

Vacon Interim Report Q3/2014

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Outline

- Highlights in Q3/2014 and Q1-Q3/2014
- Financial Report
- Outlook
- Contacts



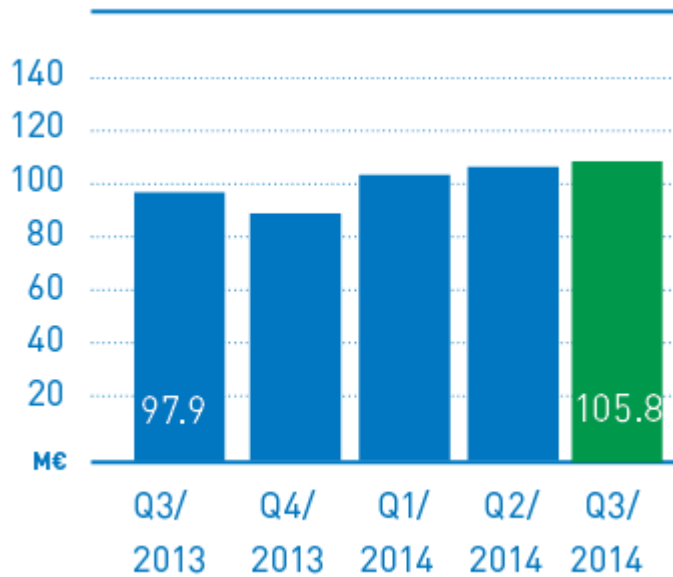
Highlights in Q3/2014

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- The AC drive market has not shown signs of picking up this year. It looks as if the market growth that early in the year was forecast to take place towards the end of the year will not take place until later.
- This year, Vacon's business operations have not achieved the targets for growth that the company set itself. In this difficult market situation we have however succeeded in improving our profitability and have invested in future growth both in our product development and in our sales.

Order intake increased in Q3/2014

Order intake, MEUR



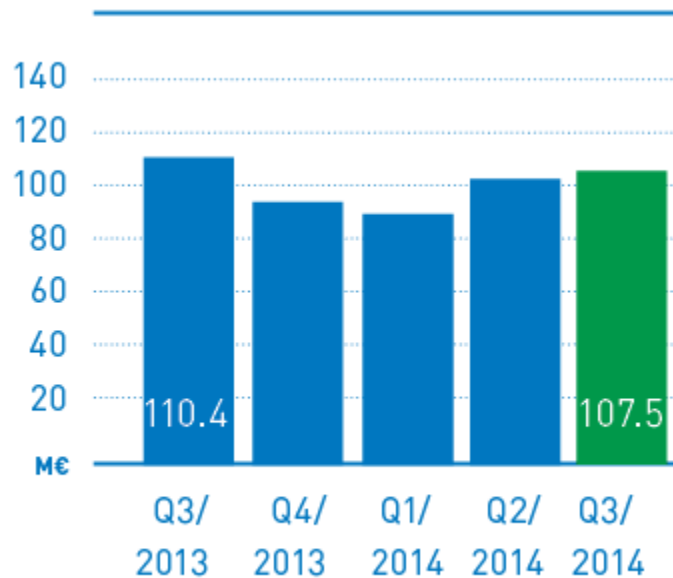
The order intake grew 16% year-on-year in the EMEA region. Highest growth was in renewable and conventional energy generation and in the marine and process industries.

The order intake was flat in the Asia Pacific (APAC) region.

The order intake declined 3.0% year-on-year in the North and South America region, reason being the low volume of orders in South America.

Revenues declined in Q3/2014

Revenues, MEUR



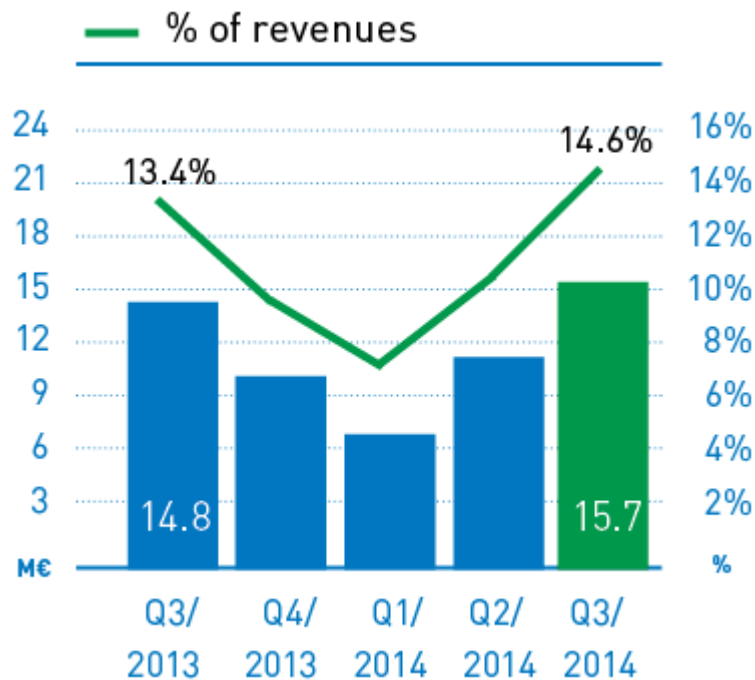
The North and South America region recorded the biggest improvement, with revenues increasing 13.0% year-on-year particularly in the marine industry and in building automation.

Sales in the APAC region rose 4.3% year-on-year.

Sales in the EMEA region fell 9.6% year-on-year mainly because of seasonal fluctuation in demand for products for the renewable energy generation.

Profitability improved distinctly in Q3/2014

Operating profit excluding one-time items, MEUR



Efficient material sourcing and the cost benefits from transferring material sourcing to lower cost countries are key factors in improving the company's profitability.

The Q3 2014 one-time items (net impact of EUR -1.0 million) are mainly related to the voluntary public tender offer to purchase Vacon's shares.



Highlights in Q1-Q3/2014

- Vacon's order intake increased in Q1-Q3/2014 year-on-year.
 - The order intake increased 11.1% in the North and South America region and 4.2% in the APAC region. The order intake in the EMEA region declined 2.9%. A particular factor in this was the fall in demand for products for the marine industry and for renewable energy generation.
- Vacon's revenues declined slightly in Q1-Q3/2014 year-on-year.
 - Sales increased 16,7% in the North and South America and 3,5% in APAC region. Revenues in the EMEA region in contrast fell 8,6%. The decline in sales of products for renewable energy generation and for the marine industry was a particular factor in this.
- The company's profitability improved in Q1-Q3/2014 year-on-year.

Other highlights in the review period



- VACON[®] NXP System Drive product was launched in January and orders have exceeded our expectations. Growth prospects for this product are good.
- Product development for Vacon's medium voltage AC drives has progressed according to plan. The design work is now moving into the pilot phase.

Danfoss public tender offer

- Danfoss has made a voluntary public tender offer to purchase all issued and outstanding shares in Vacon, and Vacon's Board of Directors have recommended acceptance of the offer.
- Combining Danfoss and Vacon will create a Nordic based, global player - a new AC drives business with the clear ambition of building a leading position in the AC drives market.
- Offer period expires on 28 October 2014 (unless extended)
- The tender offer is subject to more than 90% acceptance threshold and to the receipt of the relevant regulatory approvals.

Financial Report

Results Q3/2014

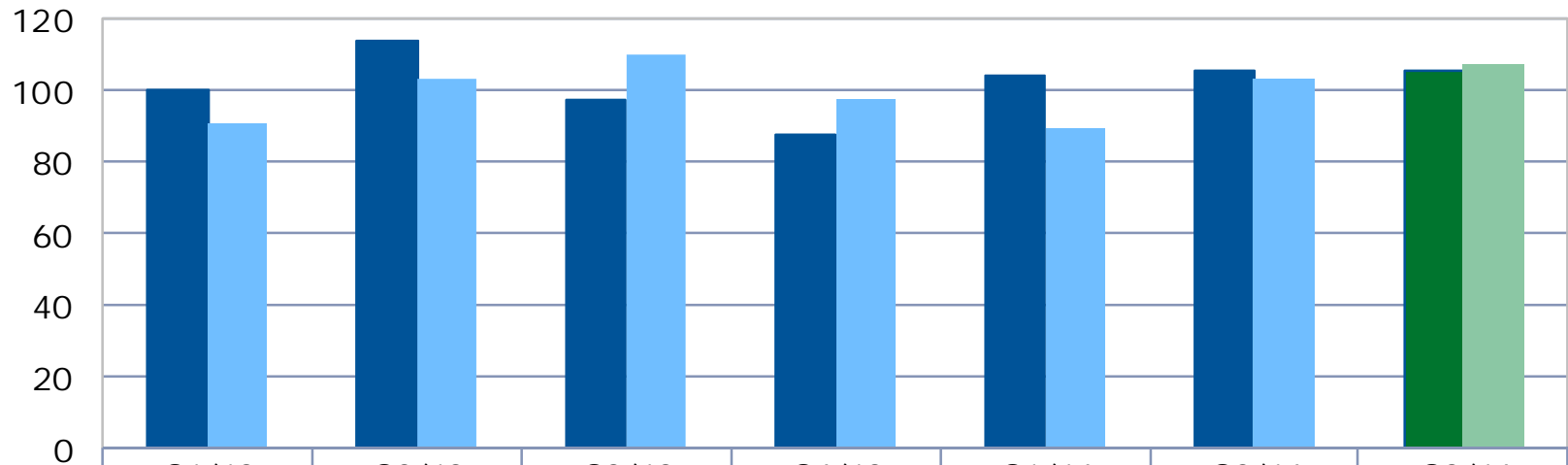
MEUR	Q3/2014	Q3/2013	Change	2013
Order intake	105.8	97.9	8.1%	399.8
Revenues	107.5	110.4	-2.6%	403.0
Operating profit excl. one-time items	15.7	14.8	6.0%	40.6
Operating profit excl. one-time items, % of revenues	14.6%	13.4%		10.1%
Operating profit	14.7	14.8	-0.8%	40.6
Operating profit, % of revenues	13.7%	13.4%		10.1%
Profit before taxes	14.9	14.2		39.7
Net cash flow from operating activities	19.0	9.5	99.5%	46.7
EPS, eur	0.36	0.32	12.6%	0.92

Results Q1-Q3/2014

MEUR	Q1-Q3/2014	Q1-Q3/2013	Change	2013
Order intake	316.1	312.1	1.3%	399.8
Order book	62.9	57.0	10.4%	46.8
Revenues	300.0	305.1	-1.7%	403.0
Operating profit excl. one-time items	34.0	31.0	9.8%	40.6
Operating profit excl. one-time items, % of revenues	11.3%	10.2%		10.1%
Operating profit	33.0	31.0	6.5%	40.6
Operating profit, % of revenues	11.0%	10.2%		10.1%
Profit before taxes	32.9	30.5	8.0%	39.7
Net cash flow from operating activities	28.2	32.0	-12.0%	46.7
EPS, eur	0.80	0.70	13.3%	0.92

Order intake and revenues 2013-Q3/2014

MEUR



■ Order intake

■ Revenues

Q1/13

Q2/13

Q3/13

Q4/13

Q1/14

Q2/14

Q3/14

100,2

114,0

97,9

87,7

104,8

105,5

105,8

91,3

103,4

110,4

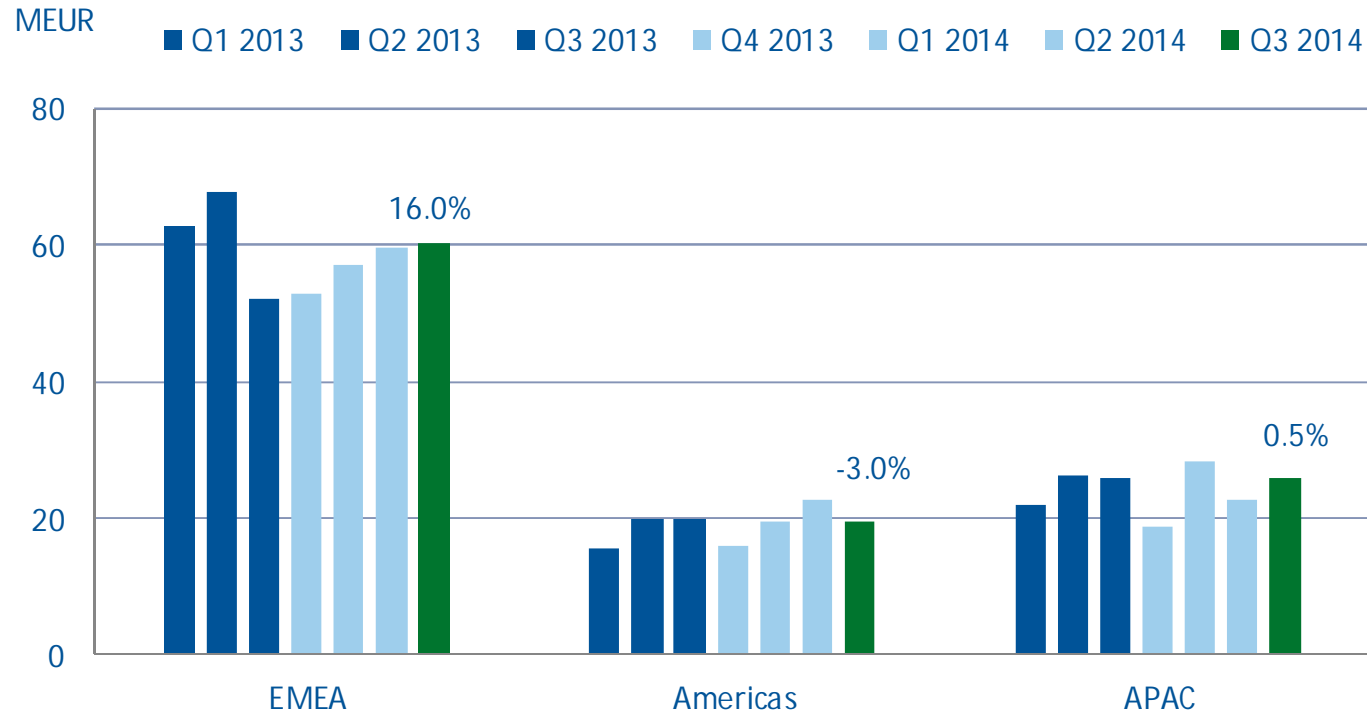
97,8

89,3

103,3

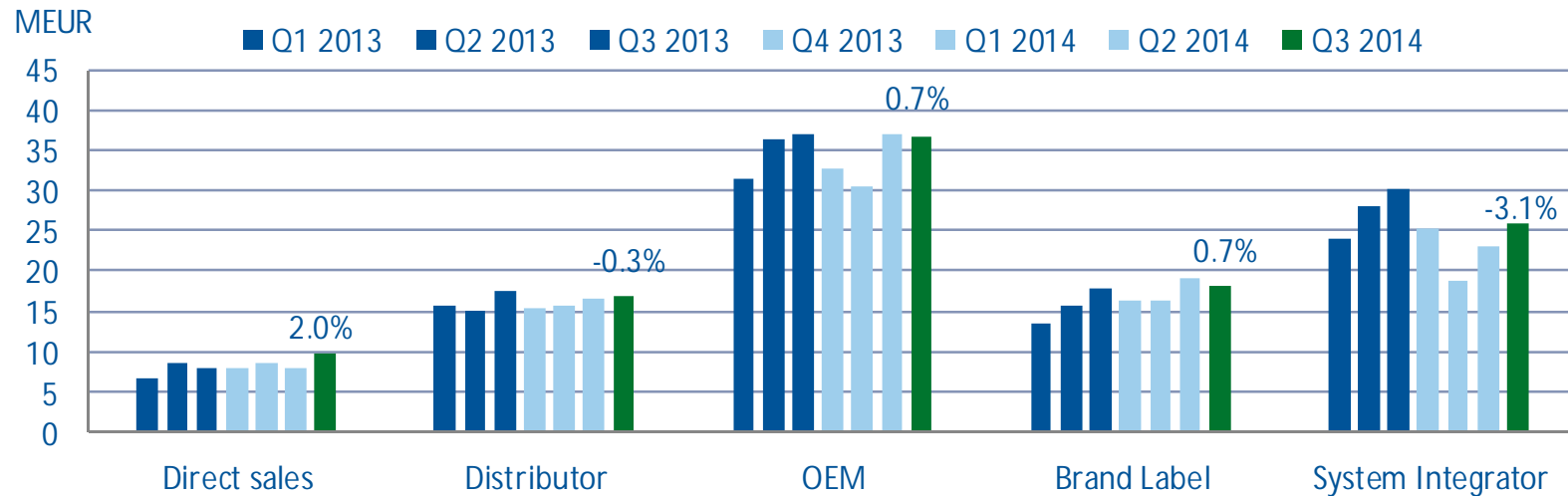
107,5

Order intake by region 2013-Q3/2014



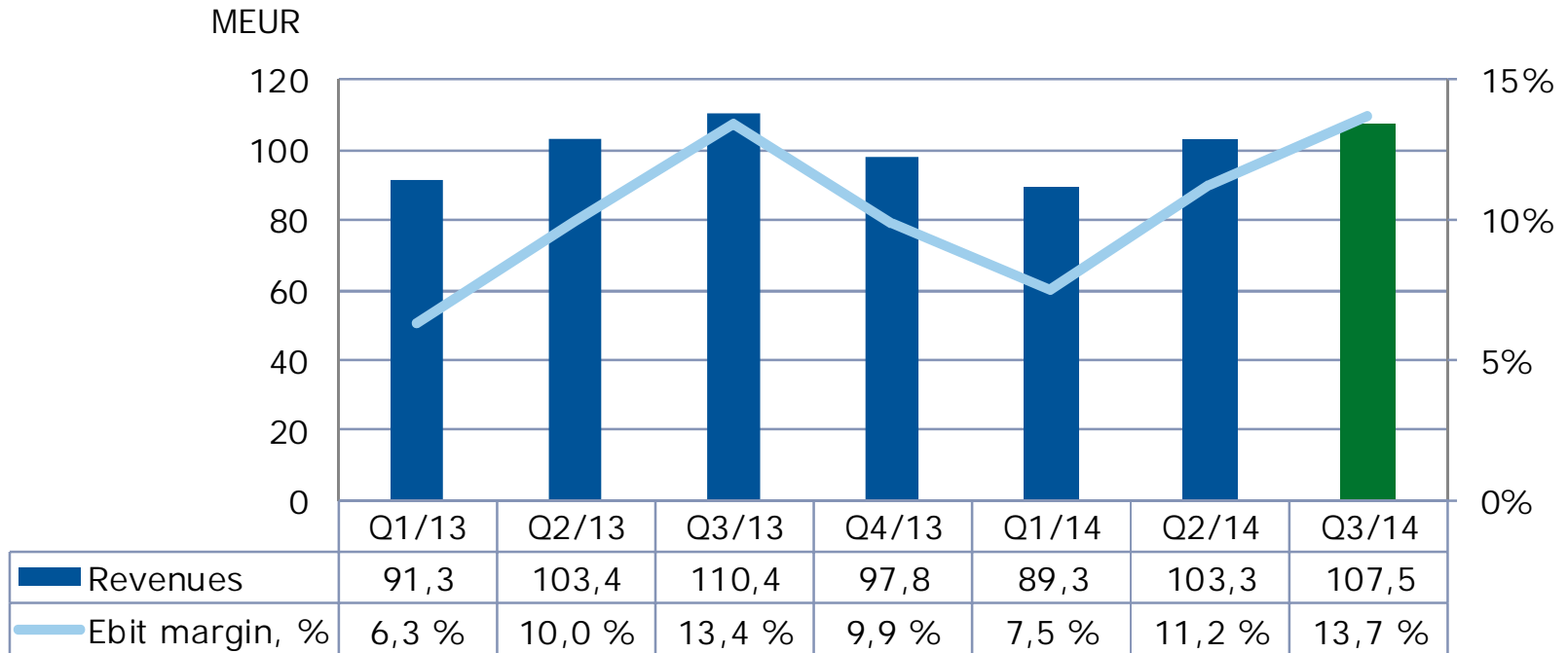
Given percentage is actual quarter Q3 2014 compared to the corresponding period in the previous year.

Revenues by sales channel 2013-Q3/2014

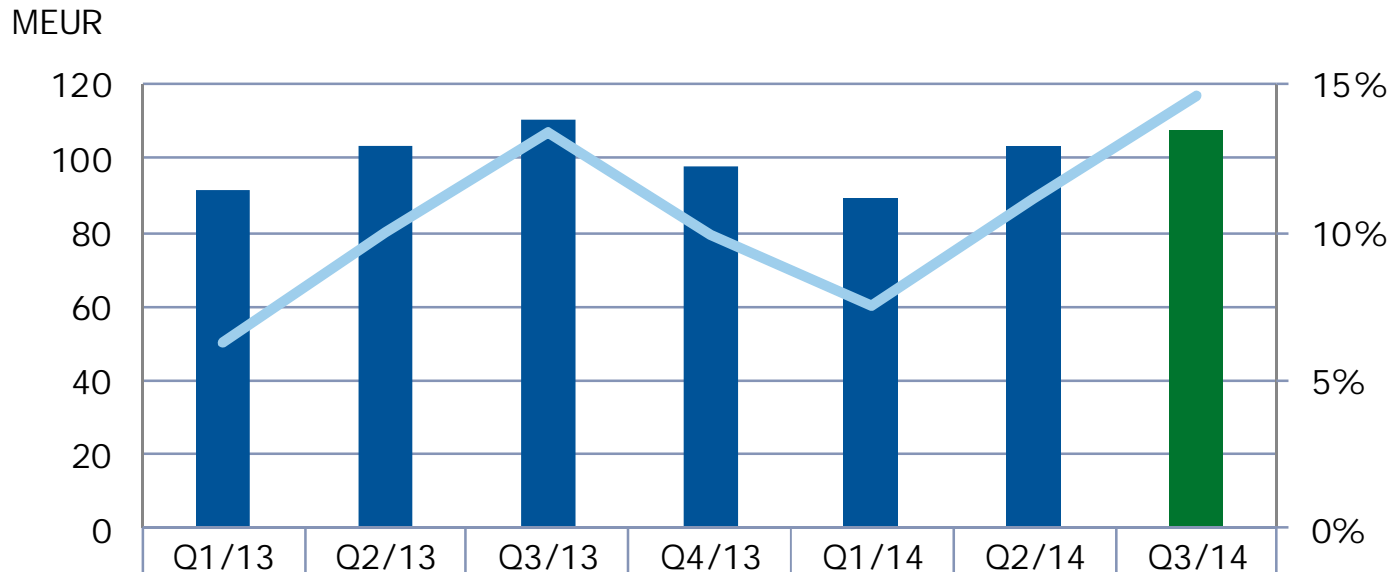


Given percentage is actual quarter Q3 2014 compared to the corresponding period in the previous year.

Revenues and EBIT-%



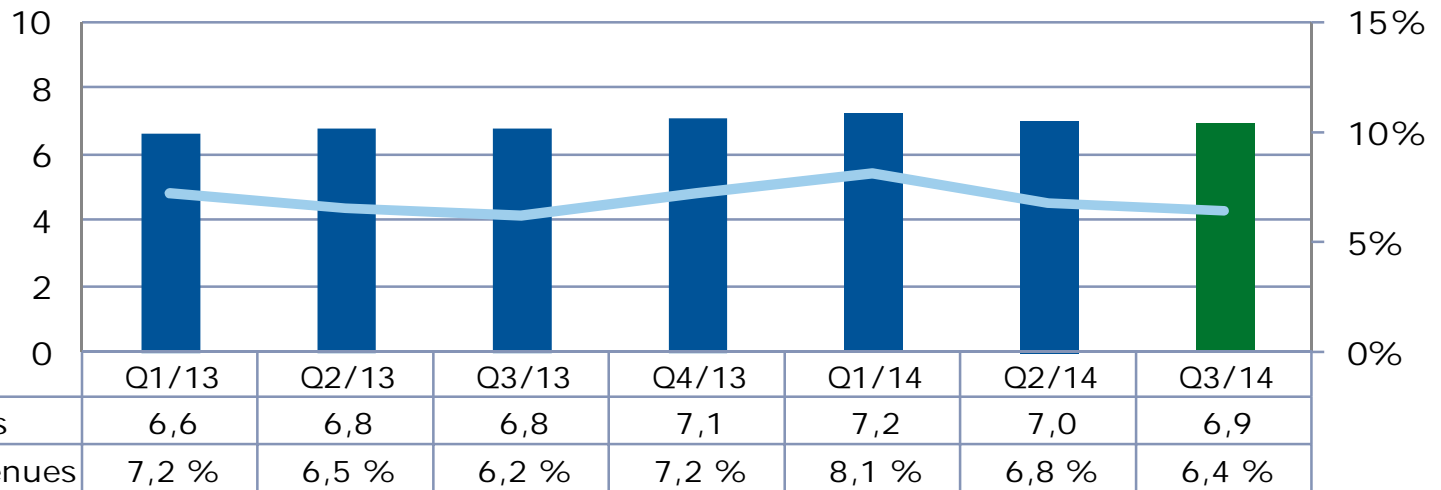
Revenues and EBIT-% excl. one-time items



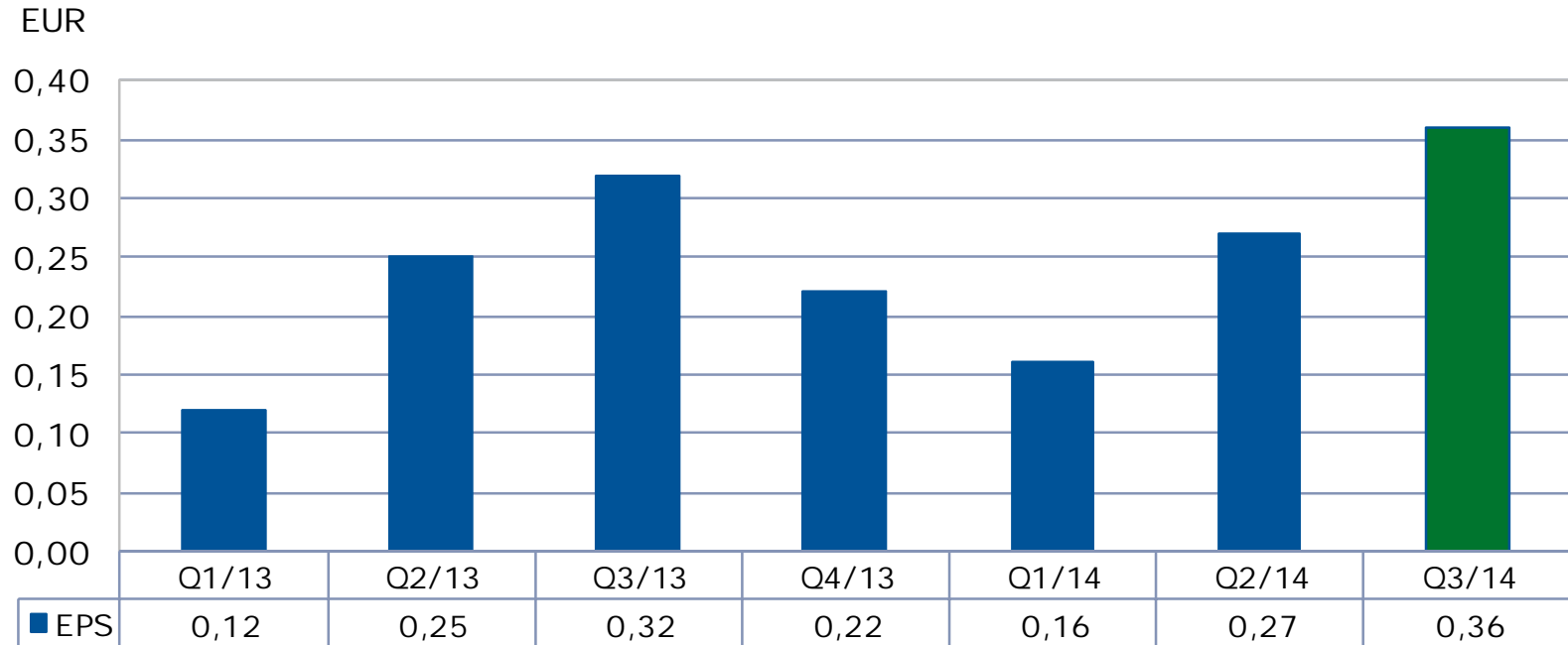
■ Revenues	91,3	103,4	110,4	97,8	89,3	103,3	107,5
— Ebit margin, %	6,3 %	10,0 %	13,4 %	9,9 %	7,5 %	11,2 %	14,6 %

Research and development costs

MEUR

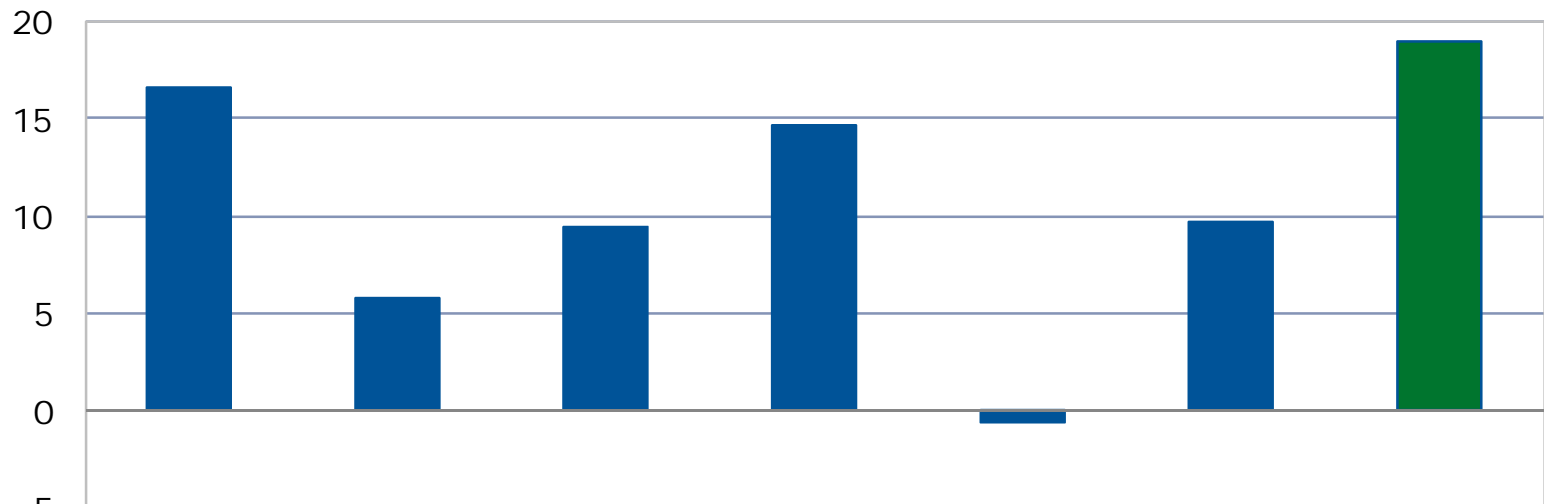


Earnings per share



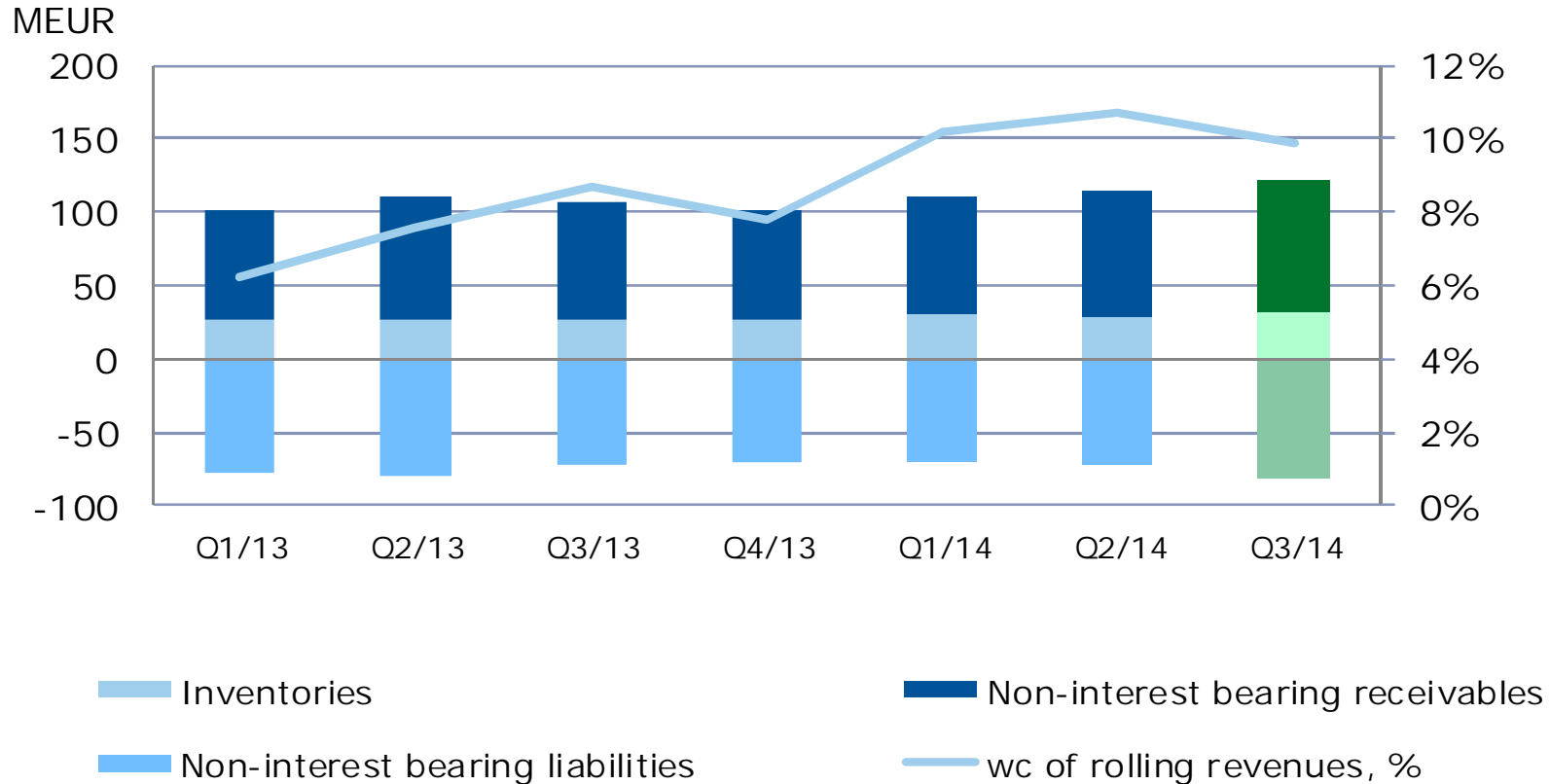
Net cash flow from operating activities

MEUR

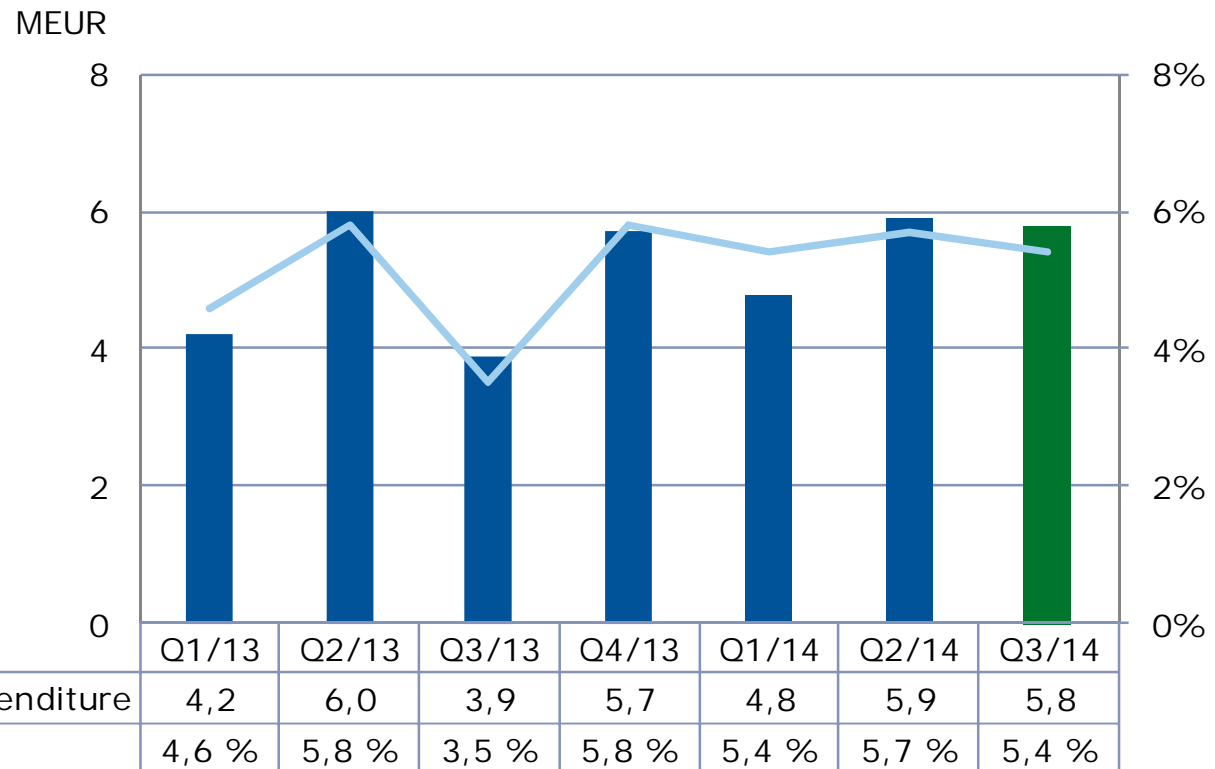


	Q1/13	Q2/13	Q3/13	Q4/13	Q1/14	Q2/14	Q3/14
■ Net Cash Flow	16,6	5,8	9,5	14,7	-0,6	9,7	19,0

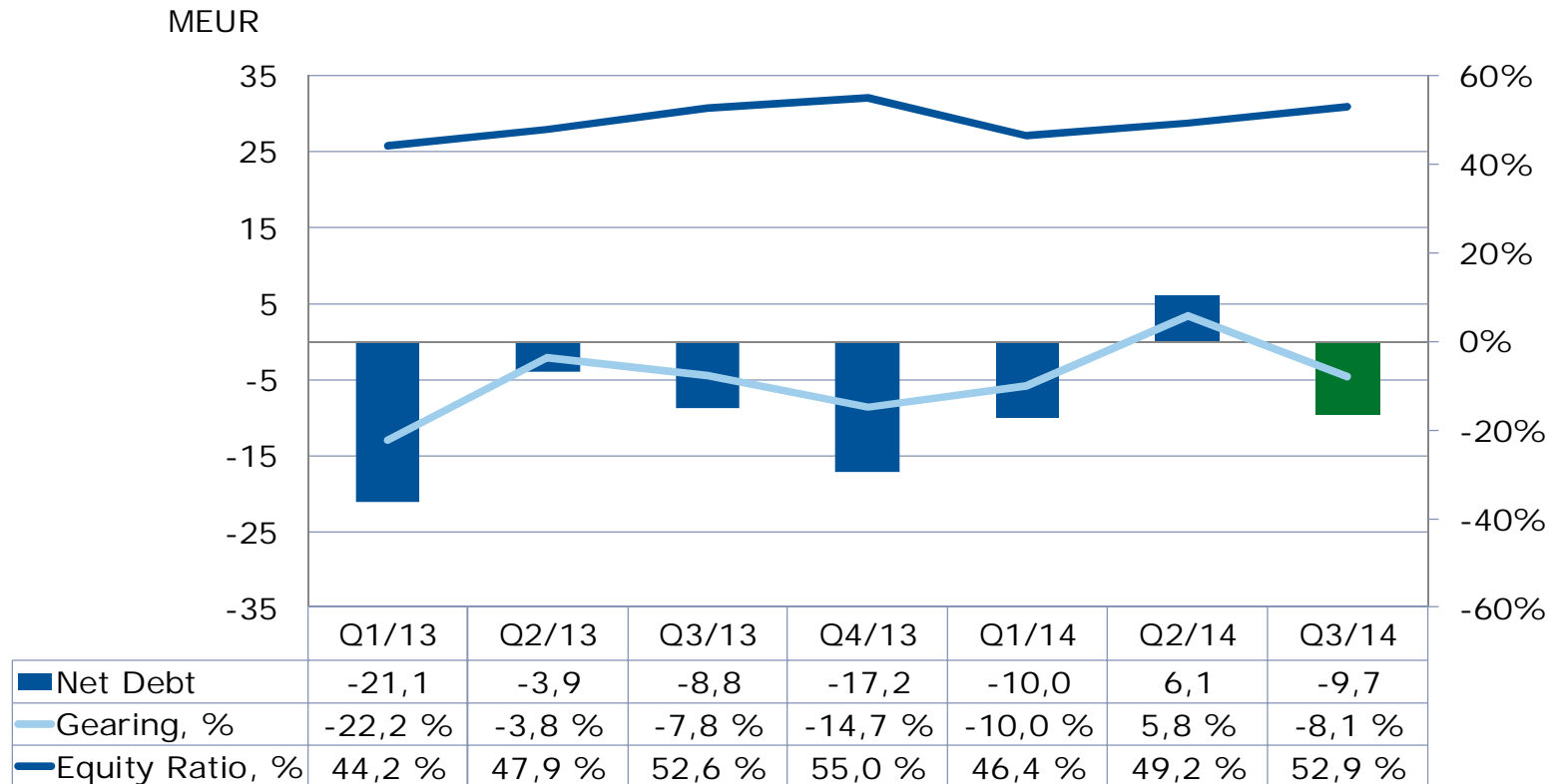
Working capital development



Gross capital expenditure



Key balance sheet ratios

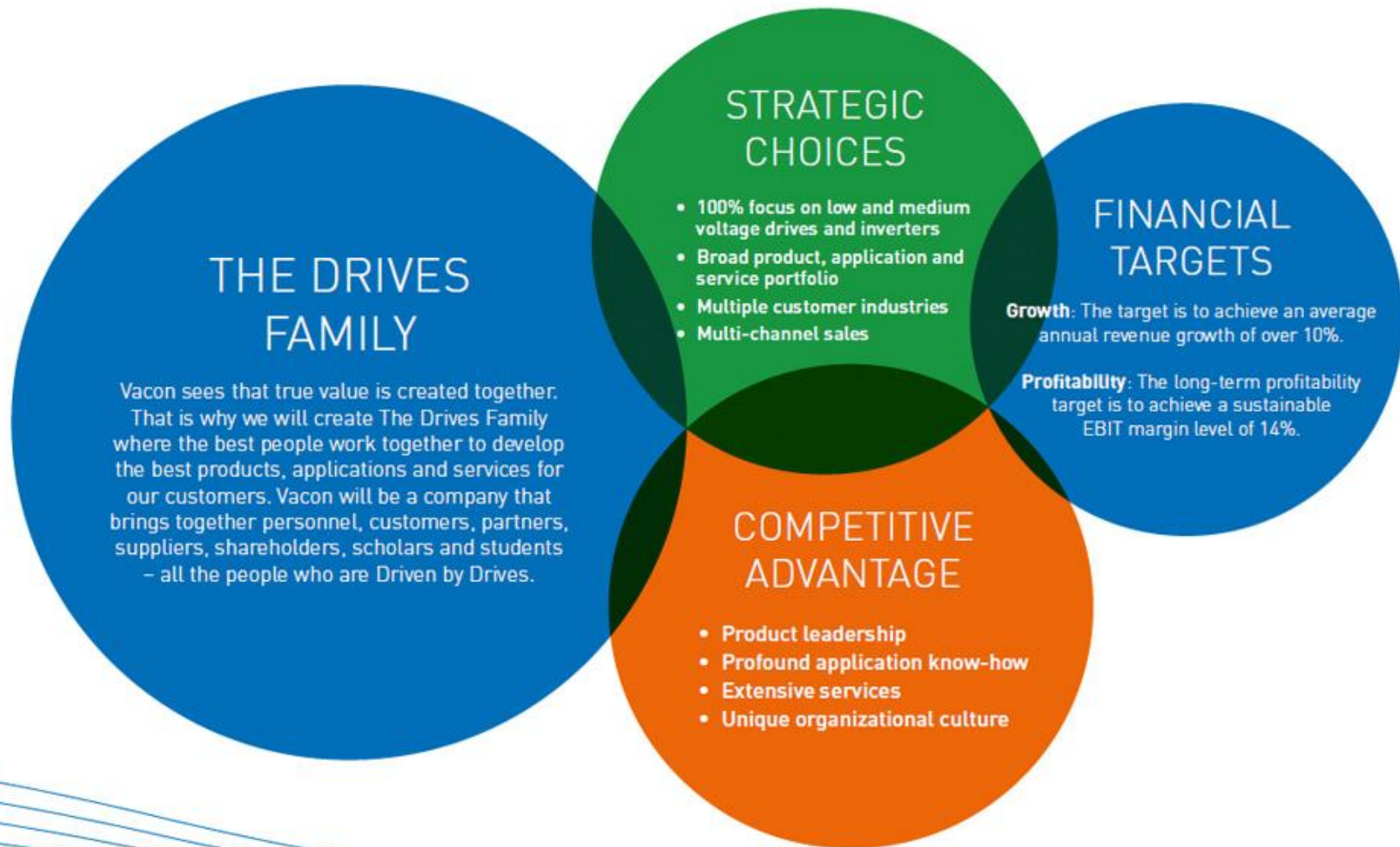


Outlook

Business environment

- Global megatrends, increase in industrial automation, energy efficiency, developing markets and renewable energy support growth in the AC drive market in the long run.
- In the assessment of market research institutions, the AC drive market has hardly grown at all during the past three years, or in the first half of 2014 either. A major factor in this has been the overall economic uncertainty, which has caused industrial investment to slow down.
- In Vacon's assessment the market has also not grown significantly or growth has been slow in the July-September period.

Vacon Strategy



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

Prospects for 2014

- The AC drive market has not shown signs of picking up this year. It looks as if the market growth that early in the year was forecast to take place towards the end of the year will not take place until later.
- During the past few years the Company has expanded and renewed its product offering, which places the Company in a strong position to grow faster than the AC drive market in 2014.
- Vacon's goal is to improve profitability in 2014. Key factors contributing to an improvement in profitability are the cost benefits from transferring material sourcing to lower cost countries and raising overall efficiency in operations.

Risks and uncertainties in the near future

- There are still uncertainties relating to developments in the global economy, and these may weaken demand for AC drives globally or in certain regions.
- The geopolitical developments in Ukraine during the 2014 have increased the risks relating to development prospects not only for the Russian economy but also more widely in Europe. Vacon's direct sales to Russia account for a few per cent of all the Group's sales.

Market guidelines for 2014

	ACT 2013	FC 2014
Revenues, MEUR	403.0	>403.0
EBIT margin, % (excluding one-time items)	10.1%	>10.1%

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