUR thousand	2013		
	Before taxes	Tax impact	After taxes
Items caused by the re-measurement of defined benefit pension plans	-1,029	152	-877
Translation difference	-365		-365
Total	**1,394**	**152**	**-1,242**

EUR thousand	2012		
	Before taxes	Tax impact	After taxes
Items caused by the re-measurement of defined benefit pension plans	-601	136	-465
Translation difference	117		117
Total	**-484**	**136**	**-348**

Calculation of taxes

EUR thousand	2013	2012
Profit before taxes	39,658	37,120
Taxes calculated in accordance with domestic tax rate	9,716	9,095
Deferred tax income related to the change in the tax rate	-578	-625
Impact of foreign subsidiaries' differing tax rates	774	405
Tax-free income	-383	-383
Non-deductible expenses	1,125	353
Use of tax losses carried forward	-211	0
Deferred tax assets carried forward from tax losses	302	579
Taxes on the previous year	-251	673
Others	463	174
Taxes in the income statement	**10,958**	**10,270**

Change in deferred tax assets and liabilities during financial year:

2013, EUR thousand	Jan 1	Items entered in income statement	Items entered in equity	Translation difference	Dec 31
Deferred tax assets:					
Employee benefits	88	100	201		389
Provisions	1,391	-112		-4	1,276
Tax losses carried forward	3,035	67			3,102
Internal margin from inventories	1,657	-119			1,539
Other temporary differences	1,002	6		-17	990
Total	**7,173**	**-58**	**201**	**-21**	**7,295**
Deferred tax liabilities:					
Capitalized intangible assets	4,688	-302			4,386
Accumulated depreciation difference	981	1		-145	837
Other temporary differences	240	494	49		784
Total	**5,910**	**193**	**49**	**-145**	**6,007**

2012, EUR thousand	Jan 1	Items entered in income statement	Items entered in equity	Translation difference	Dec 31
Deferred tax assets:					
Employee benefits	35	52			88
Provisions	937	461		-7	1,391
Tax losses carried forward	2,654	377		4	3,035
Internal margin from inventories	1,609	48			1,657
Other temporary differences	496	558	-47	-6	1,002
Total	**5,731**	**1,497**	**-47**	**-9**	**7,173**
Deferred tax liabilities:					
Capitalized intangible assets	4,861	-173			4,688
Accumulated depreciation difference	1,125	-115	-38	9	981
Other temporary differences	13	410	-182		240
Total	**5,999**	**122**	**-220**	**9**	**5,910**

The Finnish tax rate used in the calculation of deferred taxes changed from 24.5% in the previous year to 20.0% in the financial statements for the 2013 financial period. On December 31, 2013, the Group had EUR 1.9 million (EUR 1.9 million on December 31, 2012) of tax losses carried forward for which no deferred tax assets have been recognized since there is uncertainty associated with their realization. The losses in question will expire in 2015–2032.

13. 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 2012 and 2013, the Group had no diluting instruments.

EUR thousand	2013	2012
Profit for the financial year attributable to equity holders of the parent company	28,025	26,180
Weighted average number of shares during the year	15,235,941	15,254,256
Basic earnings per share, EUR	1.84	1.72
Diluted earnings per share, EUR	1.84	1.72

14. INTANGIBLE ASSETS

EUR thousand	Goodwill	Development costs	Other intangible rights	Other intangible assets	Advance payments and construction in progress	Total 2013	Total 2012
Acquisition cost, Jan 1	9,153	32,442	25,982	5,607	3	73,187	67,264
Increases		5,938	1,076	3,372	0	10,386	6,095
Decreases			-129			-129	-4
Transfers between items			26	14	-3	37	54
Translation differences	-262	-19	-213	-158		-652	-223
Acquisition cost, Dec 31	8,891	38,362	26,742	8,834	0	82,829	73,187
Accumulated amortization, Jan 1	0	-13,788	-22,176	-2,578	0	-38,542	-31,335
Accumulated amortization on decreases and transfers			128	-15		113	4
Amortization for the financial year		-4,303	-1,908	-1,030		-7,241	-7,307
Translation differences		7	187	56		250	96
Accumulated amortization, Dec 31	0	-18,085	-23,769	-3,566	0	-45,420	-38,543
Carrying amount, Dec 31, 2013	8,891	20,277	2,973	5,269	0	37,409	
Carrying amount, Dec 31, 2012	9,153	18,654	3,806	3,029	3		34,644

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 product groups are based on management forecasts for 2013–2020. 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. 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 and the USA (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 (8.74%) has been used. The discount rate used in the calculations is defined before taxes.

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 -7% and -67%.

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 1.1–38.1 percentage points in the discount rate before taxes, before their recoverable amount corresponds to the carrying amount of net assets.

EUR thousand	2013	2012
Subsidiaries	8,891	9,153

Main assumptions used in impairment testing:

	2013	2012
Growth in revenues on average (p.a., five-year forecasts)	6–69%	6–29%
Pretax discount rate	8.8–15.7%	8.9–16.1%
Long-term growth	2–3%	2–3%
Goodwill allocated, EUR thousand	8,891	9,153
Carrying value, EUR thousand	45,654	46,245
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's 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.

15. PROPERTY, PLANT AND EQUIPMENT

EUR thousand	Land and water areas	Buildings	Machinery and equipment	Advance payments and construction in progress	Other tangible assets	Total 2013	Total 2012
Acquisition cost, Jan 1	132	139	66,036	736	68	67,111	61,534
Increases		0	5,285	3,925		9,210	7,661
Decreases			-391	0		-391	-1,823
Transfers between items			494	-534		-40	-48
Translation differences			-639	-1		-640	-213
Acquisition cost, Dec 31	132	139	70,786	4,125	68	75,250	67,111
Accumulated depreciation, Jan 1	0	-40	-42,673	0	0	-42,713	-36,461
Accumulated depreciation on decreases and transfers			144			144	45
Depreciation for the financial year		-25	-6,403			-6,428	-6,402
Translation differences			363			363	104
Accumulated depreciation, Dec 31	0	-65	-48,568	0	0	-48,633	-42,713
Carrying amount, Dec 31, 2013	132	74	22,218	4,125	68	26,617	
Carrying amount, Dec 31, 2012	132	99	23,363	736	68		24,397

16. BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

2013, EUR thousand	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	1,447	5,490		6,937	6,937	18
Current financial assets						
Trade and other receivables	75,062			75,062	75,062	20
Cash and cash equivalents	35,945			35,945	35,945	21
Carrying amount by measurement category	**112,454**	**5,490**	**0**	**117,944**	**117,944**	
Non-current financial liabilities						
Interest-bearing liabilities			14,924	14,924	14,924	25
Current financial liabilities						
Interest-bearing liabilities			3,788	3,788	3,788	25
Trade and other payables			54,879	54,879	54,879	26
Carrying amount by measurement category	**0**	**0**	**73,591**	**73,591**	**73,591**	

2012, EUR thousand						
Non-current financial assets						
Other financial assets	1,317	5,478		6,795	6,795	18
Current financial assets						
Trade and other receivables	76,910			76,910	76,910	20
Cash and cash equivalents	31,074			31,074	31,074	21
Carrying amount by measurement category	**109,301**	**5,478**	**0**	**114,778**	**114,778**	
Non-current financial liabilities						
Interest-bearing liabilities			17,855	17,855	17,855	25
Current financial liabilities						
Interest-bearing liabilities			2,888	2,888	2,888	25
Trade and other payables			52,262	52,262	52,262	26
Carrying amount by measurement category	**0**	**0**	**73,004**	**73,004**	**73,004**	

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

17. FAIR VALUE HIERARCHY OF FINANCIAL ASSETS AND LIABILITIES VALUED AT FAIR VALUE

		Fair values at the end of the financial period		
EUR thousand	Dec 31, 2013	Level 1	Level 2	Level 3
Financial assets recognized at fair value through profit and loss				
Foreign exchange forwards and options	198		198	
Available-for-sale financial assets				
Share investments	5,490			5,490
Loans and other receivables				
Convertible bond	994			994
Total	**6,681**	**0**	**198**	**6,483**
Liabilities valued at fair value				
Foreign exchange forwards and options	113		113	
Total	**113**	**0**	**113**	**0**

		Fair values at the end of the financial period		
EUR thousand	Dec 31, 2012	Level 1	Level 2	Level 3
Financial assets recognized at fair value through profit and loss				
Foreign exchange forwards and options	447		447	
Available-for-sale financial assets				
Share investments	5,478			5,478
Loans and other receivables				
Convertible bond	994			994
Total	**6,918**	**0**	**447**	**6,471**
Liabilities valued at fair value				
Foreign exchange forwards and options	31		31	
Total	**31**	**0**	**31**	**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, Danske Bank, and Svenska Enskilda 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 items that are not based on observable market information but to a significant extent on the management's estimates.

The gross fair values of derivatives are presented in the statement of financial position and in the adjacent table. Vacon Plc's derivative contracts with Counterparty A and B are covered by a netting arrangement (ISDA or equivalent). Vacon Plc's derivative assets with Counterparty A total EUR 139.3 thousand (fair value) and derivative liabilities amount to EUR 63.8 thousand (fair value). Vacon Plc's derivative assets with Counterparty B total EUR 58.3 thousand (fair value) and derivative liabilities amount to EUR 49.4 thousand (fair value).Trade receivables and trade payables do not include material netting agreements. The netting arrangement, or netting of assets and liabilities, is possible in an agreement violation or bankruptcy.

18. RECONCILIATION OF OTHER FINANCIAL ASSETS VALUED AT FAIR VALUE IN ACCORDANCE WITH LEVEL 3

EUR thousand	2013	2012
Available-for-sale financial assets		
Investment funds:		
At the beginning of period, Jan 1	1,394	1,650
Increases	12	44
Decreases	0	-300
At the end of period, Dec 31	**1,406**	**1,394**
Other unquoted holdings:		
At the beginning of period, Jan 1	4,084	4,088
Decreases	0	-5
At the end of period, Dec 31	**4,084**	**4,084**
Share investments total	**5,490**	**5,478**
Loan		
Convertible bond:		
At the beginning of period, Jan 1	994	0
Increases	0	994
At the end of period, Dec 31	**994**	**994**

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 fair value.

The convertible bond is a capital loan in nature and granted to The Switch Engineering Oy. The bond matures on November 30, 2014, to the extent that it has not been exchanged to unquoted shares. The interest rate is 10%.

EUR thousand	2013	2012
Other receivables		
At the beginning of period, Jan 1	323	274
Increases / decreases	131	49
At the end of period, Dec 31	**453**	**323**

19. INVENTORIES

EUR thousand	2013	2012
Materials and consumables	12,576	11,951
Long-term projects in progress	0	629
Finished goods	14,514	13,161
Total	**27,090**	**25,741**

Inventories have been written down by EUR 2.8 million to accommodate for non-marketable assets in 2013 (EUR 2.8 million in 2012). Non-marketability deductions primarily cover spare parts and replacement units.

20. TRADE AND OTHER RECEIVABLES

EUR thousand	2013	2012
Loans and other receivables		
Trade receivables	66,346	68,290
Other loan receivables	0	108
Other receivables	4,776	4,241
Total	**71,122**	**72,639**
Receivables from long-term projects	0	923
Accrued income and prepayments	3,940	3,348
Total	**3,940**	**4,271**

21. CASH AND CASH EQUIVALENTS

EUR thousand	2013	2012
Cash and cash equivalents	35,945	31,074
Total	**35,945**	**31,074**

22. NOTES RELATING TO SHAREHOLDERS' EQUITY

	Number of shares	Number of own shares	Share capital EUR thousand	Own shares EUR thousand	Share premium EUR thousand	Other reserves EUR thousand	Total EUR thousand
Jan 1, 2012	15,295,000	-35,008	3,059	-859	4,966	73	7,239
Shares issued as share bonuses April 24, 2012		11,781		294			294
Purchase of own shares August 8 to November 15, 2012		-60,000		-2,326			-2,326
Dec 31, 2012	15,295,000	-83,227	3,059	-2,891	4,966	75	5,210
Shares issued as share bonuses March 27, 2013		32,728		934			934
Refunds during the year		-1,338		-35			-35
Reserve fund						2,367	2,367
Dec 31, 2013	**15,295,000**	**-51,837**	**3,059**	**-1,993**	**4,966**	**2,443**	**8,476**

Vacon's share capital is EUR 3,059,000, divided into 15,295,000 fully paid shares. Vacon has one share series. Each share entitles the shareholder to 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 a total of 60,000 of its own shares, and under the authorization given at the Annual General Meeting on March 25, 2012, it repurchased a total of 60,000 of its own shares. 120,252 shares were issued as a share bonus in 2006–2011; 11,781 shares on April 24, 2012 and 32,728 shares on March 27, 2013.

A total of 1,338 shares were returned to the company in 2013 in accordance with the rules of the share bonus system, after which the company holds 51,837 shares. Other reserves include a statutory reserve fund in a subsidiary, EUR 2.4 million. The Board of Directors' valid authorizations are presented in the section Shares and shareholders on page 109.

23. SHARE-BASED PAYMENTS

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-based incentive scheme (Scheme A) has three earnings periods: the calendar years 2011, 2012, and 2013. The company's Board of Directors will decide the target group, earnings criteria for the scheme, and the targets set for the criteria at the beginning of each earnings period. The possible bonus for the earnings period 2013 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 2014. The share-based bonus scheme also contains a fourth earnings period for the members of the Management Team (Scheme B). This four-year earnings period is based on 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 out as a combination of the company's shares and cash in 2015. If the maximum targets set for the earnings criteria of the 2011–2014 earnings period 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 70 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. The actual number of shares are shown in the below table.

Nature of arrangement: Share bonus scheme

Date of issue	2011–2014/B 2013 March 22, 2011	2013–2015/A 2013 March 22, 2011	2012–2014/A 2013 March 22, 2011	2011–2013/A 2013 March 22, 2011
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	41,500	74,625	58,125	59,500
Share price at time of issue, EUR	43.14	43.14	43.14	43.14
Agreed work obligation period (no. of years)	4	3	3	3
Share price on valuation date, EUR	58.50	58.50	53.00	41.00
Value of shares being issued on valuation date, EUR thousand	971	1,358	1,735	483
Portion to be paid in cash (for taxes) calculated with the value on closing date, EUR thousand	1,010	1,411	1,803	528
Total cost of shares issued based on value at the time of issue, EUR thousand	716	1,001	1,412	508
Total cost of the share bonus scheme, EUR thousand	1,726	2,412	3,215	1,036
Share value adjusted with anticipated participation, EUR thousand	652	911	1,412	508
Consolidated income statement includes 1/3 of the sum in employee benefits and increase in equity, EUR thousand	-41	304	471	169
Portion to be recognized that is carried forward after the anticipated participation has been taken into account, EUR thousand	163	607	471	0
Amount to be paid in cash adjusted with anticipated participation, EUR thousand	922	1,289	1,803	528
Consolidated income statement includes 1/3 of the sum as employee benefits and liabilities, EUR thousand	127	466	666	173
Estimated portion to be carried forward when the anticipated participation has been taken into account, EUR thousand	231	824	597	0
Total costs of the share bonus system recognized as employee benefits in the Group during the financial period, EUR thousand	86	769	1,137	343

The amount recognized as cost from the share bonus scheme during the financial year was based on real financial profit and the probability at which the conditions based on 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.

24. EMPLOYEE BENEFITS

The Group applies the revised IAS 19 standard as of January 1, 2013. The Group has the most defined benefit plans in Europe. 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	2013	2012
Defined benefit liabilities in the statement of financial position are determined as follows:		
Present value of funded obligations	5,049	2,049
Fair value of plan assets	-3,302	-1,230
Deficit on funded plans	1,746	819
Present value of unfunded obligations	1,712	1,329
Deficit of defined benefits plans	3,458	2,149
Liability in the statement of financial position	3,458	2,149

The defined benefit net liabilities increased as follows during the financial period:

EUR thousand	Present value of the obligation	Fair value of plan assets	Total
Jan 1, 2012 (restated)	2,754	-1,081	1,673
Expenses based on period performance	240		240
Interest expense or income	125	-18	107
	365	-18	347
Items due to re-measurement			
- Return on plan assets excluding the items included in the interest expense or income		9	9
- Actuarial gains (-) or losses (+) due to changes in financial assumptions	404	-5	399
- Experience-based gains (-) or losses (+)	-11		-11
	393	4	398
Exchange rate differences	67		67
Payments made from the plans			
Benefits paid (-)	-200	-135	-335
Dec 31, 2012 (restated)	3,379	-1,230	2,149
Jan 1, 2013	3,379	-1,230	2,149
Expense based on period performance	513		513
Interest expense or income	169	-87	82
	682	-87	595
Items due to remeasurement			
- Return on plan assets excluding the items included in the interest expense or income		-160	-160
- Actuarial gains (-) or losses (+) due to changes in financial assumptions	472	-1,796	-1,324
- Experience-based gains (-) or losses (+)	2,232		2,232
	2,704	-1,957	747
Exchange rate differences	-4		-4
Payments made from the plans			
Benefits paid (-)	0	-29	-29
Dec 31, 2013	6,761	-3,302	3,458

Material actuarial assumptions

Dec 31	2013	2012
Discount rate, %	3.0	3.2
Inflation, %	1.9	2.0
Expected return on assets, %	3.4	3.9
Assumed future pay raise, %	4.1	3.1
Assumed increase in pensions, %	2.4	4.5

Assumptions concerning mortality are made based on guidance from actuaries on the basis of published statistics and experience.

If the discount rate changes by +0.5%, its impact on the defined benefit obligation is -5.7%. If the discount rate changes by -0.5%, its impact on the defined benefit obligation is +6.0%.

The above sensitivity analyses are based on a situation where all other assumptions remain unchanged when one assumption changes. In practice, this is not probable, and the changes in some assumptions may correlate with each other. The sensitivity of the defined benefit obligation to the changes in material actuarial assumptions was calculated with the same method as the pension obligation to be included in the statement of financial position.

The weighted average of the validity of the defined benefit obligation is 21.0 years. The plan assets have been invested as follows: 52% (0%) in quoted instruments and 48% (100%) in unquoted instruments. The Group forecasts that it will pay EUR 0.6 million to defined benefit pension plans in 2014.

25. INTEREST-BEARING LIABILITIES

Long-term liabilities measured at amortized acquisition cost

EUR thousand	2013	2012
Bank loans	14,924	17,855
Total	**14,924**	**17,855**

Current financial liabilities measured at amortized acquisition cost

EUR thousand	2013	2012
Repayment of bank loans in following year	2,861	2,873
Other loans	927	15
Total	**3,788**	**2,888**

Interest-bearing current liabilities by currency:

EUR thousand	2013	2012
Euro-denominated	3,788	2,888
Total	**3,788**	**2,888**

26. TRADE AND OTHER PAYABLES

EUR thousand	2013	2012
Financial liabilities valued at amortized acquisition cost		
Trade payables	31,266	31,941
Other current liabilities	4,590	4,017
Total	**35,856**	**35,957**
Advance payments received	2,405	2,478
Advance payments received from long-term projects	376	0
Salary and personnel expenses	14,345	13,360
Other accrued expenses	4,678	2,944
Total	**21,804**	**18,783**

27. PROVISIONS

EUR thousand			2013
	Warranty provision	Other provisions	Total
Jan 1, 2013	6,669	4,438	11,107
Translation differences	-62	-37	-98
Increase in provisions	6,940	345	7,285
Used provisions	-6,669	-261	-6,930
Dec 31, 2013	**6,879**	**4,486**	**11,364**

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 the experience of defective products in earlier years. The warranty provision is expected to be used during the following year. The court proceedings in the subsidiary in China was finalized in the fall of 2013. Vacon has made a EUR 3.4 million (EUR 3.6 million in 2012) provision associated with the matter.

28. 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 treasury policy approved by Group management. The Group uses foreign exchange forwards, currency options, foreign currency loans, and interest rate swaps in its risk management. Derivative contracts are signed for hedging purposes, and hedge accounting is not applied to them.

Foreign exchange risk

The company has business operations in 30 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 most important invoicing currencies other than the euro are the US dollar, which directly or indirectly accounts for approximately 16.2% (18.5%) of the Group's invoicing, and the Chinese renminbi, which directly accounts for approximately 14.7% (14.7%) of the Group's invoicing. Asian currencies account for a total of approximately 22.4% (22.2%) of the Group's invoicing and the European non-euro currencies for 7.9% (7.4%) of invoicing. Invoicing directly related to the euro thus accounted for 53.5% (51.9%) in 2013. Currency-linked purchases in the Group account for approximately 16.4% (16.6%) of revenues.

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

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

2013, EUR thousand	USD	GBP	SEK	NOK	AUD	RUB	CAD	CNY*	INR	BRL
Forecast items	-5,553	1,597	2,590	1,391	350	829	862	-454	2,296	703
Assets	22,786	1,102	3,264	1,169	3,997	654	909	-4,620	567	2,954
Liabilities	-2,717	-206	-2,619	-514	-6	0	-23	1,152	1,140	-6
Hedging	-14,140	-1,499	-2,596	-1,370	-3,917	-887	-1,185	696	-616	-302
Net position	**377**	**993**	**639**	**676**	**424**	**596**	**564**	**-3,227**	**3,386**	**3,349**

2012, EUR thousand	USD	GBP	SEK	NOK	AUD	RUB	CAD	CNY*	INR	BRL
Forecast items	-6,281	1,427	2,712	632	406	865	988	-296	2,198	989
Assets	24,249	1,309	845	320	3,600	822	918	-6,635	-100	1,494
Liabilities	-1,329	-36	-24	15	0	0	-2	3,768	4,960	0
Hedging	-18,190	-2,345	-3,332	-906	-3,773	-1,039	-1,865	0	0	0
Net position	**-1,551**	**355**	**201**	**60**	**233**	**649**	**39**	**-3,163**	**7,058**	**2,482**

*The CNY position consists of foreign currency-denominated transactions in Vacon's subsidiary in China, which the subsidiary has started hedging.

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, Russian ruble, Canadian dollar, Chinese renminbi, Indian rupee, and Brazilian real when all other factors remain unchanged. The sensitivity analysis is based on the foreign currency denominated assets and liabilities on the balance sheet date. The sensitivity analysis also takes into account the effect of foreign currency derivatives that net the impact of changes in exchange rates. The tax impact has not been accounted for.

Transaction risk	Strengthening of euro, 10%	Weakening of euro, 10%
Dec 31, 2013, EUR thousand	Profit for the period	Profit for the period
USD	-539	659
GBP	36	-67
SEK	-56	69
NOK	18	-23
AUD	-7	8
RUB	21	-26
CAD	27	-33
CNY	-252	308
INR	-1	1
BRL	-241	294

Transaction risk	Strengthening of euro, 10%	Weakening of euro, 10%
Dec 31, 2012, EUR thousand	Profit for the period	Profit for the period
USD	-430	526
GBP	97	-119
SEK	228	-279
NOK	52	-64
AUD	16	-19
RUB	20	-24
CAD	86	-105
CNY	-238	291
INR	-5	7
BRL	-5	6

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, China, and the Czech Republic.

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

EUR thousand	Translation position December 31, 2013	Translation position December 31, 2012
USD	5,076	5,305
CNY	9,654	4,063
CZK	4,068	4,436
Capital invested	**18,798**	**13,801**

Interest rate risk

The Group is exposed to interest rate risk due to the changes in market rates, on the one hand, and due to the risk related to 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. 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 18.7 million, and this was 100% variable interest rate (EUR 20.7 million on December 31, 2012, with 100% variable interest rate). On the closing date 2012 and 2013, the Group did not have open interest rate swaps. Liquid funds on December 31, 2012 totaled EUR 35.9 (31.1) million.

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, 2013	Dec 31, 2012
Interest rate rises, 1 percentage point		
Variable interest loans	-187	-207
Interest rate swaps	359	311
Net impact on result	**172**	**103**
Interest rate decreases, 1 percentage point		
Variable interest loans	187	207
Interest rate swaps	-359	-311
Net impact on result	**-172**	**-103**

Counterparty and credit risk

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. Risks related to trade receivables are limited by the distribution of the clientele both geographically and into different industries. 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 76% (74%) of the Group's receivables are from OECD countries, which represent a low country risk.

During the financial year, credit losses recognized through profit and loss totaled EUR 0.4 million (EUR 0.6 million in 2012). The credit losses were due to unexpected changes in the financial environment of several customers. 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	2013	2012
Not yet due	52,927	51,518
1–90 days after due date	11,951	14,827
91–180 days after due date	981	1,280
181–270 days after due date	320	348
271–365 days after due date	183	313
Over 365 days after due date	-16	0
Total	**66,346**	**68,290**

When the Group invests cash funds and enters into derivative contracts, it only accepts as counterparties 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 manages the liquidity and refinancing risk by means of EUR 50 million syndicated loan arrangement, which consists of a loan of EUR 20 million that matures in 2016, and a EUR 30 million committed credit facility that matures in December 2014. The loan agreements include regular covenant conditions related to net debt and equity ratio.

The amount of unused credit facilities on December 31, 2013 was EUR 33.6 (38.1) million, all of which were committed credit facilities. Surplus liquid funds are invested in partner banks. Liquid funds on December 31, 2013 totaled EUR 35.9 (31.1) 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.

EUR thousand December 31, 2013	Carrying amount	Cash flow	Less than 1 year	1–2 years	2–5 years
Bank loans	18,711	-18,948	-4,004	-3,116	-11,828
Trade payables and other current debts	35,856	-35,856	-35,856		
Total	**54,567**	**-54,804**	**-39,860**	**-3,116**	**-11,828**
Foreign exchange forwards and options					
- Payable cash flows	-113	-45,344	-45,344		
- Receivable cash flows	198	45,449	45,449		
Total	85	105	105		

EUR thousand December 31, 2012	Carrying amount	Cash flow	Less than 1 year	1–2 years	2–5 years
Bank loans	20,743	-20,792	-3,099	-3,062	-14,607
Trade payables and other current debts	35,957	-35,957	-35,957		
Total	**56,700**	**-56,749**	**-39,056**	**-3,062**	**-14,607**
Foreign exchange forwards					
- Payable cash flows	-31	-40,971	-40,971		
- Receivable cash flows	447	41,610	41,610		
Total	**416**	**639**	**639**		

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 2013 amounted to EUR -17.2 million (EUR -10.3 million on December 31, 2012) and gearing was -14.7% (-9.5%).

Gearing was as follows:

EUR thousand	2013	2012
Interest-bearing liabilities	18,711	20,743
Cash and cash equivalents	-35,945	-31,074
Net liabilities	-17,234	-10,331
Total equity	117,418	108,301
Gearing, %	-14.7	-9.5

29. OPERATING LEASES

EUR thousand	2013	2012
Minimum rents for irrevocable operating leases:		
In one year	9,079	8,714
In more than one and less than five years	24,795	27,872
In more than five years	6,536	9,608
Total	**40,410**	**46,194**

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.

30. CONTINGENT LIABILITIES AND ASSETS

EUR thousand	2013	2012
Collateral and contingencies given on one's own behalf		
Contract guarantees	868	2,536
Guarantees	10,552	7,252
Financial commitment in capital investment funds	28	40
Total	**11,448**	**9,828**
Collateral and contingencies given on behalf of others		
Contract guarantees	1,361	1,558
Guarantees	2,214	4,787
Total	**3,576**	**6,345**

An agreement has been reached on EUR 24.4 million (17.3 million in 2012) credit facilities for which the Group companies have jointly provided a contingency.

31. 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 said persons have a controlling interest or in which they exercise shared control.

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

The Group's parent company is Vacon Plc, Vaasa, Finland	Parent company 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	100	100
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 China Drives Co. Ltd., Suzhou, China	100	100
Vacon Drives & Control Pvt Ltd, Chennai, India	100	100
Vacon Pacific Pty Ltd, Melbourne, Australia	100	100
Vacon Inc., Chambersburg, PA, USA	100	100
Vacon s.r.l., Postal, Italy	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	95	95
Vacon Pte Ltd, Singapore	100	100

Management cash-based employment benefits:

EUR thousand	2013	2012
Salaries and other short-term benefits	1,528	1,159
Benefits to be paid on dismissal	1,450	1,378
Post-employment benefits	460	1,419
Share-based benefits	1,053	331
Total	**4,491**	**4,286**

Management salaries and fees:

EUR thousand	2013	2012
Vesa Laisi, President and CEO	864	452
Hiltunen Heikki, Deputy to the CEO	616	344
Board members:		
Panu Routila, Chairman of the Board of Directors	43	25
Pekka Ahlqvist	26	21
Jari Eklund	30	25
Jan Inborr	42	44
Juha Kytölä	30	25
Mika Vehviläinen, Vice Chairman	29	23
Riitta Viitala	29	23
Total	**1,709**	**981**

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 and his Deputy, 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 person 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. Some members of the Management Team have an equivalent pension age and pension insurance.

PARENT COMPANY'S FINANCIAL STATEMENTS

INCOME STATEMENT OF THE PARENT COMPANY (FAS)

EUR thousand	Note	Jan 1–Dec 31, 2013	%	Jan 1–Dec 31, 2012	%
Revenues	2	260,481	100.0	249,603	100.0
Change in inventories of finished goods and work in progress		119		250	
Other operating income	3	77		151	
Materials and services					
Materials and consumables					
Purchases during the financial year		-135,693		-141,473	
Change in inventories		724		1,215	
External services		-5,556		-5,445	
		-140,525	-53.9	-145,703	-58.4
Personnel expenses	4	-43,934		-41,937	
Depreciation/amortization	7	-4,460		-4,836	
Other operating expenses		-51,594		-41,402	
Operating profit		**20,163**	**7.7**	**16,124**	**6.5**
Financial income and expenses	9	8,859		8,190	
Profit before appropriations and taxes		**29,022**	**11.1**	**24,314**	**9.7**
Appropriations	10	80		628	
Income taxes	11	-5,424		-4,398	
Profit for the period		**23,677**	**9.1**	**20,544**	**8.2**

Assets, EUR thousand	Note	Dec 31, 2013	%	Dec 31, 2012	%
Non-current assets					
Intangible assets	12				
Intangible rights		2,428		2,519	
Other long-term expenditure		2,208		915	
		4,636	2.9	3,434	2.4
Tangible assets	13				
Land and water areas		132		132	
Machinery and equipment		9,268		10,082	
Other tangible assets		42		42	
Construction in progress		4,081		736	
		13,522	8.6	10,991	7.7
Investments	14				
Investments in Group companies		22,027		20,543	
Receivables from Group companies		28,397		29,527	
Other shares and investments		2,905		2,893	
Other receivables		1,112		1,044	
		54,441	34.5	54,007	37.8
Total non-current assets		**72,599**	**46.0**	**68,432**	**47.9**
Current assets					
Inventories					
Materials and consumables		6,645		5,921	
Finished goods		2,882		2,671	
		9,527	6.0	8,592	6.0
Current receivables	16, 17				
Trade receivables		56,633		54,140	
Loan receivables		3,268		1,706	
Other receivables		2,953		2,528	
Prepaid expenses and accrued income		2,472		1,917	
		65,325	41.4	60,292	42.2
Cash and cash equivalents		10,232		5,649	
Total current assets		**85,085**	**54.0**	**74,532**	**52.1**
Total assets		**157,684**	**100.0**	**142,964**	**100.0**

Equity and liabilities, EUR thousand	Note	Dec 31, 2013	%	Dec 31, 2012	%
Total equity	18, 19				
Share capital		3,059		3,059	
Share premium		4,966		4,966	
Retained earnings		52,928		49,152	
Profit for the period		23,677		20,544	
Total equity		**84,631**	**53.7**	**77,721**	**54.4**
Accumulated appropriations					
Depreciation difference	20	2,967	1.9	3,046	2.1
Liabilities	21				
Non-current liabilities					
Loans from financial institutions		14,280	9.1	17,140	12.0
Current liabilities					
Loans from financial institutions		3,730		2,860	
Advance payments received		155		0	
Trade payables		23,467		22,614	
Other current liabilities		13,557		6,515	
Provisions		4,165		3,956	
Accrued expenses and deferred income	22	10,732		9,111	
		55,806	35.4	45,057	31.5
Total liabilities		**70,086**	**44.4**	**62,197**	**43.5**
Liabilities total		**157,684**	**100.0**	**142,964**	**100.0**

CASH FLOW STATEMENT FOR THE PARENT COMPANY (FAS)

EUR thousand	Jan 1–Dec 31, 2013	Jan 1–Dec 31, 2012
Cash flow from operating activities		
Profit for the period	23,677	20,544
Adjustments:		
Depreciation/amortization	4,460	4,836
Financial income and expenses	-8,859	-8,190
Appropriations	-80	-628
Taxes	5,424	4,398
Other adjustments	831	-84
	25,453	20,877
Changes in working capital:		
Change in current receivables	-4,313	11,819
Change in inventories	-935	-1,465
Change in non-interest-bearing liabilities	3,171	-2,607
	-2,076	7,747
Interest received	423	538
Interest paid	-318	-540
Dividends received	9,671	8,364
Other financial items	497	-592
Taxes paid	-5,643	-3,972
Cash flow from operating activities	**28,006**	**32,422**
Cash flow from investing activities		
Investments in tangible assets	-3,124	-1,834
Investments in intangible assets	-5,069	-1,164
Loans granted	-1,643	-2,838
Other investments	-80	-77
Repayments on loan receivables	1,211	359
Purchased shares in subsidiaries	-1,484	-4,787
Proceeds from the divestiture of other investments	0	305
Cash flow from investing activities	**-10,189**	**-10,036**
Cash flow from financing activities		
Purchase of own shares	0	-2,326
Repayments on long-term loans	-4,286	0
Proceeds from short-term borrowings	8,556	1,849
Repayments on short-term loans	-736	-5,102
Dividends paid	-16,768	-13,734
Cash flow from financing activities	**-13,234**	**-19,313**
Change in cash and cash equivalents	**4,584**	**3,073**
Cash and cash equivalents at beginning of period	5,649	2,576
Cash and cash equivalents at end of period	**10,232**	**5,649**

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 on 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 recognized 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 recognized at the exchange rates on the transaction date. Receivables and payables on the closing date are valued at the average exchange rate on the closing date. Exchange rate differences associated with sales and purchases are recognized as adjustments to these items. Exchange rate gains and losses related to financial operations are recognized under financial income and expenses.

Derivative contracts

Foreign currency items are hedged with foreign exchange forwards and currency options. Open hedging instruments for foreign currency items are valued at fair value on the closing date and recognized under sales adjustment items or financial items, based on the item to be hedged, in the income statement. The accounting principles for the consolidated financial statements contain more details about the use of financial instruments.

Pension arrangements

Statutory and 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's 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 in the statement of financial position. Investments in associated companies are presented as other long-term investments in the statement of financial position. 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 2013 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 in the statement of financial position as provisions, if their amount can be reliably assessed. These items currently include warranty provisions and other mandatory provisions. The anticipated future warranty costs of delivered products are recognized 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.

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 recognized 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	2013	2012
Revenues by market area		
EMEA	183,362	166,135
Americas	51,146	56,954
APAC	25,972	26,513
Total	**260,481**	**249,603**

3. OTHER OPERATING INCOME

EUR thousand	2013	2012
Rental income	28	79
Subsidies	39	23
Other	10	50
Total	**77**	**151**

4. PERSONNEL EXPENSES

EUR thousand	2013	2012
Wages, salaries, and bonuses	35,714	34,439
Pension costs	6,167	5,632
Other personnel costs	2,053	1,866
Total	**43,934**	**41,937**
Management salaries and fees		
President and CEO and his deputy	1,481	796
Members of the Board of Directors	229	185
Total	**1,709**	**981**

Salaries and fees of the President and CEO, his deputy, and Board members are presented in Note 31 to the Consolidated Financial Statements.

5. AVERAGE NUMBER OF PERSONNEL

	2013	2012
Office personnel	399	392
Factory personnel	338	321
Total	**737**	**713**

6. MANAGEMENT PENSION COSTS AND COMMITMENTS

EUR thousand	2013	2012
Management's statutory employment pension (TyEL) payments		
President and CEO	84	57
Deputy to the CEO	62	48
Total	**146**	**105**
Management's group pension insurance payments paid		
President and CEO	101	94
Deputy to the CEO	47	43
Total	**148**	**137**

Group pension insurance costs are recognized as expenses in accordance with the pension insurance company's annual calculation. In the 2013 financial statements, the amount of the pension obligation for the President and CEO is EUR 165 thousand and for his Deputy CEO EUR 140 thousand.

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 and his Deputy, 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 person 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.

7. DEPRECIATION AND AMORTIZATION

EUR thousand	2013	2012
Intangible assets	1,464	1,849
Tangible assets	2,996	2,987
Total planned depreciation	**4,460**	**4,836**

8. AUDITOR'S FEES

EUR thousand	2013	2012
Audit fees	41	38
Tax consulting	111	115
Other services	152	47
Total	**304**	**200**

9. FINANCIAL INCOME AND EXPENSES

EUR thousand	2013	2012
Income from non-current asset investments	0	154
Dividend income from Group companies	9,671	8,364
Interest income from Group companies	398	531
Other interest income and financial income from others	2,370	4,151
Total	**12,438**	**13,046**
Interest income and financial income, total	12,438	13,200
Interest income and financial expenses to others	-3,579	-5,011
Financial income and expenses, total	8,859	8,190
The item 'Other interest and financial income from others' includes unrealized exchange rate gains	1,332	2,843

10. APPROPRIATIONS

EUR thousand	2013	2012
The difference between planned depreciation and depreciation presented for taxation	80	628

11. INCOME TAXES

EUR thousand	2013	2012
Direct taxes for current year	-5,207	-4,096
Direct taxes for previous years	-22	-138
Other taxes and similar payments	-195	-164
Total	**-5,424**	**-4,398**

12. INTANGIBLE ASSETS

EUR thousand	Intangible rights	Other long-term expenditure	Total 2013	Total 2012
Acquisition cost, Jan 1	15,296	1,902	17,198	16,145
Increases	1,008	1,658	2,666	1,053
Acquisition cost, Dec 31	16,304	3,560	19,864	17,198
Accumulated depreciation, Jan 1	-12,777	-987	-13,764	-11,915
Depreciation for the financial year	-1,099	-365	-1,464	-1,849
Accumulated depreciation, Dec 31	-13,876	-1,352	-15,228	-13,764
Carrying amount, Dec 31, 2013	2,428	2,208	4,636	
Carrying amount, Dec 31, 2012	2,519	915		3,434

13. TANGIBLE ASSETS

EUR thousand	Land and water areas	Machinery and equipment	Advance payments and construction in progress	Other tangible assets	Total 2013	Total 2012
Acquisition cost, Jan 1	132	38,531	736	42	39,440	37,495
Increases	0	2,182	4,119	0	6,300	3,721
Decreases	0	0	-774	0	-774	-1,775
Acquisition cost, Dec 31	132	40,713	4,081	42	44,967	39,440
Accumulated depreciation, Jan 1	0	-28,449	0	0	-28,449	-25,462
Depreciation for the financial year	0	-2,996	0	0	-2,996	-2,987
Accumulated depreciation, Dec 31	0	-31,445	0	0	-31,445	-28,449
Carrying amount, Dec 31, 2013	132	9,268	4,081	42	13,522	
Carrying amount, Dec 31, 2012	132	10,082	736	42		10,991
Carrying amount of production machinery and equipment December 31, 2013		8,384				
Carrying amount of production machinery and equipment December 31, 2012		9,734				

14. INVESTMENTS

EUR thousand	Investments in Group companies	Other shares and investments	Total 2013	Total 2012
Shares, Jan 1	20,543	2,893	23,436	18,910
Increases	1,484	12	1,496	4,831
Decreases	0	0	0	-305
Carrying amount, Dec 31	22,027	2,905	24,932	23,436
	Receivables from Group companies	Other receivables	Total 2013	Total 2012
Receivables, Jan 1	29,527	1,044	30,571	28,238
Increases	82	76	158	2,691
Decreases and transfers between items	-1,211	-8	-1,219	-359
Carrying amount, Dec 31	28,397	1,112	29,509	30,571
Total investments, Dec 31			54,441	54,007

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	100	100
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 China Drives Co. Ltd., Suzhou, China	100	100
Vacon Drives & Control Pvt Ltd, Chennai, India	100	100
Vacon Pacific Pty Ltd, Melbourne, Australia	100	100
Vacon Inc., Chambersburg, PA, USA	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	95	95
Vacon Pte Ltd., Singapore	100	100

16. CURRENT RECEIVABLES

EUR thousand	2013	2012
Receivables from Group companies		
Trade receivables	37,925	34,984
Loan receivables	3,268	1,706
Interest receivables	47	0
Total	**41,240**	**36,690**
Receivables from others		
Trade receivables	18,708	19,156
Other receivables	2,953	2,528
Prepaid expenses and accrued income	2,425	1,917
Total	**24,085**	**23,602**
Current receivables, total	**65,325**	**60,292**

17. KEY ITEMS INCLUDED IN PREPAID EXPENSES AND ACCRUED INCOME

EUR thousand	2013	2012
Foreign currency hedging	198	447
Subsidies	279	305
Share bonus receivables	597	173
Advances paid	1,164	648
Other	187	344
Total	**2,425**	**1,917**

18. TOTAL EQUITY

EUR thousand	2013	2012
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	69,696	65,212
Dividends paid	-16,768	-13,734
Purchase of own shares	0	-2,326
Retained earnings, Dec 31	52,928	49,152
Profit for the period	23,677	20,544
Total non-restricted equity	**76,605**	**69,696**
Total equity	**84,631**	**77,721**

19. CALCULATION OF DISTRIBUTABLE FUNDS

EUR thousand	2013	2012
Retained earnings	52,928	49,152
Profit for the period	23,677	20,544
Total	**76,605**	**69,696**

20. ACCUMULATED APPROPRIATIONS

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

21. LIABILITIES

EUR thousand	2013	2012
Non-current liabilities		
Interest-bearing loans from financial institutions	14,280	17,140
Non-current liabilities, total	**14,280**	**17,140**
Current liabilities		
Interest-bearing		
Loans from financial institutions	3,730	2,860
Loans to Group companies	12,776	5,826
Total	**16,506**	**8,686**
The unused facility of checking accounts in the parent company amounts to EUR 23.5 million (EUR 26.8 million in 2012).		
Non-interest-bearing		
Advance payments received	155	0
Trade payables to others	20,158	20,108
Trade payables to Group companies	3,309	2,506
Other current liabilities	781	689
Warranty provisions	3,366	3,260
Other provisions	800	696
Accrued expenses and deferred income	9,948	8,924
Accrued debts to Group companies	784	186
Total	**39,300**	**36,370**
Current liabilities, total	**55,806**	**45,057**
Interest-bearing liabilities	30,786	25,826
Non-interest-bearing liabilities	39,300	36,370
Total liabilities	**70,086**	**62,197**

22. KEY ITEMS INCLUDED IN ACCRUED EXPENSES AND DEFERRED INCOME

EUR thousand	2013	2012
Salaries including social security costs	8,934	8,192
Taxes	80	299
Interest	1	13
Materials and consumables allocated to period	1,609	576
Foreign currency hedging	108	31
Total	**10,732**	**9,111**

23. CURRENCY DERIVATIVES

EUR thousand	2013	2012
Forward contracts and option agreements		
Changes in value entered in income statement	85	416
Nominal amount	45,449	41,610

Derivative contracts are used to hedge against currency risks. The forward contracts and option agreements mentioned above were open on the closing date and mature during the financial period starting on January 1, 2014.

24. COLLATERAL AND CONTINGENT LIABILITIES

EUR thousand	2013	2012
Contract guarantees		
On behalf of Group companies	11,420	9,788
On behalf of others	188	308
Total	**11,608**	**10,095**
Other commitments		
Commitment on a subsidiary's debts	1,701	1,545
Financial commitments	28	40
Total	**1,729**	**1,585**

Vacon Plc is responsible for all costs that incur from Vacon Benelux B.V.'s legal procedures, as referred to in Section 403.1f, Book 2 of the Dutch Civil Code.

Amounts payable under leasing agreements		
Payable in the following financial year	922	941
Payable later	811	863
Total	**1,733**	**1,804**

Leasing agreements are primarily three-year agreements with no associated redemption conditions

Payable amounts on rental agreements		
Payable in the following financial year	3,367	3,348
Payable later	10,339	13,993
Total	**13,706**	**17,341**

Vaasa, 5 February 2014

Panu Routila
Chairman

Pekka Ahlqvist

Jari Eklund

Jan Inborr

Juha Kytölä

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, 2013. The financial statements comprise the consolidated statement of financial position, income statement, 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 theManaging 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 auditing 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 5.2.2014

PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Katajisto
Authorised Public Accountant

INVESTOR INFORMATION

SHARES AND SHAREHOLDERS

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 2013, Vacon Plc's market value was EUR 891.7 (EUR 611.5) million excluding own shares owned by the company.

During 2013, a total of 2,355,619 company shares with a value of EUR 122.5 million were traded on the stock exchange. The highest share price during the year was EUR 59.90 and the lowest EUR 40,00. The closing price on 31 December 2013, was EUR 58.50.

Vacon's share capital is EUR 3,059,000. The number of Vacon's shares is 15,295,000. All shares have been paid in full and each share confers one vote at the Annual General Meeting.

AUTHORIZATIONS HELD BY THE BOARD OF DIRECTORS

Vacon Plc's Annual General Meeting on 26 March 2013, authorized the Board of Directors to decide on the purchase of the company's own shares and to decide on a share issue and donations.

The number of own shares that may be purchased and disposed of shall be no more than 1,400,000, which corresponds to approximately 9.2% 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 ten (10) percent 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 authorization is valid until 30 June 2014. The authorization cancels the authorization given by the Annual General Meeting on 27 March, 2012, regarding the purchase of own shares.

The Annual General Meeting held on 26 March 2013 also authorized the Board of Directors to decide on a share issue of a maximum of 1,529,500 shares, which corresponds to ten percent of all company shares. The authorization is valid until 26 March 2018 and it cancels the share issues authorization given by the Annual General Meeting of 27 March 2012.

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 30 June 2014. The authorization cancels the authorization given by the Annual General Meeting on 27 March, 2012, regarding the purchase of own shares.

In addition, the Board of Directors was authorized to decide on granting a maximum of EUR 30,000 in donations and on the recipients, amounts, and conditions. The authorization is valid until the end of the next Annual General Meeting.

TREASURY SHARES

At the end of 2013, the Vacon Group held a total of 51,837 treasury shares (83,227 at the end of 2012), corresponding to 0.3% of the total number of shares. At the end of 2013, the market value of these treasury shares was EUR 3.0 million.

NOTIFICATION OF CHANGES IN HOLDINGS

Vacon Plc received notifications of changes in shareholding in 2013 as follows:

On 22 April 2013, Vacon Plc received a notification under Section 9 of Chapter 2 of the Securities Markets Act, stating that the holding of Montanaro Asset Management Ltd. in Vacon Plc's shares has exceeded the 1/20 (5%) threshold.

According to the notification, Montanaro Asset Management Ltd. owns 791,681 Vacon Plc shares, which corresponds to 5.18% of the shares and voting rights in Vacon Plc. The number of shares exceeded the aforementioned threshold in share trading on 18 April 2013.

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 2013 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 2014. The share-based bonus scheme also contains a fourth earnings period for the members of the Executive Management Team. This 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.

The share-based bonus scheme has a target group of approximately 70 people. The net bonuses to be paid based on the share-based incentive scheme total a maximum of 240,250 Vacon Plc 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 27 March 2014, that a dividend of EUR 1.30, or 70.7% of the Group's earnings per share, be paid for 2013.

SHAREHOLDERS

On 31 December 2013, Vacon had a total of 4,841 shareholders. The number of shares owned by nominee registered and foreign investors decreased by 3.2 percentage points during 2013.

At the end of 2013, 48.0% of the company's shares was owned by nominee registered and foreign shareholders. Private persons owned 25.9% of the shares.

SHAREHOLDINGS OF THE BOARD OF DIRECTORS AND MANAGEMENT TEAM

Vacon Plc's Board members held 400 shares on 31 December 2013. The President and CEO and other members of the Executive Management Team held a total of 107,406 shares, or 0.7% of the company's share stock and voting rights.

CURRENT INFORMATION

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

DISTRIBUTION OF SHAREHOLDING ON 31 DECEMBER 2013

Share distribution

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of shares
1–50	1,246	25.7	33,728	0.2
51–100	882	18.2	78,366	0.5
101–500	1,960	40.5	501,000	3.3
501–1000	336	6.9	262,163	1.7
1001–5000	285	5.9	648,401	4.2
5001–10000	37	0.8	273,669	1.8
10001–50000	61	1.3	1,270,406	8.3
50001–	34	0.7	12,227,267	79.9
Total	**4,841**	**100.0**	**15,295,000**	**100.0**

By shareholder category

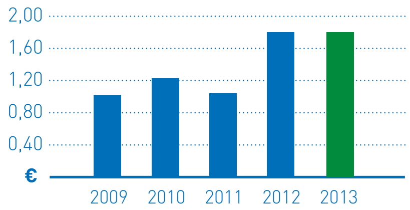
	Number of shares	% of shares
Companies total	680,173	4.4
Foreign and nominee registered total	7,347,582	48.0
Households	3,966,130	25.9
Public sector and non-profit institutions	1,774,992	11.6
Banks and insurance companies total	1,526,123	10.0
Total	**15,295,000**	**100.0**

Major shareholders on 31 December 2013	Number of shares	% of shares
AC Invest Three B.V.	1,614,844	10.6
Ilmarinen Mutual Pension Insurance Company	948,968	6.2
LähiTapiola Mutual Pension Insurance Company	584,500	3.8
Jari Sakari Koskinen	366,104	2.4
Martti Ehrnrooth	325,070	2.1
VEO Oy	289,514	1.9
Special Fund Handelsbanken Nordic Selective	225,000	1.5
Mauri Holma	217,860	1.4
OP-Focus Fund (Non-UCITS)	190,900	1.2
OP-Delta Fund	177,732	1.2
Own shares	51,837	0.3
Other	10,302,671	67.4
Total	**15,295,000**	**100.0**
Number of shares outstanding	15,243,163	

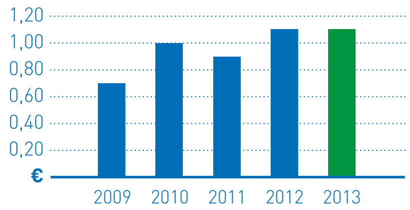
SHARE INFORMATION

Listing: NASDAQ OMX Helsinki
Listing start date: 14 December 2000
List: Mid Cap
Listing sector: Industrials
ISIN code: FI0009009567
Trading code: VAC1V

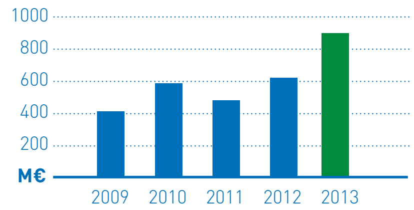
EARNINGS PER SHARE



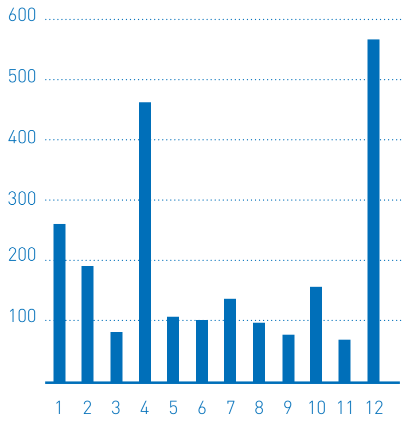
DIVIDEND PER SHARE



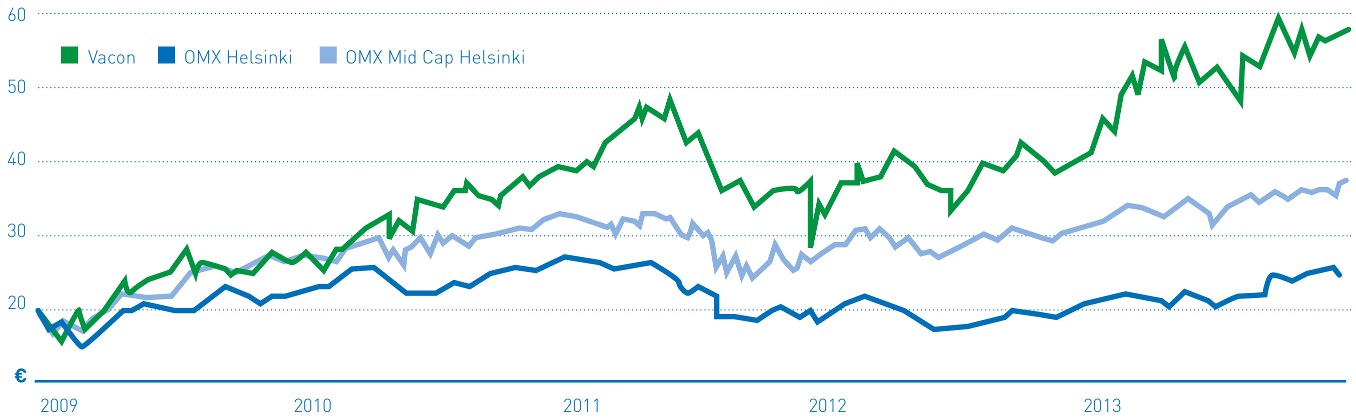
MARKET VALUE



TRADING VOLUME OF VACON'S SHARE 1 JAN-31 DEC 2013 (thousand shares)



DEVELOPMENT OF VACON'S SHARE PRICES (monthly average)



ANNUAL GENERAL MEETING

Vacon Plc's Annual General Meeting will be held on Thursday, 27 March 2014 at 3:00 p.m. in Vaasa, at the Academi Hall of Åbo Akademi, Rantakatu 2, 65100 Vaasa. Shareholders wishing to attend the Annual General Meeting must be registered no later than 17 March, 2014, 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 24 March 2014.

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/agm2014, 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 1.30 per share be paid for the 2013 financial year. The dividend approved by the AGM will be paid to those shareholders who are registered on the reconciliation date in the company's share register maintained by Euroclear Finland Oy.

The AGM reconciliation date	17 March 2014
Dividend payment reconciliation date	1 April 2014
Dividend payment date	8 April 2014

FINANCIAL OVERVIEWS AND REPORTS IN 2014

Financial Statements Bulletin	6 February 2014
Annual Report 2013	week 10/2014
Interim Report January–March	23 April 2014
Interim Report January–June	30 July 2014
Interim Report January–September	22 October 2014

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 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
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)40 8371 510
vesa.laisi@vacon.com

Pia Aaltonen-Forsell, CFO
(on maternity leave as of 10 February 2014)
Tel. +358 (0)40 8371 910
pia.aaltonen-forsell@vacon.com

Ann-Louise Brännback, CFO
(as of 10 February 2014, acting CFO for the duration of Pia Aaltonen-Forsell's maternity leave)
Tel. +358 (0)40 8371 376
ann-louise.brannback@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
- Panu Laitinmäki, Danske Bank,
  Tel. +358 (0)10 236 4867
- Artem Beletski, SEB Enskilda Equities,
  Tel. +358 (0)9 6162 8729
- Antti Kansanen, Evli Pankki Oyj,
  Tel. +358 (0)9 4766 9149
- Pasi Väisänen, Nordea Bank Ab,
  Tel. +358 (0)9 165 59 943
- Pekka Spolander, Pohjola Bank plc,
  Tel. +358 (0)10 252 4351

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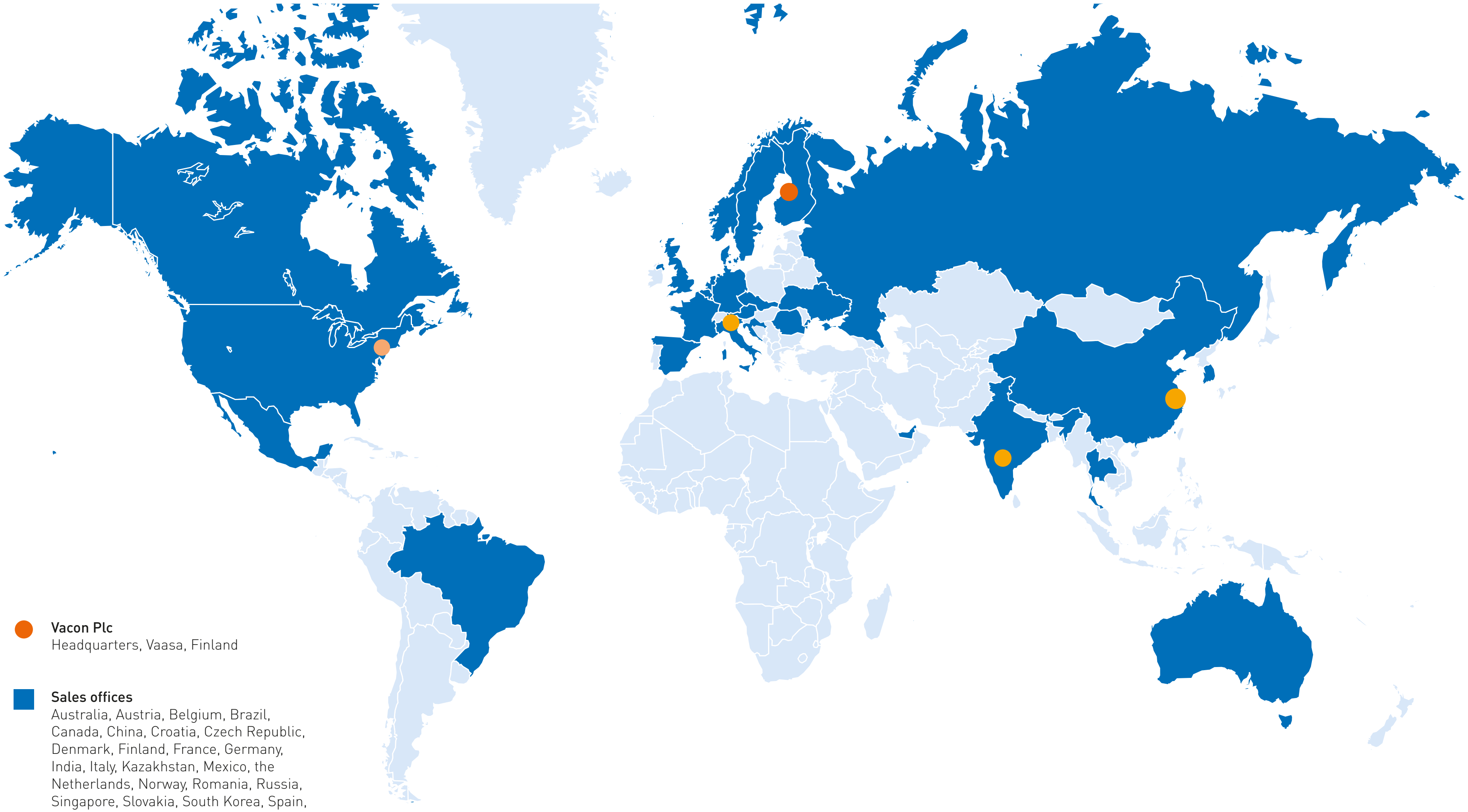

Vacon Plc
Headquarters, Vaasa, Finland

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

Production facilities
China, Finland, India, Italy, USA

CREATE
THE FUTURE

2020

CELEBRATE
THE PAST

DRIVEN BY DRIVES

www.vacon.com